THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold all your Shares in TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED (the "Company"), you should at once hand this circular and proxy form enclosed herein to the purchaser or to the bank or stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

This circular is for information purposes only and does not constitute an invitation or offer, for securities of the Company.

TCL 通訊科技控股有限公司

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL, PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON RECORD DATE AND REFRESHMENT OF THE 10% LIMIT ON GRANT OF OPTIONS UNDER SHARE OPTION SCHEME

Underwriter

滙富集團

Kingsway Financial Services Group Limited

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

VXL FINANCIAL SERVICES LIMITED
卓越企业融资有限公司

It should be noted that the Shares will be dealt in on an ex-entitlement basis from 1 February 2006. Dealings in such Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be 27 February 2006), will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

Please refer to the paragraph headed "Termination of the Underwriting Agreement" in the "Letter from the Board" contained in this circular for further details.

A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee is set out on page 22 of this circular. A letter from VXL Financial Services Limited, the independent financial adviser, containing its advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 38 of this circular.

A notice convening the EGM to be held on 6 February 2006 and a form of proxy for use at the EGM is enclosed herein. Whether or not you are able to attend the meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

20 January 2006

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The expected timetable for the Open Offer is set out below:

Despatch of circular for, among other things, the proposed Capital Increase and Open Offer	Friday, 20 January 2006
Last day of dealings in the Shares on a cum-entitlement basis	Friday, 27 January 2006
Dealings in the Shares on an ex-entitlement basis	Wednesday, 1 February 2006
Latest time for lodging transfers of the Shares to qualify for the Open Offer	4:00 p.m. on Thursday, 2 February 2006
Register of members closes for determining the entitlements under the Open Offer (both dates inclusive)	Friday, 3 February 2006 to Monday, 6 February 2006
Latest time for lodging form of proxy for the EGM	3:00 p.m. on Saturday, 4 February 2006
Record date for entitlements to the Open Offer	Monday, 6 February 2006
EGM	3:00 p.m. on Monday, 6 February 2006
Despatch of the Prospectus for the Open Offer	Tuesday, 7 February 2006
Register of members re-opens	Tuesday, 7 February 2006
Latest time for acceptance of, and payment for, the Open Offer	4:00 p.m. on Tuesday, 21 February 2006
Latest time for termination of the Underwriting Agreement for the Open Offer	10:00 a.m. on Monday, 27 February 2006
Expected time for all conditions to which the Open Offer is subject are fulfilled and the Open Offer becomes unconditional	10:00 a.m. on Monday, 27 February 2006
Despatch of refund cheques in respect of unsuccessful excess applications	Monday, 27 February 2006
Despatch of the share certificates for the Offer Shares	Monday, 27 February 2006
Announcement of results of the Open Offer	Monday, 27 February 2006
Dealing in fully-paid Offer Shares expected to commence *(Note (1))*	Wednesday, 1 March 2006

Notes:

(1) Dealing in fully-paid Offer Shares will commence as soon as the relevant Shareholders receive the share certificates for the Open Offer.

(2) Dates stated in this circular for events in the timetable are for indicative purpose only and may be extended or varied. Any changes to the anticipated timetable will be announced as appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

(1) a tropical cyclone warning signal number 8 or above, or

(2) a "black" rainstorm warning

(a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 21 February 2006. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same business day;

(b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 21 February 2006. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Open Offer does not take place on 21 February 2006, the dates mentioned in the section headed "Expected Timetable" in this circular may be affected. A press announcement will be made by the Company in such event.

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Announcement"	the announcement of the Company dated 22 December 2005 relating to, inter alia, the proposed Capital Increase and the Open Offer
"Announcement Latest Practicable Date"	being the latest practicable date prior to the issue of the Announcement for ascertaining certain information contained therein
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Branch Registrar"	Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, whose address is at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong
"business day"	any day (other than a Saturday) on which banks are generally open for business in Hong Kong
"Capital Increase"	the proposed increase in the authorised share capital of the Company from HK$500,000,000 to HK$800,000,000
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	TCL Communication Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Convertible Notes"	the convertible notes issued by the Company to TCL Corporation on 29 July 2005 with total outstanding principal amount of €20,000,000 (in its Hong Kong dollars equivalent of HK$185,100,000) which are convertible into up to 318,177,911 Shares at an initial conversion price of HK$0.58175 (subject to adjustment)
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to approve, among other things, the proposed Capital Increase and Open Offer
"Excluded Shareholders"	those Overseas Shareholders (if any) whom the Directors, after making relevant enquiry (if necessary) as required under the Listing Rules before the issue of the Open Offer Documents, will consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
"Group"	the Company and its subsidiaries

"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Company comprising three independent non-executive Directors formed to give advice to the Independent Shareholders in respect of the Open Offer
"Independent Shareholders"	Shareholders other than TCL Industries and its associates
"Latest Acceptance Time"	4:00 p.m. on 21 February 2006 or such other time as the Underwriter may agree with the Company, being the latest time for acceptance of the Offer Shares
"Latest Practicable Date"	13 January 2006, being the latest practicable date prior to the issue of this circular for ascertaining certain information contained herein
"Latest Time for Termination"	10:00 a.m. on 27 February 2006, being the latest time for termination of the Underwriting Agreement by the Underwriter
"Listing Document"	the listing document of the Company dated 20 September 2004 in relation to the listing of its shares on the Stock Exchange by way of introduction
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange from time to time
"Mate Fair"	Mate Fair Group Limited, a company incorporated in the British Virgin Islands and as at the Latest Practicable Date, was interested in 288,317,500 Shares representing approximately 9.71% of the existing issued share capital of the Company
"Mr. Wong"	Mr. Wong Toe Yeung, an executive Director holding as at the Latest Practicable Date, 288,317,500 Shares through Mate Fair which is wholly owned by him, representing about 9.71% of the existing issued share capital of the Company, and Options to subscribe for 5,000,000 Shares
"Offer Share(s)"	2,968,875,000 Shares proposed to be offered to the Qualifying Shareholders for subscription pursuant to the Open Offer
"Open Offer Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Offer Shares
"Open Offer"	the issue of the Offer Shares on the basis of one Offer Share for every one Share held on the Record Date at a price of HK$0.20 per Offer Share as described in this circular

"Options"	the share options granted under the Share Option Scheme conferring the holders thereof rights to subscribe in cash for new shares of the Company at exercise price determined in accordance with the scheme
"Overseas Shareholders"	the Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date
"Posting Date"	7 February 2006 or such other date as the Underwriter may agree with the Company for the despatch of the Open Offer Document
"PRC"	the People's Republic of China
"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Qualifying Shareholders"	the Shareholders, other than the Excluded Shareholders, whose names appears on the register of members of the Company on the Record Date
"Record Date"	6 February 2006 or such other date as may be agreed between the Company and the Underwriter, being the record date for determining entitlement to the Open Offer
"Scheme Mandate Limit"	the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and all other share option scheme(s) of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 13 September 2004
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (as amended from time to time)
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Shareholders"	holders of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.20 per Offer Share
"T&A HK"	T&A Mobile Phones Limited, previously known as TCL & Alcatel Mobile Phones Limited, incorporated in Hong Kong and currently a wholly-owned subsidiary of the Company after the Company's acquisition of its 45% interests from Alcatel in July 2005
"T&A SAS"	TCL & Alcatel Mobile Phones SAS, previously known as Sorelec SA, a company incorporated in France and wholly-owned by T&A HK

"TCL Industries"	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong and as at the Latest Practicable Date, was interested in 1,622,748,480 Shares, representing approximately 54.66% of the existing issued share capital of the Company
"TCL Mobile"	Huizhou TCL Mobile Communication Co., Ltd. (惠州 TCL 移動通信有限公司), a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
"trading day"	a day on which the Stock Exchange is open for trading
"U.S."	the United States of America
"Underwriter"	Kingsway Financial Services Group Limited, a licensed corporation to carry on type 1, 2, 4, 6 and 9 regulated activities as defined in Schedule 5 of the Security and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which is an independent third party not connected to any Director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them
"Underwriting Agreement"	the conditional agreement dated 22 December 2005 entered into between the Company and the Underwriter relating to the underwriting and other arrangements in respect of the Open Offer
"Underwritten Shares"	1,057,809,020 Offer Shares at the maximum which the Underwriter has agreed to underwrite under the Underwriting Agreement
"VXLFS" or "IFA"	VXL Financial Services Limited, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, which is a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO
"%"	per cent

TCL 通訊科技控股有限公司
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

Executive Directors:
Li Dong Sheng
Yuan Xin Cheng
Liu Fei
Yan Yong, Vincent
Du Xiaopeng, Simon
Guo Aiping, George
Wong Toe Yeung

Independent Non-executive Directors:
Shi Cuiming
Wang Chongju
Lau Siu Ki, Kevin

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and principal place of Business in Hong Kong
Room 1502, Tower 6
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

20 January 2006

To the Shareholders,

Dear Sir or Madam,

**PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL,
PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF
ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON RECORD DATE
AND
REFRESHMENT OF THE 10% LIMIT ON GRANT
OF OPTIONS UNDER SHARE OPTION SCHEME**

1. INTRODUCTION

Reference is made to the Company's Announcement dated 22 December 2005 in relation to the proposed Capital Increase and Open Offer. The Company proposed the following:

(a) increase of the authorized share capital of the Company from HK$500,000,000 divided into 5,000,000,000 Shares of HK$0.10 each to HK$800,000,000 divided into 8,000,000,000 Shares of HK$0.10 each by the creation of an additional 3,000,000,000 Shares;

(b) raising approximately HK$594 million, before expenses, by issuing 2,968,875,000 new Shares by way of Open Offer to the Qualifying Shareholders at the Subscription Price of HK$0.20 per Offer Share on the basis of one Offer Share for every existing Share held on the Record Date; and

(c) refreshing the Scheme Mandate Limit of the Company's Share Option Scheme.

Items (a) and (c) are conditional upon the approval of the Shareholders at the EGM.

Item (b) (the Open Offer) is conditional upon, among other things, the approval of the Independent Shareholders under the Listing Rules. The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Open Offer. VXLFS has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

The purpose of this circular is to provide you with further information regarding, among other things, the above items, the advice of the IFA to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the recommendation of the Independent Board Committee to the Independent Shareholders, and the notice of the EGM to be convened for the purpose of, among other things, considering and, if thought fit, approving the resolutions in relation to the above items. TCL Industries and its associates are required to abstain from voting at the EGM in respect of the resolution for approving the Open Offer under the Listing Rules.

2. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorized share capital of the Company was HK$500,000,000 divided into 5,000,000,000 Shares, 2,968,875,000 Shares of which had been issued and fully paid or credited as fully paid. In order to accommodate future expansion and growth of the Group, the Directors propose to increase the authorized share capital of the Company from HK$500,000,000 divided into 5,000,000,000 Shares of HK$0.10 each to HK$800,000,000 divided into 8,000,000,000 Shares of HK$0.10 each by the creation of an additional 3,000,000,000 unissued Shares.

The increase in the authorized share capital of the Company is conditional upon the approval of the Shareholders at the EGM.

As at the Latest Practicable Date, only 2,031,125,000 Shares were left unissued and available for further allotment and issue by the Company. Based on a total of 2,968,875,000 new Shares to be issued under the Open Offer, the Company's current authorized share capital will be insufficient for the allotment of the Offer Shares. Accordingly, the Open Offer will be conditional upon, among other things, the Shareholders passing the resolution for approving the proposed increase of authorized share increase at the EGM, but not vice versa.

The increased authorized share capital will be used for issuing Offer Shares pursuant to the Open Offer and the new Shares pursuant the exercise of the subscription or conversion rights under the Options and the Convertible Notes. Save for the above, the Directors currently do not have any intention of issuing any part of the increased authorized share capital for any specific purpose.

3. PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON RECORD DATE

The Company and the Underwriter entered into the Underwriting Agreement on 22 December 2005 in respect of the Open Offer. Details of the Open Offer are set out below:

Issue statistics (assuming no further shares of the Company will be issued prior to the completion of the Open Offer)

Basis of the Open Offer	:	One Offer Share for every one Share held on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	2,968,875,000 Shares
Number of Offer Shares	:	2,968,875,000 Offer Shares
Number of Offer Shares undertaken to be taken up by TCL Industries representing its 100% provisional entitlement under the Open Offer	:	1,622,748,480 Offer Shares (representing about 54.66% and 27.33% of the issued share capital of the Company as at the Latest Practicable Date and upon completion of the Open Offer respectively)
Number of Offer Shares undertaken to be taken up by Mate Fair representing its 100% provisional entitlement under the Open Offer	:	288,317,500 Offer Shares (representing about 9.71% and 4.86% of the issued share capital of the Company as at the Latest Practicable Date and upon completion of the Open Offer respectively)
Number of Offer Shares underwritten by the Underwriter	:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares, being 1,057,809,020 Offer Shares (representing about 35.63% and 17.81% of the issued share capital of the Company as at the Latest Practicable Date and upon completion of the Open Offer respectively) at the maximum, subject to and upon the terms and conditions of the Underwriting Agreement.
Number of Shares in issue immediately upon completion of the Open Offer	:	5,937,750,000 Shares

As at the date of this circular, the Company had: (a) outstanding Convertible Notes in the principal amount of €20,000,000 (in its Hong Kong dollars equivalent of HK$185,100,000) carrying rights to convert into up to 318,177,911 Shares at an initial conversion price of HK$0.58175 per Share (subject to adjustment); and (b) outstanding Options carrying rights to subscribe for up to 282,750,000 Shares if exercise in full by the holders thereof but none of the said Options can be exercised before 1 March 2006. TCL Corporation, the ultimate controlling shareholder of the Company and the holder of the Convertible Notes, has irrevocably undertaken to the Company and the Underwriter not to convert the Convertible Notes prior to the Record Date. Accordingly, no Offer Shares will be issued by virtue of any exercise of the conversion or subscription rights attaching to the Convertible Notes and the outstanding Options prior to the Record Date.

It is expected that adjustments to the conversion price of the Convertible Notes or the exercise price of the Options are necessary as a result of the Open Offer. The adjustments will be calculated in accordance with the terms of the relevant share option scheme and the Convertible Notes respectively and confirmed by the auditors of the Company and will be notified to the relevant holders thereof. As at the Latest Practicable Date, the Company has yet obtained confirmation from its auditors and the Company will issue a separate announcement after it has received from its auditors the confirmation of adjustments.

Qualifying Shareholders

The Company will send (a) the Open Offer Documents to the Qualifying Shareholders; and (b) the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Open Offer, Shareholders must, at the close of business on the Record Date be registered on the register of members of the Company and not being an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date and to qualify for the Open Offer, Shareholders must lodge any transfer of Shares (with the relevant Share certificates) for registration with the Branch Registrar by 4:00 p.m. on Thursday, 2 February 2006.

The invitation to apply for the Offer Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. The Directors consider that the aforesaid arrangement will save the additional administrative work and expenses and therefore will be in the best interest of the Company and the Shareholders as a whole.

Closure of register of members

The register of members of the Company will be closed from Friday, 3 February 2006 to Monday, 6 February 2006 (both dates inclusive) to determine the eligibility of Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price for the Offer Shares

The Subscription Price is HK$0.20 per Offer Share, payable in full on acceptance of the provisional allotments and (where applicable) application for excess Offer Shares under the Open Offer. The Subscription Price represents:

(a) a discount of approximately 20% to the closing price of HK$0.25 per Share as quoted on the Stock Exchange on the Announcement Latest Practicable Date;

(b) a discount of approximately 9% to the closing price of HK$0.22 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(c) a discount of approximately 11% to the theoretical ex-entitlement price of approximately HK$0.225 per Share based on the closing price per Share in (a) above;

(d) a discount of approximately 5% to the theoretical ex-entitlement price of approximately HK$0.21 per Share based on the closing price per Share in (b) above;

(e) a discount of approximately 21% to the average closing price of HK$0.2546 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Announcement Latest Practicable Date;

(f) a discount of approximately 7% to the average closing price of HK$0.2158 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Latest Practicable Date;

(g) a discount of approximately 63% to the audited consolidated net assets value per Share of HK$0.54 as at 31 December 2004; and

(h) a premium of approximately 94% to the unaudited consolidated net assets value per Share of HK$0.103 as at 30 September 2005.

The Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter, having regard to prevailing market conditions, the financial results of the Company for the nine months ended 30 September 2005 announced recently which continued to show a net loss of the Group, though already improving by about 17% on a quarter to quarter basis, and the unsatisfactory price performance of the Shares in the past six months. The parties considered that prevailing market conditions and the financial results of the Company are crucial factors for determination of the Subscription Price since the former generally affects the Share prices and the latter indicates the performance of the Company. The Board considers that the terms of the Open Offer (including the Subscription Price) are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

Since the Open Offer will increase the issued share capital of the Company by more than 50% within 12 month period immediately preceding the Announcement, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer is conditional upon the approval of the Independent Shareholders at the EGM by a resolution on which TCL Industries being the controlling Shareholder and its associates are required to abstain from voting in favour. The Open Offer is also conditional upon, among other things, the Shareholders passing the resolution for approving the proposed Capital Increase at the EGM.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid in respect thereof on or after the date of allotment and issue of such Offer Shares.

Certificates for Offer Shares and refund cheques

Subject to fulfillment of the conditions of the Open Offer, certificates for the Offer Shares are expected to be posted on or before Monday, 27 February 2006 to those Qualifying Shareholders who have validly applied and paid for the Offer Shares, by ordinary post at their own risk, and refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares are also expected to be posted on or before Monday, 27 February 2006 by ordinary post at their own risks.

Basis of Assured Entitlement

One Offer Share will be offered by the Company for every one Share held by a Qualifying Shareholder on the Record Date. Assuming 2,968,875,000 Shares will be in issue at the close of business on the Record Date, a total of 2,968,875,000 Offer Shares will be allotted and issued under the Open Offer. Application for all or any part of a Qualifying Shareholder's assured entitlement should be made by completing the provisional allotment letters and lodging the same with a remittance for the Offer Shares being applied for.

Rights of Excluded Shareholders

The Open Offer Documents are not expected to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Having reviewed the register of members of the Company, there is no Shareholder whose address is registered outside Hong Kong as at the Latest Practicable Date. If prior to the issue of the Open Offer Documents, there are Shareholders whose addresses are registered on the register of members of the Company outside Hong Kong, the Company will comply with Rule 13.36(2) of the Listing Rules and make enquiries regarding the feasibility of extending the Open Offer to the Excluded Shareholders. The results of whether the Company has any Shareholders whose address is registered outside Hong Kong and such enquiries (if any) will be disclosed in the Open Offer Documents. If, based on legal opinions provided by the legal advisers to the Company, the Directors consider that, in compliance with Rule 13.36(2) of the Listing Rules, it is necessary or expedient not to extend the Open Offer to the Excluded Shareholders on account either of the legal restrictions under the laws of the place of its/his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Open Offer will not be available to the Excluded Shareholders. The Company will issue an announcement including the information under Rule 13.36(2) if there are Shareholders whose addresses are registered on the register of members of the Company outside Hong Kong prior to the issue of the Open Offer Documents.

The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send them any provisional allotment letters and forms of application for excess Offer Shares.

Procedure for Acceptance

If you are a Qualifying Shareholder, you will find a provisional allotment letter enclosed with the prospectus expected to be despatched on Tuesday, 7 February 2006, which entitles you to apply for the number of Offer Shares in your assured allotment shown thereon and if you wish to apply for Offer Shares, you must complete, sign and lodge the same in accordance with the instructions printed thereon, together with remittance for full amount payable on application with the Branch Registrar by not later than the Latest Acceptance Time, being 4:00 p.m. on 21 February 2006. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier order must be issued by, a licensed bank in Hong Kong and made payable to "TCL Communication Technology Holdings Limited" — Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the provisional allotment letter, together with the appropriate remittance, has been lodged with the Registrar by no later than the Latest Acceptance Time by a Qualifying Shareholder, his/her/its entitlement to apply under the Open Offer will be deemed to have been declined and will be cancelled.

All cheques or cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any provisional allotment letter in respect of which the cheque or cashier order is dishonored on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholder under the Open Offer will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before the Latest Time for Termination and/or if any of the conditions to which the Open Offer is subject are not fulfilled or waived, the application monies will be refunded, without interest, by sending cheques made out to the applicants (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicants to the address specified in the register of members of the Company on or before 27 February 2006.

The provisional allotment letter is for use only by the person(s) named therein and is not transferable. All documents, including cheques and cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses.

No receipt will be issued in respect of any application monies received.

Application for excess Offer Shares

Qualifying Shareholders may apply, by way of excess application, for

(a) any Offer Shares to which the Excluded Shareholders would otherwise be entitled; and

(b) any Offer Shares to which Qualifying Shareholders are entitled but which are not taken up by them.

Applications should be made by completing the forms of application for excess Offer Shares enclosed with the Prospectus and lodging the same with a separate remittance for the excess Offer Shares being applied for, with the Branch Registrar on or before the Latest Acceptance Time. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "TCL Communication Technology Holdings Limited' — Excess Application Account" and crossed "Account Payee Only".

The Directors will allocate excess Offer Shares at their discretion but on a fair and equitable basis, and will give preference to topping-up odd lots to whole board lots.

All cheques and cashier orders will be presented payment immediately following receipt and all interests earned on such monies will be retained for the benefit of the Company. Any form of application for excess Offer Shares in respect of which the accompanying cheque or cashier order is dishonored on first presentation is liable to be rejected.

If no excess Offer Shares are allotted to the relevant Qualifying Shareholders, the amount tendered on application is expected to be refunded to them in full without interest by means of cheques despatched ordinary post at their own risk on or about 27 February 2006. If the number of excess Offer Shares allotted to the relevant Qualifying Shareholders are less than that applied for, any surplus application money is expected to be refunded to them without interest by means of cheques despatched in ordinary post to such applicants at their own risk on or about 27 February 2006.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before the Latest Time for Termination and/or if any of the conditions to which the Open Offer is subject are not fulfilled or waived, the monies received in respect of application for excess Offer Shares will be returned, without interest, by sending cheques made out to the applicants (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicants to the address specified in the register of members of the Company on or about 27 February 2006.

The form of application for excess Offer Shares is for use only by the Qualifying Shareholders to whom it is addressed and is not transferable. All documents, including cheques and cashier orders for amount due, will be sent at the risk of the persons entitled thereto to their registered addresses.

No receipt will be issued in respect of any movies for applicant of excess Offer Shares received.

The Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Offer Shares will not be extended to beneficial owners individually. The Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

The Shareholders and potential investors should note that the number of excess Offer Shares which may be allocated to them may be different and if they are in doubts, they should consult their professional advisers.

Application for Listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Offer Shares. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Underwriting Agreement

Date	:	22 December 2005
Underwriter	:	Kingsway Financial Services Group Limited, which is an independent third party not connected to any Director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them
Number of Shares underwritten	:	1,057,809,020 Offer Shares (representing about 35.63% and 17.81% of the issued share capital of the Company as at the Announcement Latest Practicable Date and upon completion of the Open Offer respectively) at the maximum
Commission	:	an underwriting commission of 2.5% of the aggregate Subscription Price of the Underwritten Shares

Pursuant to the Underwriting Agreement, the Underwriter has agreed to underwrite the Underwritten Shares, being 1,057,809,020 Offer Shares at the maximum.

Irrevocable undertaking from TCL Industries and Mate Fair

As at the Latest Practicable Date, each of TCL Industries and Mate Fair were interested in 1,622,748,480 Shares and 288,317,500 Shares respectively, representing approximately 54.66% and 9.71% of the existing issued share capital of the Company respectively, and has irrevocably undertaken to the Company and the Underwriter to take up its full entitlement of 1,622,748,480 Offer Shares and 288,317,500 Offer Shares respectively under the Open Offer.

Termination of the Underwriting Agreement

The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company at any time prior to 10:00 a.m. on the date of allotment of the Offer Shares, if the occurrence of the following events would, in the sole opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or the success of the Open Offer or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer:

(a) the introduction or change of any law or regulation or any material change in the judicial interpretation or application thereof;

(b) the occurrence of any event, resulting in a material adverse change in political, economic or stock market conditions;

(c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances;

(d) a change or development involving a prospective material change in taxation in Hong Kong or the implementation of exchange controls; or

(e) any material change in market conditions, taxation or exchange control or combination of circumstances in Hong Kong, the PRC, Taiwan or the U.S.

Shareholders should note if the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

Conditions of the Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement are conditional upon, among other things, the fulfillment of the following conditions on or before the Posting Date:

(a) the delivery to the Stock Exchange and filing and registration with the relevant regulatory bodies of the Open Offer Documents in compliance with the Companies Ordinance and the Listing Rules;

(b) the posting of the Open Offer Documents to the Qualifying Shareholders;

(c) the resolutions to approve the increase in authorized share capital of the Company and the Open Offer being passed at the EGM; and

(d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) the listing of, and permission to deal in the Offer Shares; and not having withdrawn or revoked the listing of and permission to deal in the Offer Shares.

If the conditions to the Underwriting Agreement have not been satisfied and/or waived on or before the Posting Date or such dates specified for the conditions not mentioned above (or such other date as the Company and the Underwriter may agree), the Underwriting Agreement shall terminate and the obligations and liabilities of the parties thereto shall cease and determine save for any antecedent breaches of the terms thereof. As at the Latest Practicable Date, the Company has not received any notice from the Underwriter for waiver of any of the conditions. The Open Offer is subject to the Underwriting Agreement having becoming unconditional and not terminated in accordance with its terms.

Changes in Shareholding Structure of the Company Arising from Open Offer

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming that no Options and Convertible Notes have been exercised or converted prior to the Record Date:

	As at the Latest Practicable Date		(A) Immediately after completion of the Open Offer (assuming all the Shareholders have taken up their respective entitlements under the Open Offer)		(B) Immediately after completion of the Open Offer (assuming no Shareholders has taken up their respective entitlements under the Open Offer except the TCL Industries and Mate Fair)	
	Number of Shares	% of issued Shares	Number of Shares	% of issued Shares	Number of Shares	% of issued Shares
TCL Industries	1,622,748,480	54.66%	3,245,496,960	54.66%	3,245,496,960	54.66%
Mate Fair	288,317,500	9.71%	576,635,000	9.71%	576,635,000	9.71%
Directors (excluding Mr. Wong)	44,724,830	1.51%	89,449,660	1.51%	44,724,830	0.75%
Public Shareholders	1,013,084,190	34.12%	2,026,168,380	34.12%	1,013,084,190	17.07%
The Underwriter and the sub-underwriters (or the subscribers under the underwriting arrangement) *(Note)*	—	—	—	—	1,057,809,020	17.81%
Total:	2,968,875,000	100%	5,937,750,000	100%	5,937,750,000	100%

Note: There will be sub-underwriting arrangements to be entered into between the Underwriter and a number of sub-underwriters. Therefore the Underwriter will in no circumstance be a substantial shareholder of the Company upon completion of the Open Offer.

As shown above, assuming no Shareholders has taken up their respective entitlements under the Open Offer except TCL Industries and Mate Fair, after completion of the Open Offer, a total of about 34.88% of the enlarged issued share capital of the Company will be held by the public (including the 17.81% in aggregate held by the Underwriter and the sub-underwriters or the subscribers under the underwriting arrangement who will be independent third parties to the Company) and none of them will hold 10% or more of the enlarged issued share capital of the Company. Therefore, the minimum public float requirement under Rule 8.08 of the Listing Rules of 25% remains fulfilled. In any event the Stock Exchange will monitor closely all trading in the securities to ensure that a false market does not develop and may suspend the securities if there is any unusual price movement.

Maintaining the Listing of the Company

It is the intention of the Company to maintain the listing of the Shares after the completion of the Open Offer. The Stock Exchange has stated that it will closely monitor the trading of the Shares if less than 25% of Shares are held by the public (as defined in the

Listing Rules). If the Stock Exchange believes that: (i) a false market exists or may exist in the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares on the Stock Exchange.

Warning of risks of dealing in shares

The Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Open Offer may or may not proceed. Shareholders and potential investors should exercise caution when dealings in the Shares.

Shareholders should note that the Shares will be dealt with on an ex-entitlements basis commencing from Wednesday, 1 February 2006 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealings in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Monday, 27 February 2006) will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his position is recommended to consult his own professional adviser.

Funds raising in the last 12 months

The Company issued the Convertible Notes to TCL Corporation on 29 July 2005 with total outstanding principal amount of €20,000,000 (in its Hong Kong dollars equivalent of HK$185,100,000). Out of the net proceeds of about HK$184.6 million from such issue, about HK$40 million has been applied to pay for the balance of the expenses incurred for the listing of the shares on the main board of the Stock Exchange in September 2004, about HK$120 million has been used for the operation of Huizhou TCL Mobile Communication Co., Ltd., a wholly-owned subsidiary of the Company incorporated in the PRC; and the remaining about HK$24.6 million has been used as working capital of the Group for its general operating usage. The said proceeds have been applied in the same manner as disclosed in the Company's circular dated 6 June 2005.

Save for the issue of the Convertible Notes, the Group did not have any capital raising activities for 12 months immediately before the date of the Announcement.

Reasons for the Open Offer and the Use of Proceeds

For the nine months ended 30 September 2005, the Company has recorded unaudited net loss attributable to equity holders of the Company amounting to about HK$1,313 million and at 30 September 2005, the Company recorded unaudited net assets value of about HK$339 million. In view of the prevailing market conditions, the financial results of the Company for the nine months ended 30 September 2005 announced recently which continued to show a net loss of the Group, though already improving by about 17% on a quarter to quarter basis, and the unsatisfactory price performance of the Shares in the past six months, the Directors consider that it should raise further capital through the equity market and the open offer is an appropriate means for such fund raising. The Directors consider that the Open Offer will provide a good opportunity for the Group to strengthen its capital base and to enhance its financial position and at the same time to allow the Shareholders to have an equal chance to participate in the exercise. Although both open offer and rights issue allow Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company, the Directors consider that the Open Offer, which does not require time for trading of nil-paid entitlements and will not incur additional costs in respect to the trading of nil-paid entitlements, is more time and cost effective and is in the interests of the Company and the Shareholders as a whole, to raise capital.

The estimated expenses of the Open Offer are about HK$6 million which comprise commission to the Underwriter and professional fees payable to the financial adviser and lawyers, etc., and will be borne by the Company. The Directors estimate that the net proceeds derived from the Open Offer will be approximately HK$587.8 million. It is the intention of the Directors that out of such net proceeds, about HK$200 million will be used for the research and development activities of the Group in advanced technology of the industry but not limited to 3G mobile handsets, about HK$150 million will be used for settlement of the payables incurred by the Group in its ordinary course of business; and the remaining about HK$237.8 million will be used as the general working capital of the Group including financing the increase in trade receivable as a result of the growth of the Group's business. Currently, the Company has not earmarked any part of such funds for any specific investment. The Company has since 2005 shifted its focus from local sales to overseas sales which requires longer credit period to be given to overseas customers. Accordingly, the Company intends to use some of the working capital to support its intended business growth in overseas sales.

Industry Overview and Business Outlook

Operating environment of the handset industry, both globally and domestically, has been tough in the 2005, after experienced a fast growing year in 2004.

Global sales of handset will expect to continue to grow in 2006 to approximately 770 million units of handset, representing a growth of approximately 5% to the projected sales of approximately 730 million units in 2005. *(Source: Strategic Analytics, "Market Forecast and Trends for Battery Technologies in Cellular Handsets", August 2005)*

The Group strives to improve its performance by re-establishing the TCL brand position in the market. By scheduling new product rollouts in 2006, the Group plans to launch more new TCL brand handset models equipped with advanced features such as MP3, MPEG4, mega pixel camera and stereo sound speaker. It is the Group's PRC market strategy to focus on the medium to high range products with a view to re-build TCL brand image on the mobile handsets as well as to pursue a relatively higher average margin.

The Group's handsets are mainly GSM phones selling to the Group's major overseas markets in Europe and Latin and South America under the Alcatel brand. European markets are mature that camera and multimedia handsets are most demanded, whereas Latin and South American markets are emerging markets that basic handsets are required most.

Currently the whole product spectrum of monochrome, color, MMS, camera and multimedia handsets, other than 3G, are covered by the Group's present as well as future product lines. The Group has devoted marketing efforts to foster closer relationship with operators to secure the market position and brand recognition of Alcatel brand handsets in the European and Latin American markets. At the same time, the Group further strengthens the footholds of Alcatel brand handsets in new emerging markets such as Portugal and Holland.

Going forward, the overseas market will form the growth engine. With new product launch in the pipeline, Alcatel's strong brand name in Europe will give the Group an advantage in capitalizing market opportunities. Moreover, the Group will also develop the potential of Alcatel handsets in Latin America, Portugal and Holland. Alcatel brand new handset models with advanced product features such as large screen, high resolution, 3D game, high storage, mega pixel camera and EDGE technologies will be rolled out in 2006, as well as 3G in late 2006 or early 2007.

Furthermore, sales of TCL handsets in overseas markets will be strengthened. Mid-to-high end TCL brand models will be promoted in Europe and Asia whilst relatively low-end models will be sold in Latin and South America and other emerging markets. In view of the increasing demand for CDMA handsets in emerging markets, the Group will further explore new opportunities in regions such as Latin America, India and Southeast Asia.

The growing outsourcing trend creates immense opportunities for the Group's OEM business. The Group will target business opportunities with telecommunication operators in Latin American and Southeast Asian markets. The Group will continue to adopt effective cost control measures to enhance its competitiveness.

During 2005, new management members were appointed (including Dr. Liu Fei being appointed as an executive Director and the chief executive officer of the Company) and the overall organization structure was restructured to make it clearer. The new management has refined its business strategies and direction as mentioned above after reviewing its operations (including reducing the operating costs of T&A SAS and turning T&A HK into a wholly-owned subsidiary of the Company). As disclosed, the Group's product roadmap has been redefined, and new product launch for models with multi-media functions has been accelerated. The integration of TCL Mobile and T&A HK has been completed during the year to enable the Group to have full control of operations of T&A. After restructuring, the Group now has an international management team comprising over 60% international talents coming from Europe and North America. With the net proceeds from the Open Offer, the Group will be in a better financial position and have more resources to fuel its implementation plan for improving its business through (a) making well use of the ideas contributed by the strong management team under the new leadership; (b) implementing the new business strategies formulated by the management; (c) carrying out business plans which can generate synergies brought forth by business integration, focused product strategy and R&D capabilities and (d) developing and launching more world-class quality products backed by the low cost manufacturing structure in the PRC. Accordingly, the Group is confident of achieving profitability in 2006.

Save as disclosed in this circular, the Board is not aware of any special trade factors or risks which could materially affect the profits of the Group.

Professional Tax Advice Recommended

The Shareholders and potential investors are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for the Offer Shares, or about purchasing, holding or disposing or dealing in the Offer Shares under the laws of jurisdiction in which they are liable to taxation.

The Company, the Underwriter, the IFA and their respective directors, agents or advisors or any other person involved in the Open Offer, do not accept any responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, or dealing in the Offer Shares.

4. REFRESHMENT OF THE 10% SHARE OPTION SCHEME LIMIT

The Share Option Scheme was adopted by the Company on 13 September 2004. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

Pursuant to the Share Option Scheme, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company (i.e. the Scheme Mandate Limit), shall not exceed 10% of the total number of Shares in issue as at the date of adoption of the Share Option Scheme, namely 282,750,000 Shares. The Company may refresh the Scheme Mandate Limit by ordinary resolution of the Shareholders at general meeting provided that:

(a) the Scheme Mandate Limit so refreshed shall not exceed 10 per cent. of the total number of Shares in issue as at the date of the Shareholders' approval of the refreshment of the Scheme Mandate Limit; and

(b) options previously granted under the Share Option Scheme and any other share option scheme(s) of the Company (including those outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed.

Notwithstanding the foregoing, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time.

As at the date of this circular, options carrying rights to subscribe for 282,750,000 Shares (being the maximum number of Shares allowed to be issued under the current Scheme Mandate Limit and representing about 9.52% of the issued share capital of the Company as at the Latest Practicable Date) have been granted, all of which remain outstanding. No options have been cancelled up to the Latest Practicable Date.

In view of the Group's current financial position, the Board considers that options will be important tools for motivating the Group's employees to work hard to turn around the Company. As the granting of Options to the employees of the Group will not affect the Group's cash flow but will help the Company to retain and/or recruits employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company, the Board has decided to grant to those eligible persons such number of Options which will provide sufficient incentives to them to achieve the Group's business goals.

As at the date of this circular and before the Scheme Mandate Limit is refreshed, no further Options can be issued by the Company. To enable the Company to grant further Options to the Group's employees, the Board proposes to seek the Shareholders' approval to refresh the Scheme Mandate Limit at the EGM.

If the refreshment of the Scheme Mandate Limit is approved at the EGM, based on the 2,968,875,000 Shares in issue as at the Latest Practicable Date and assuming no further Shares will be allotted and issued and no Shares will be repurchased after the Latest Practicable Date and up to the date of the EGM, the Company may grant further options carrying rights to subscribe for up to a total of 296,887,500 Shares under the Share Option Scheme (representing 10% of the issued share capital of the Company as at the date of the EGM).

The Board considers that the refreshment of the Scheme Mandate Limit is in the interests of the Company and its Shareholders as a whole.

The refreshment of the Scheme Mandate Limit is conditional on:

(a) the passing of the necessary resolution to approve the refreshment of the Scheme Mandate Limit by the Shareholders at the EGM; and

(b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in such number of Shares representing 10% of the Shares in issue as at the date of the EGM, which may be issued pursuant to exercise of options to be granted under the refreshed Scheme Mandate Limit.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued by the Company (representing 10% of the Shares in issue as at the date of the EGM) which may be issued pursuant to exercise of options to be granted under the refreshed Scheme Mandate Limit.

5. EGM

The Company will convene the EGM at 3:00 p.m. on 6 February 2006 at Hennessy Room, 7th Floor, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at which resolutions will be proposed for the purpose of considering and if thought fit, approving the proposed Capital Increase and Open Offer. The notice of the EGM is set out on pages 98 and 100 of this circular.

The controlling shareholder and its associates are required to abstain from voting under Rule 7.24(5) as the Open Offer would increase the issue share capital of the Company by more than 50%.

A form of proxy for use at the EGM or any adjourned meeting is enclosed. Whether or not you are able to attend the EGM in person, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting should you so desire.

6. RECOMMENDATION

The Independent Board Committee, comprising the three independent non-executive directors namely, Mr. Shi Cuiming, Mr. Wang Chongju and Mr. Lau Siu Ki, Kevin, has been established to advise the Independent Shareholders in respect of the Open Offer. VXLFS has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect thereof.

The letter to the Independent Shareholders from the Independent Board Committee containing its advice and recommendations are set out on page 22 of this circular. Having regard to the opinion of VXLFS, which is set out on pages 23 to 38 of this circular, the Independent Board Committee is of the opinion that the terms of the Open Offer were fair and reasonable so far as the Independent Shareholders were concerned and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Open Offer to be proposed at the EGM.

7. INFORMATION OF THE GROUP

The Group is engaged in the design, manufacture and marketing of a wide range of mobile handsets for global market. The Group's handset sold in the PRC, Europe and Latin America are mainly marketed under two key brands — "TCL", and "Alcatel". The Company operates its highly efficient manufacturing plants and R&D centres in various provinces of China and France with headquarters in Huizhou, China. For more information, please visit the Group's website: www.tclcom.com.

8. ADDITIONAL INFORMATION

Subject to the necessary resolutions approving the proposed Capital Increase and the Open Offer being passed at the EGM, it is expected that the Prospectus will be dispatched to the Shareholders on or about 7 February 2006.

Your attention is drawn to the information set out in the appendices to this circular and the notice of the EGM in this circular.

Yours faithfully,
Li Dong Sheng
Chairman

TCL 通訊科技控股有限公司
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

To: the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON RECORD DATE

We refer to the circular dated 20 January 2006 of the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular bear the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Open Offer. VXLFS has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 21 of the Circular which contains details of the terms of the Open Offer, and the letter of advice from VXLFS as set out on pages 23 to 38 which contains its advice and recommendations in respect thereof.

Having taken into account the advice and recommendations of VXLFS, we are of the opinion that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Shi Cuiming, Wang Chongju and Lau Siu Ki, Kevin
Independent Non-executive Directors

The following is the text of the letter of advice dated 20 January 2006 from VXLFS to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer prepared for incorporation into this circular.

VXL Financial Services Limited
Unit 3214, Cosco Tower
183 Queen's Road Central
Hong Kong

20 January 2006

The Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON RECORD DATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer. Details of the Open Offer are set out in the circular dated 20 January 2006 (the "Circular") issued by the Company to the Shareholders, of which this letter forms part. Given that the Open Offer will increase the issued share capital of the Company by more than 50%, the Open Offer is therefore subject to the approval of the Independent Shareholders in accordance with Rule 7.24(5) of the Listing Rules. In this connection, we are engaged as the independent financial adviser in respect of the Open Offer to prepare this letter which opines on whether or not the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give our recommendation as to whether or not the Independent Shareholders should vote in favour of the resolution in relation to the Open Offer at the EGM. Capitalized terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

In formulating our recommendation, we have relied on the accuracy of the information and facts supplied to us by the Company, its Directors and management. We have also assumed that all statements of belief and intention made by the Directors in the Circular were made after due enquiry. We have assumed that all information, representations and opinion made or referred to in the Circular were true at the time they were made and continued to be true at the date of the EGM. We have also assumed that all statements of beliefs, opinions, assumptions and intentions made by the Directors in the Circular were made reasonably after due and careful enquiry and were based on honestly-held opinion. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, its Directors and management and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information and representations provided and to provide a reasonable basis for our recommendation. We have no reason to suspect that any relevant information or reports have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us to be untrue, inaccurate, or misleading. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Group nor carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Open Offer, we have considered the following principal factors and reasons:

I. Background and the reasons for the Open Offer

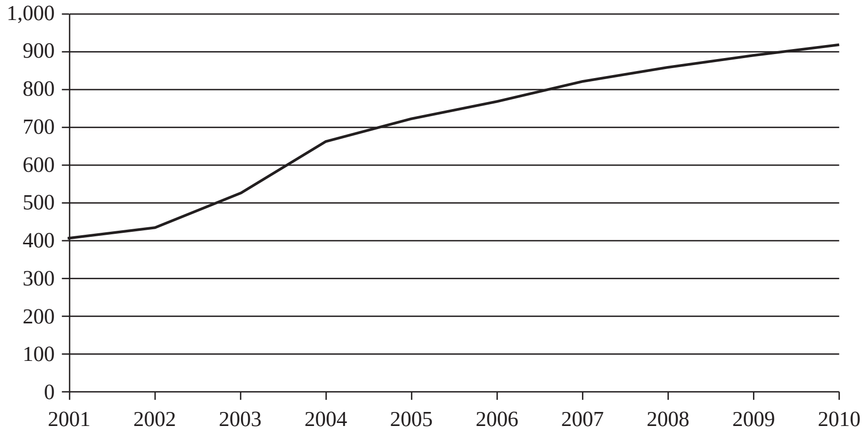
Background

The Group is engaged in the design, manufacture and marketing of a wide range of mobile handsets for global market. The Group's handset sold in the PRC, Europe and Latin America are mainly marketed under two key brands — "TCL", and "Alcatel". The Company operates its highly efficient manufacturing plants and R&D centres in various provinces of China and France with headquarters in Huizhou, China.

Industry overview

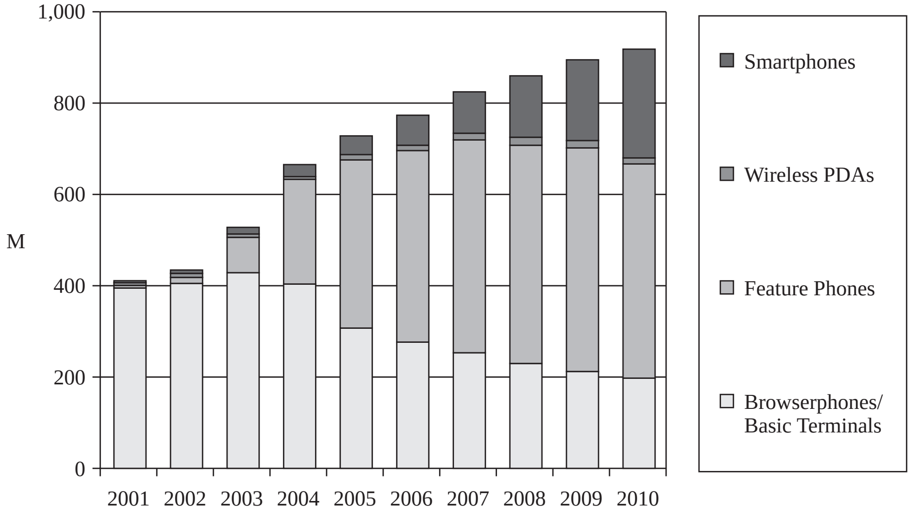
Operating environment of the handset industry, both globally and domestically, has been tough in 2005, after experienced a fast growing year in 2004. The following chart, which is extracted from a report issued in August 2005 by Strategic Analytics, a global market research and consulting firm, shows that global sales of handset is expected to continue to grow in 2006 to approximately 770 million units of handset, representing a growth of approximately 5% to the projected sales of approximately 730 million units in 2005.

Global Cellular Handset Sales (million units)



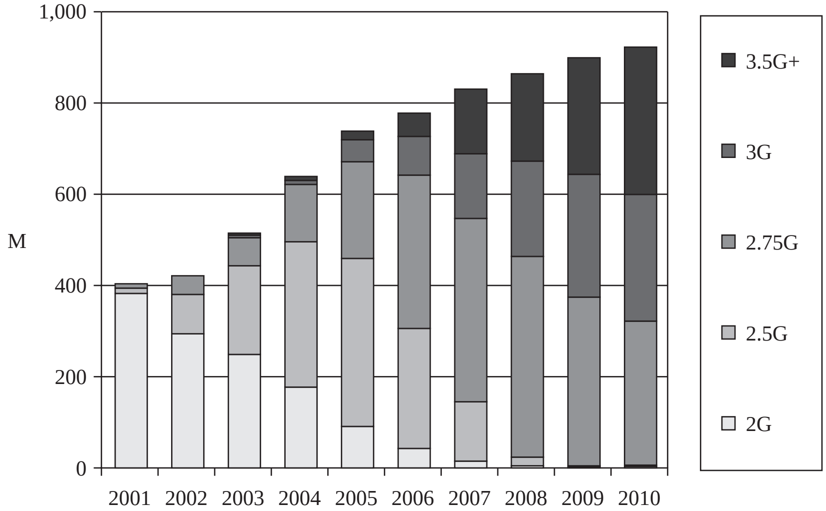
Source: Strategic Analytics, "Market Forecast and Trends for Battery Technologies in Cellular Handsets", August 2005

The following chart shows the projected global handset sales by device type. Feature phones have grown from about 15% in 2003 to about 50% of the projected global handset sales in 2005. Smart phones are expected to grow from approximately 6% in 2005 to approximately 26% by 2010.



Source: Strategic Analytics, "Market Forecast and Trends for Battery Technologies in Cellular Handsets", August 2005

The following chart illustrates that 3G technology as well as other more advanced technologies are projected to be the development trend of the mobile handset industry in the coming years. As of 2005 many of the European countries have already launched 3G networks for mobile telecommunication. According to the Ministry of Information Industry of the PRC, development of 3G technology gradually matured in 2005. On this basis, the Company expects that 3G networks will also be launched in the PRC soon.



* 3G includes EDGE & CDMA 1X RTT
* 3.5G includes HSDPA/CDMA 1X EV

Source: Strategic Analytics, "Market Forecast and Trends for Battery Technologies in Cellular Handsets", August 2005

Financial and operating performance

For the nine months ended 30 September 2005, the Company has recorded unaudited consolidated net loss attributable to equity holders of the Company amounting to about HK$1,313 million and at 30 September 2005, the Company recorded unaudited consolidated net assets value of about HK$339 million. For the six months ended 30 June 2005, the Company has recorded unaudited consolidated net loss attributable to equity holders of the Company amounting to about HK$853 million. For the year ended 31 December 2004, the Company has recorded audited net loss attributable to equity holders of the Company amounting to about HK$224 million.

The following table shows the quarter to quarter comparison of the unaudited consolidated turnover of the Company and loss attributable to equity holders of the Company for the year 2005 as extracted from the respective results announcement of the Company:

	2004 4th Quarter	**2005 1st Quarter**	**Changes**	**2005 2nd Quarter**	**Changes**	**2005 3rd Quarter**	**Changes**
	HK$ (million)	*HK$ (million)*	*%*	*HK$ (million)*	*%*	*HK$ (million)*	*%*
Turnover	2,134	1,698	(20.4)	1,273	(25.0)	1,050	(17.5)
Loss	378	386	2.1	468	21.2	460	(1.7)

We note from the above quarter to quarter comparison that the turnover and loss of the Group continued to deteriorate although the pace of deterioration begun to stabilize and improve in the latest quarter ended 30 September 2005. We have discussed with the management of the Company and note that the deterioration was mainly attributable to the following reasons:

(i) Despite increasing demand in handset market in the PRC, major industry players try to clean up their inventory by means of price reductions due to the loss of market shares to international brands;

(ii) As referred to in the results announcement of the Company for the financial year ended 31 December 2004, operating costs of T&A HK, the overseas business arm of the Group which commenced its operation in September 2004 and became a wholly-owned subsidiary of the Company in July 2005, was comparatively high as it takes time to realize the synergies. The management of the Company was in the course of integrating T&A HK and streamlining the operation and management structure of the Group during the year, as it takes time to bring about the effect, the overall operating costs remained relatively high in the first three quarters in 2005;

(iii) Price pressure in the low-end handset segment was intensified by the "Black" handsets (i.e. handsets being brought into the market illegally) in the PRC.

As referred to the "Letter from the Board" in the Circular, the Directors are confident that the Group's performance will be improved in 2006. In this regard, we note that

(i) the Group has completed the integration of TCL Mobile and T&A HK during the year and restructured the operation and management of the Group, resulting in operating cost control becoming more effective. This has been reflected in the latest quarter results of the Company for the nine months ended 30 September 2005 showing that the operating cost was reduced considerably with respect to cost of good sold per handset, sales and marketing, research and development and general administrative expenses, which decreased by about 12%, 40%, 73% and 23% quarter-on-quarter respectively;

(ii) inventory of the Group has been reduced considerably from approximately HK$1,031.8 million as at 31 December 2004 to approximately HK$702.1 million as at 30 September 2005;

(iii) the Company has, after cleaning up of inventories of old models, positioned itself to develop new products by exploring ways to strengthen research and development in order to pick up growth in sales in the forthcoming future again;

(iv) the new products plan to be launched by the Group in 2006 include, among others, high-end products equipped with advanced features such as MP3, MPEG4, mega pixel camera and stereo sound speaker which are in-line with the projected market trend of increasing projected sales in feature phones as referred to in the sub-paragraph headed "Industry overview" above; and

(v) the Ministry of Information Industry of the PRC has commenced in late 2005 co-operation with the National Development and Reform Commission, Gong An Department, Customs Department, State Administration of Taxation, State Administration for Industry and Commerce, and the General Administration of Quality Supervision, Inspection and Quarantine to launch campaigns against illegal handset players/black market in the PRC.

Based on the foregoing that the major factors which were attributable to the unsatisfactory operating and financial performance of the Group in 2005 were largely diminished and barring unforeseen circumstances, we consider that the Directors have reasonable ground to believe that the operating and financial performance of the Group will be improved in 2006.

Reasons for and benefits of the Open Offer

As referred to in the "Letter from the Board" in the Circular, the Directors consider that the Open Offer will provide a good opportunity for the Group to strengthen its capital base and to enhance its financial position. In this connection, we have analyzed the financial effect of the Open Offer to the Group, details of which are referred to in the paragraph headed "III. Financial effects on the Company" below. As at 30 November 2005, being the latest practicable date for the purpose of the indebtedness statement as included in Appendix III to the Circular, the Group had outstanding borrowings of approximately HK$332 million comprising advances for discounted bills of approximately HK$166 million which are repayable within a period not exceeding one year and the convertible notes of approximately HK$166 million which are repayable within three years from the date of issue of the convertible notes.

It is the intention of the Directors that out of the net proceeds derived from the Open Offer of approximately HK$587.8 million:

(i) approximately HK$200 million will be used for the research and development activities of the Group in advanced technology of the industry including but not limited to 3G mobile handsets;

(ii) approximately HK$150 million will be used for settlement of the payables incurred by the Group in its ordinary course of business; and

(iii) the remaining balance of approximately HK$237.8 million will be used as the general working capital of the Group including financing the increase in trade receivables as a result of the growth of the Group's business. Currently, the Company has not earmarked any part of such funds for any specific investment.

As referred to in the interim report (the "Interim Report") of the Company for the six months ended 30 June 2005, the Company has already laid down its corporate strategy which emphasized on, among other things, the enhancement of its research and development capabilities. According to the Interim Report, the Company intends that "...leveraging on its comparatively low manufacturing costs in the PRC, more resources will be dedicated to developing multimedia handsets and gradually increasing the Group's focus on developing EDGE and 3G technologies to meet the expected demand from the PRC and worldwide markets...". As such, we consider that the use of proceeds for the research and development activities of the Group as refer to in (i) above are in-line with the corporate strategy of the Group. Furthermore, as referred to in the sub-paragraph headed "Industry overview" above, the development trend of mobile handset in the coming years will be moved to high-end products such as feature phones and smart phones as well as those incorporated with 3G technologies. As such, we consider that it is reasonable for the Company to allocate more resources to invest in research and development activities in advanced technology of the industry to stay in-line with the development trend of the market.

We note that the current ratio of the Company, being the ratio of total current assets to total current liabilities, has decreased to about 1 time as at 30 September 2005 (being the latest period end date for which the financial results of the Company were announced) from about 1.5 times as at the last corresponding period end date on 30 September 2004. As such, we consider that it will be a prudent approach for the Company to reduce its current liability by settlement of payables and strengthen its capital base by retaining part of the proceeds as general working capital.

Furthermore, we have discussed with and were advised by the Company that the payables of the Group were generally aroused in the ordinary course of business of the Group. In this regard, we have measured the liquidity of the Company and ability to meet its obligations and noted that the quick ratio (being the ratio of current assets minus inventories to current liabilities) of the Group as at 31 December 2004 and 30 September 2005 was approximately 1.1 and 0.8 respectively. The deterioration of the repayment capability of the Company was mainly related to the continuing loss of the Company during the nine months ended 30 September 2005. Although the quick ratio of less than 1 as at 30 September 2005 did not necessary mean that the Company was incapable of settling its payable, we concur that it would still be a prudent approach for the Company to raise fund and allocate part of the proceeds to settle part of the payables outstanding.

In addition, the Company has during the year 2005 shifted its focus from local sales in the past to overseas sales. We have discussed with and were advised by the Company that one of the major differences in the business model of local sales versus overseas sales is that the credit period for its customer is usually longer for overseas customers than local customers in the PRC. As such, the Company requires more working capital to support its business growth, in particular, the growth in the proportion of overseas sales in the forthcoming future. Although the Company is not able to quantify the extent of working capital as required for the increasing overseas sales since the credit period and size of sales may vary depending on future orders to be secured by the Group, we still concur with the Directors that such allocation of proceeds will allow flexibility for the Company to support is future growth of business, in particular overseas sales, and thus consider it acceptable for the Company to allocate part of the proceeds from the Open Offer as general working capital.

Accordingly, we are of the view that the use of proceeds for settlement of the payables incurred by the Group and as the general working capital of the Group as refer to in (ii) and (iii) above will be in the interest of the Company and its Shareholders as a whole.

Based on the foregoing, we concur with the Directors and are of the view that the Open Offer provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position which are in the interest of the Company and its Shareholders as a whole.

Alternative fund raising methods

We have enquired with and were advised by the Directors that they have considered alternative means for the Company to raise funds other than the Open Offer, including but not limited to, debt financing, private placement of securities and rights issue. The Directors are of the view that taking additional borrowings or other debt financing would increase the Group's interest expenses and the Group's gearing ratio. We concur with the Directors that bank borrowing and other debt financing will not be a prudent approach in light of the recent increasing trend of interest rate in Hong Kong and the relatively high gearing ratio of 149.2% the Group as at 30 September 2005.

Apart from debt financing, common means of equity financing include private placement of securities, open offer and rights issue. The Directors consider that private placement of securities by its nature excludes existing Shareholders and dilutes their interest in the Company without offering them a fair chance to maintain their levels of interest. Although both open offer and rights issue allow Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company, the Directors consider that the Open Offer, which does not require time for trading of nil-paid entitlements and will not incur additional costs in respect to the trading of nil-paid entitlements, is more time and cost effective and is in the interests of the Company and the Shareholders as a whole, to raise capital.

Based on the foregoing, we concur with the Directors that the Open Offer is a reasonable and cost effective fund raising method to strengthen the financial position of the Company and will allow the Qualifying Shareholders to have an equal opportunity to participate in the enlargement of the capital base of the Company whilst maintaining their respective pro rata shareholding interests in the Company.

II. Principal terms of the Open Offer

Subscription Price

The Open Offer is on the basis of one Offer Share for every existing Share held on Record Date at the Subscription Price of HK$0.20 per Offer Share which will be payable in full on acceptance of the provisional allotments and (where applicable) application for excess Offer Shares under the Open Offer. The Subscription Price of HK$0.20 represents:

(a) a discount of approximately 18.37% to the closing price of HK$0.245 per Share as quoted on the Stock Exchange on 22 December 2005, being the last trading day prior to the publication of the Announcement (Note);

(b) a discount of approximately 10.11% to the theoretical ex-entitlement price of approximately HK$0.2225 per Share based on the aforesaid closing price per Share;

(c) a discount of approximately 19.87% to the average closing price of HK$0.2496 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 22 December 2005; and

(d) a discount of approximately 62.96% to the audited consolidated net assets value per Share of HK$0.54 as at 31 December 2004.

Note: For the purpose of comparison with other comparable open offer exercises as referred to below, we have computed the discounts principally based on the closing price of the Shares quoted on the Stock Exchange on the last trading day prior to the publication of the Announcement instead of the closing price of the Shares on the Announcement Latest Practicable Date as presented in the Announcement and the "Letter from the Board" in the Circular.

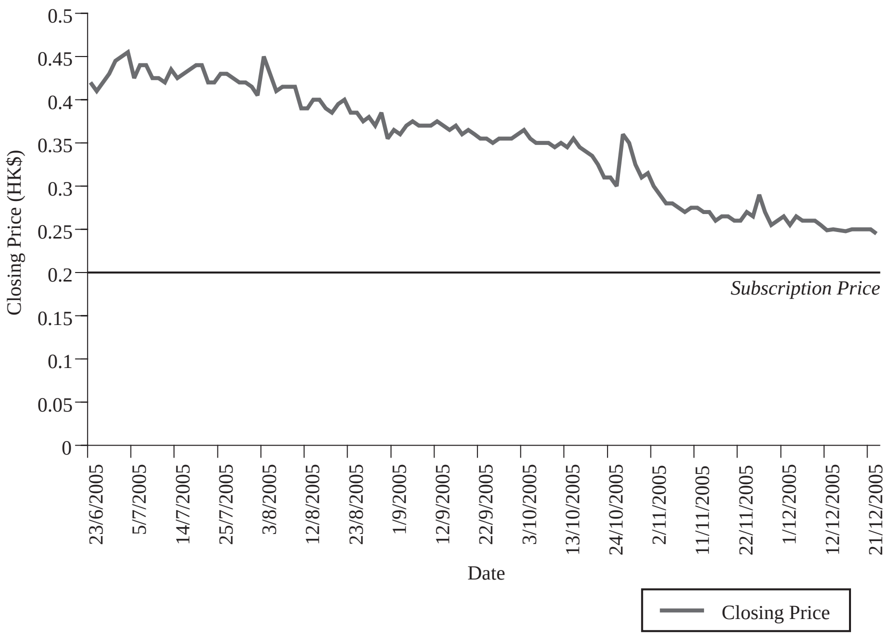
The Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter, having regard to prevailing market conditions, the financial results of the Company for the nine months ended 30 September 2005 and the unsatisfactory price performance of the Shares in the past six months. As for the prevailing market condition taken into account, the Company and the Underwriter noted that the general investment sentiment among industrial stocks listed in Hong Kong is weak. Therefore they took the view that the Subscription Price may require certain degree of discount to the market price in order to attract Qualifying Shareholders and/or other investors to invest in the equity of the Company, of which belongs to the industrial and technology sector. Taken into account the factors considered by the Company and the Underwriter in the determination of the Subscription Price as referred to above and together with our analysis on the price performance and liquidity of the Shares as well as comparison with similar open offer exercise as referred to below, we concur that the Subscription Price requires certain degree of discount to the market price in order to be attractive to Qualifying Shareholders and/or other investors.

The Board considers that the terms of the Open Offer (including the Subscription Price) are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

(a) *Share price performance*

Set out below is a price chart showing the closing price performance of the Shares as quoted on the Stock Exchange from 23 June 2005 (being six months prior to 22 December 2005, the last trading day immediately prior to the publication of the Announcement) to 22 December 2005 (the "Review Period"):

Share Price Performance



Source: http://www.hkex.com.hk

During the Review Period, the closing price per Share ranged from the highest of HK$0.455 to the lowest of HK$0.245. The closing price of the Share during the Review Period have been always above the Subscription Price of HK$0.20 per Share. The Subscription Price represents a discount of approximately 42.9% to the average closing price of the Shares of approximately HK$0.35 during the Review Period. As referred to (c) below, we note that the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Thus the Subscription Price being lower than the prevailing market price of the Shares is in line with common practice and acceptable.

(b) *Liquidity of the Shares*

Set out below is a table showing the average trading volume of the Shares on the Stock Exchange and the respective percentage to the total number of Shares in issue during the Review Period:

Period/month (2005)	**Average daily trading volume over trading days of that period/month** *('000 Shares)*	**Percentage to Shares in issue** *(%)*
23–30 June	784	0.03
July	505	0.02
August	7,505	0.25
September	1,910	0.06
October	2,128	0.07
November	6,149	0.21
1 to 22 December	3,156	0.11

Source: http://www.hkex.com.hk

The average daily trading volume of the Shares during the Review Period ranged from the highest of approximately 7.5 million Shares to the lowest of approximately 0.5 million Shares and represents less than 0.3% of the issued Shares. Given the illiquidity of the Shares as traded on the Stock Exchange, we consider that (i) open offer/rights issues will be more practicable for the Company to raise funds as compared to placing of new Shares; and (ii) a discount of the Subscription Price to the prevailing market price of the Shares is appropriate to increase the attractiveness of the Open Offer.

(c) *Comparison with other open offers*

In order for us to assess the fairness and reasonableness of the Subscription Price, we have identified, to the best of our knowledge, all the open offers announced by the companies listed on the main board of the Stock Exchange ("Comparable Open Offer") since 1 January 2005 up to the date of the Announcement, details of which are summarized below:

Stock Code	Company Name	Date of announcement	Basis	Subscription Price	Discount to the closing share price immediately prior to the relevant announcement	Discount to the average closing share price for the last ten trading days immediately prior to the relevant announcement	Discount to the theoretical ex-entitlement price per share based on the closing price on the last trading day prior to the relevant announcement	Underwriting Commission
2618	**TCL Communication Technology Holdings Limited**	**22/12/2005**	**1 for 1**	**$0.200**	**18.37%**	**19.87%**	**10.11%**	**2.50%**
1182	Foundation Group Limited	18/10/2005	3 for 1	$0.023	77.00%	76.53%	45.63%	1.00%
339	Earnest Investments Holdings Limited	12/10/2005	8 for 1	$0.100	90.74%	91.66%	52.38%	1.50%
674	United Power Investment Limited	29/8/2005	1 for 1	$0.150	67.39%	69.01%	50.82%	1.50%
729	Gorient (Holdings) Limited	5/8/2005	3 for 1	$0.100	60.00%	67.00%	27.54%	3.00%
371	Shang Hua Holdings Limited	7/7/2005	1 for 2	$0.100	83.33%	83.87%	76.91%	2.50%
260	Sino Gas Group Limited	30/5/2005	2 for 1	$0.020	48.72%	62.55%	23.08%	3.00%
627	U-Right International Holdings Limited	23/5/2005	1 for 2	$0.250	31.50%	31.22%	23.48%	2.00%
1047	Ngai Hing Hong Company Limited	11/5/2005	1 for 5	$0.600	6.25%	9.64%	5.21%	1.00%
94	Omnicorp Limited	7/4/2005	1 for 2	$0.380	63.11%	62.15%	53.26%	2.50%
353	Orient Industries Holdings Limited	21/2/2005	1 for 2	$0.200	60.00%	63.24%	50.00%	2.50%
905	Haywood Investments Limited	7/2/2005	1 for 1	$0.065	52.90%	54.55%	35.64%	2.00%
736	Northern International Holdings Limited	28/1/2005	1 for 1	$0.020	33.33%	31.27%	20.00%	2.00%
1141	Xin Corporation Limited	14/1/2005	1 for 2	$0.040	25.93%	32.09%	18.86%	2.50%
512	Maxx Bioscience Holdings Limited	6/1/2005	2 for 1	$0.110	41.49%	37.50%	19.12%	1.25%
Mean					**52.98%**	**55.16%**	**35.85%**	
Median					**56.45%**	**62.35%**	**31.59%**	
Range					**6.25% to 90.74%**	**9.64% to 91.66%**	**5.21% to 76.91%**	**1% to 3%**

We are aware of the fact that pricing of an open offer may vary for different companies owing to their respective financial standing and business performance of the companies. The prevailing stock market condition during the determination of the subscription price of an open offer may also lead to difference in the discount level of the relevant subscription price. Notwithstanding these facts we consider that a broader comparison of open offer announced recently would provide a more general reference for us to assess the fairness and reasonableness of the Subscription Price.

As shown in the table above, we note that

(i) the discount of the relevant subscription price to the closing share price immediately prior to the relevant announcement of the Comparable Open Offer (the "Closing Price Range") ranged from approximately 6.25% to 90.74%. The discount of approximately 18.37% of the Subscription Price to the closing price per Share as quoted on the Stock Exchange on the last trading day prior to the publication of the Announcement falls within the Closing Price Range, and is lower than the mean and median of the Closing Price Range;

(ii) the discount of the relevant subscription price to the average closing share price for the last ten trading days immediately prior to the relevant announcement of the Comparable Open Offer (the "10-days Closing Price Range") ranged from approximately 9.64% to 91.66%. The discount of approximately 19.87% of the Subscription Price to the average closing share price for the last ten trading days immediately prior to the publication of the Announcement also falls within the 10-days Closing Price Range, and is also lower than the mean and median of the 10-days Closing Price Range; and

(iii) the discount of the relevant subscription price to the theoretical ex-entitlement price per share based on the closing price on the last trading day prior to the relevant announcement of the Comparable Open Offer (the "Theoretical Price Range") ranged from approximately 5.21% to 76.91%. The discount of approximately 10.11% of the Subscription Price to the theoretical ex-entitlement price per Share based on the closing price on the last trading day prior to the publication of the Announcement falls within the Theoretical Price Range, and is lower than the mean and median of the Theoretical Price Range.

Having taken into account that (i) the Subscription Price falls within the Closing Price Range, the 10-days Closing Price Range and the Theoretical Price Range of the Comparable Open Offers; and (ii) the Subscription Price falls below the mean and median of Closing Price Range, the 10-days Closing Price Range and the Theoretical Price Range of the Comparable Open Offer, we consider the Subscription Price and the relevant discounts to be fair and reasonable and in-line with general market practice.

Underwriting Arrangement

As referred to in the paragraph headed "Termination of the Underwriting Agreement" in the "Letter from the Board" contained in the Circular, the Open Offer will not proceed if the Underwriter terminates the Underwriting Agreement. We consider the provisions granted to the Underwriter are on normal commercial terms and in-line with the general market practice.

Pursuant to the Underwriting Agreement, the Underwriter will charge an underwriting commission of 2.5% of the aggregate Subscription Price of the Underwritten Shares. We have reviewed the relevant terms of underwriting arrangement for the Comparable Open Offers and note that underwriting commission charged by relevant underwriters in the Comparable Open Offers ranged from 1% to 3%. The commission rate charged by the Underwriter in the Open Offer falls within the aforesaid range and thus we consider that such rate is in accordance with market practice and reasonable to the Company.

In addition, each of TCL Industries and Mate Fair, which was interested in approximately 54.66% and 9.71% of the existing issued share capital of the Company respectively as at the Latest Practicable Date, has irrevocably undertaken to the Company and the Underwriter to take up their respective full entitlement under the Open Offer. TCL Industries is the controlling Shareholder whereas Mate Fair is a substantial Shareholder wholly owned by Mr. Wong, an executive Director. We consider that such undertakings by the controlling Shareholder and a substantial Shareholder wholly owned by a Director reflect their confidence in the business prospect of the Group and is in fact an indication of their continual support to the Group in spite of its unsatisfactory business performance as announced in the latest results announcement of the Company for the third quarter of 2005.

III. Financial effects on the Company

Net assets value and net assets value per Share

According to the latest published unaudited financial statements of the Company for the nine months ended 30 September 2005, the unaudited consolidated net assets value of the Company was approximately HK$339.0 million or HK$0.114 per Share (based on 2,968,875,000 Shares in issue as at the Latest Practicable Date). As disclosed in the Circular, the estimated net proceed of the Open Offer is approximately HK$587.8 million. Thus immediately after the Open Offer and assuming that the Open Offer had been completed by the close of 30 September 2005, the consolidated net assets value of the Company would have been enhanced substantially by approximately 173.4% whereas the consolidated net assets value per Share would have been enhanced by approximately 36.9% based on 5,937,750,000 shares in issue immediately after the completion if the Open Offer).

According to the published audited financial statements of the Company for the year ended 31 December 2004, the audited consolidated net assets value of the Company was approximately HK$1,523.0 million or HK$0.54 per Share (based on 2,827,500,000 Shares in issue as at 31 December 2004). Based on the estimated net proceed of the Open Offer of approximately HK$587.8 million and assuming that the Open Offer had been completed by the close of 31 December 2004, the consolidated net assets value of the Company would have been enhanced by approximately 38.6%, whereas the consolidated net assets value per Share would have been reduced by approximately 34.2% based on 5,937,750,000 shares in issue immediately after the completion if the Open Offer).

Based on the foregoing, we note that both the proforma consolidated net assets value per Share arrived at based on the latest published unaudited figures for the nine months ended 30 September 2005 and the consolidated net assets value will be enhanced as a result of the Open Offer, which we consider to be in the interest of the Company and its Shareholders as a whole. However, the proforma consolidated net assets value per Share arrived at based on the audited figures for the year ended 31 December 2004 will be reduced as a result of the Open Offer. We consider it to be acceptable given that the Qualifying Shareholders are provided with equal opportunities to participate in the Open Offer while providing the Company with necessary funding.

Gearing/Cash position

As disclosed in the Circular, approximately HK$237.8 million of the proceeds from the Open Offer will be retained as general working capital. The Group would, therefore, have an enhanced cash position immediately upon the completion of the Open Offer.

Based on the latest published unaudited financial statement of the Company for the nine months ended 30 September 2005, the gearing ratio (interest-bearing borrowings to shareholders' fund) of the Group was approximately 149.2%. As at 30 September 2005, the Group had a cash and cash equivalents balances of approximately HK$546.1 million. Assuming the Open Offer had been completed by the close of 30 September 2005, the gearing ratio of the Group would have been reduced substantially to approximately 54.6% and the cash and cash equivalents balance would have been increased by approximately 43.5% immediately after the Open Offer.

Based on the latest published audited financial statement of the Company for the year ended 31 December 2004, the gearing ratio of the Group was approximately 12%. As at 31 December 2004, the Group had a cash and cash equivalents balances of approximately HK$2,005.7 million. Assuming the Open Offer had been completed by the close of 31 December 2004, the gearing ratio of the Group would be expected to reduce to approximately 8.7% and the cash and cash equivalents balance would have been increased by approximately 11.9% immediately after the Open Offer.

Based on the foregoing, we note that both the gearing ratio and cash position of the Group will be improved as a result of the Open Offer, which we consider to be in the interest of the Company and its Shareholders as a whole.

Current ratio

Based on the latest published unaudited financial statement of the Company for the nine months ended 30 September 2005, the current ratio (being the ratio of total current assets to total current liabilities) of the Group was approximately 1 time. Thus immediately after the Open Offer and assuming the Open Offer had been completed by the close of 30 September 2005, the current ratio of the Group would have been improved to approximately 1.2 times.

Based on the latest published audited financial statement of the Company for the year ended 31 December 2004, the current ratio of the Group was approximately 1.4 times. Thus immediately after the Open Offer and assuming the Open Offer had been completed by the close of 31 December 2004, the current ratio of the Group would have been improved to approximately 1.6 times.

Based on the foregoing, we note that current ratio of the Group is expected to be improved as a result of the Open Offer, which we consider to be in the interest of the Company and its Shareholders as a whole.

IV. Dilution Effect on the Independent Shareholders

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming that no Options and Convertible Notes have been exercised or converted prior to the Record Date:

	As at the Latest Practicable Date		**(A) Immediately after completion of the Open Offer (assuming all the Shareholders have taken up their respective entitlements under the Open Offer)**		**(B) Immediately after completion of the Open Offer (assuming no Shareholders has taken up their respective entitlements under the Open Offer except TCL Industries and Mate Fair)**	
	Number of Shares	*% of issued Shares*	*Number of Shares*	*% of issued Shares*	*Number of Shares*	*% of issued Shares*
TCL Industries	1,622,748,480	54.66%	3,245,496,960	54.66%	3,245,496,960	54.66%
Mate Fair	288,317,500	9.71%	576,635,000	9.71%	576,635,000	9.71%
Directors (excluding Mr. Wong)	44,724,830	1.51%	89,449,660	1.51%	44,724,830	0.75%
Public Shareholders	1,013,084,190	34.12%	2,026,168,380	34.12%	1,013,084,190	17.07%
The Underwriter and the sub-underwriters (or the subscribers under the underwriting arrangement) *(Note)*	—	—	—	—	1,057,809,020	17.81%
Total:	2,968,875,000	100%	5,937,750,000	100%	5,937,750,000	100%

Note: There will be sub-underwriting arrangements to be entered into between the Underwriter and a number of sub-underwriters. Therefore the Underwriter will in no circumstance be a substantial shareholder of the Company upon completion of the Open Offer.

All Qualifying Shareholders are assured with entitlement of One Offer Share for every one Share held by them on the Record Date. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their respective stakes in the Company will remain unchanged after the Open Offer.

For those Qualifying Shareholders who do not accept their respective assured entitlement under the Open Offer in full and those Independent Shareholders who are not Qualifying Shareholders being not entitled to participate in the Open Offer, their shareholdings interests in the Company will be diluted by a maximum of 50% as a result of the basis 1 for 1 Open Offer. Under the Open Offer, the invitation to apply for the Offer Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Those Qualifying Shareholders who do not accept the Open Offer will not be able to sell their nil-paid rights Shares in the open market. The Qualifying Shareholders who wish to increase their stake in the Company through the Open Offer may, subject to availability, apply for excess Offer Shares which shall be allocated on a fair and equitable basis, with preference giving to those topping-up odd lots to whole board lots.

In spite of the potential dilution effect to the Independent Shareholders upon completion of the Open Offer and no trading arrangement for the nil-paid entitlements on the Stock Exchange, we consider that the arrangement under the Open Offer is still fair and reasonable to the Independent Shareholders for the following reasons:

(i) The Independent Shareholders, who are also Qualifying Shareholders, have the rights to determine whether to accept their assured entitlement under the Open Offer or not;

(ii) Those Independent Shareholders, who are also Qualifying Shareholders, shall have their levels of interest in the Company remaining unchanged after the Open Offer if they accept their assured entitlements under the Open Offer in full; and

(iii) Those Independent Shareholders who are not Qualifying Shareholders and those Qualifying Shareholders who do not accepting their assured entitlement under the Open Offer in full shall have their interests in the Company diluted but they shall be able to share the potential benefits arising from the improvement of the financial position (including capital base, net assets value and gearing ratio) of the Company after completion of the Open Offer.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, in particular,

— the Group's current financial situation and the potential improvement to the financial position of the Group as a result of the Open Offer;

— the use of proceeds of the Open Offer which is reasonable based on the current financial situation including, inter alia, deteriorated liquidity and repayment ability of the Group;

— open offer is a better option for the Company and its Shareholders in raising required funds for the Group;

— terms and relevant arrangements of the Open Offer are fair and reasonable;

— the controlling Shareholder and a substantial Shareholder have undertaken to take up in full their respective entitlement under the Open Offer; and

— potential dilution effect to the Independent Shareholders is acceptable,

we consider that, the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the respective resolution(s) to approve the Open Offer at the EGM. We also recommend the Independent Shareholders to vote in favour of the respective resolution(s) to approve the Open Offer at the EGM.

Yours faithfully,
For and on behalf of
VXL Financial Services Limited
Gary Mui
Senior Vice President

SUMMARY OF FINANCIAL RESULTS

The following is a summary of the audited consolidated results for each of the three years ended 31 December 2004 extracted from the published audited financial statements of the Group for the year ended 31 December 2004:

	Year ended 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover	7,309,738	9,019,503	7,875,762
Cost of sales	(6,281,442)	(7,128,862)	(5,758,879)
Gross Profit	1,028,296	1,890,641	2,116,883
Other revenue & gains	165,046	21,201	30,838
Selling and distribution costs	(789,234)	(843,115)	(655,267)
Administrative expenses	(443,409)	(146,366)	(133,750)
Research and development expenses	(215,057)	(114,898)	(84,931)
Other operating expenses	(68,233)	(3,124)	(5,613)
Profit/(loss) from operating activities	(322,591)	804,339	1,268,160
Finance costs	(20,252)	(9,948)	(17,053)
Profit/(loss) before tax	(342,843)	794,391	1,251,107
Tax	2,998	(10,227)	(54,561)
Profit/(loss) before minority interests	(339,845)	784,164	1,196,546
Minority interests	116,310	—	—
Net profit/(loss) attributable to shareholders	(223,535)	784,164	1,196,546

The following is a summary of the audited balance sheet as at 31 December 2004, 31 December 2003 and 31 December 2002 extracted from the published audited financial statements of the Group for the year ended 31 December 2004 and the Listing Document:

	Year ended 31 December		
	2004	**2003**	**2002**
			(note 1)
	HK$'000	*HK$'000*	*HK$'000*
			(restated)
NON-CURRENT ASSETS			
Fixed assets	439,676	255,639	181,564
Intangible assets	33,867	3,689	12,311
Negative goodwill	(38,638)	—	—
Deferred tax assets	14,630	6,165	6,422
Other non-current assets	3,711	270	145
	453,246	265,763	200,442
CURRENT ASSETS			
Inventories	1,031,817	760,965	1,421,677
Trade receivables	1,210,520	392,191	76,077
Notes receivable	174,363	1,357,280	1,272,189
Prepayments, deposits and other receivables	544,578	468,550	611,636
Due from related companies	50,830	88,098	221,852
Pledged deposits	11,373	161,354	365,949
Cash and cash equivalents	2,005,683	697,100	270,150
	5,029,164	3,925,538	4,239,530
CURRENT LIABILITIES			
Trust receipt loans	175,300	13,851	67,643
Trade and notes payable	1,877,713	1,237,702	1,409,208
Tax payable	11,925	514	21,093
Other payables and accruals	1,361,442	766,019	1,273,124
Current portion of finance lease payables	—	2,332	5,635
Due to related companies	114,209	156,074	54,653
Due to minority shareholders	24,258	—	—
	3,564,847	2,176,492	2,831,356
NET CURRENT ASSETS	1,464,317	1,749,046	1,408,174
TOTAL ASSETS LESS CURRENT LIABILITIES	1,917,563	2,014,809	1,608,616
NON CURRENT LIABILITIES			
Finance lease payables	—	—	2,332
Retirement indemnities	45,030	—	—
Long service medals	7,609	—	—
	52,639	—	2,332
MINORITY INTERESTS	341,956	—	—
	1,522,968	2,014,809	1,606,284
CAPITAL AND RESERVES			
Issued capital	282,750	232,215	232,215
Reserves	1,240,218	1,511,496	1,374,069
Proposed final dividend	—	271,098	—
	1,522,968	2,014,809	1,606,284

Note 1: The audited balance sheet as at 31 December 2002 is reclassified as appropriate and the currency is stated in HK$, which is translated at an exchange rate of HK$1/RMB1.06, for the sake of easy reference by the readers.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following information is extracted from the Group's audited consolidated financial statements for the year ended 31 December 2004.

Consolidated Profit and Loss Account

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	5	7,309,738	9,019,503
Cost of sales		(6,281,442)	(7,128,862)
Gross profit		1,028,296	1,890,641
Other revenue and gains	5	165,046	21,201
Selling and distribution costs		(789,234)	(843,115)
Administrative expenses		(443,409)	(146,366)
Research and development expenses		(215,057)	(114,898)
Other operating expenses		(68,233)	(3,124)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	(322,591)	804,339
Finance costs	7	(20,252)	(9,948)
PROFIT/(LOSS) BEFORE TAX		(342,843)	794,391
Tax	9	2,998	(10,227)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(339,845)	784,164
Minority interests		116,310	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	10	(223,535)	784,164
DIVIDENDS	11		
Interim		1,376,132	—
Proposed final		—	271,098
		1,376,132	271,098
EARNINGS/(LOSS) PER SHARE *(HK cents)*	12		
Basic		(7.9)	27.7
Diluted		(11.5)	N/A

Consolidated Balance Sheet
31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	439,676	255,639
Intangible assets	14	33,867	3,689
Negative goodwill	15	(38,638)	—
Deferred tax assets	26	14,630	6,165
Other non-current assets		3,711	270
		453,246	265,763
CURRENT ASSETS			
Inventories	17	1,031,817	760,965
Trade receivables	18	1,210,520	392,191
Notes receivable		174,363	1,357,280
Prepayments, deposits and other receivables		544,578	468,550
Due from related companies	20	50,830	88,098
Pledged deposits	19	11,373	161,354
Cash and cash equivalents	19	2,005,683	697,100
		5,029,164	3,925,538
CURRENT LIABILITIES			
Trust receipt loans		175,300	13,851
Trade and notes payable	21	1,877,713	1,237,702
Tax payable		11,925	514
Other payables and accruals	22	1,361,442	766,019
Current portion of finance lease payables	23	—	2,332
Due to related companies	20	114,209	156,074
Due to minority shareholders		24,258	—
		3,564,847	2,176,492
NET CURRENT ASSETS		1,464,317	1,749,046
TOTAL ASSETS LESS CURRENT LIABILITIES		1,917,563	2,014,809
NON-CURRENT LIABILITIES			
Retirement indemnities	24	45,030	—
Long service medals	25	7,609	—
		52,639	—
MINORITY INTERESTS		341,956	—
		1,522,968	2,014,809

	Notes	2004 HK$'000	2003 HK$'000
CAPITAL AND RESERVES			
Issued capital	27	282,750	232,215
Reserves	29(a)	1,240,218	1,511,496
Proposed final dividend		—	271,098
		1,522,968	2,014,809

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000 (note 29(a))	Statutory reserves HK$'000 (note 29(a))	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2003 *(notes (i), (ii))*		232,215	—	340	—	119,951	(242)	878,381	375,639	1,606,284
Dividend paid *(note (ii))*		—	—	—	—	—	—	—	(375,639)	(375,639)
Net profit attributable to shareholders		—	—	—	—	—	—	784,164	—	784,164
Proposed final 2003 dividend		—	—	—	—	—	—	(271,098)	271,098	—
At 31 December 2003 and 1 January 2004		232,215	—	340	—	119,951	(242)	1,391,447	271,098	2,014,809
Dividend declared	11	—	—	—	—	—	—	(1,376,132)	—	(1,376,132)
Dividend paid	11	—	—	—	—	—	—	—	(271,098)	(271,098)
Arising from the issue of shares by the intermediate holding companies for the acquisition of subsidiaries		(148,616)	—	(218)	148,834	—	—	—	—	—
Arising from the cash consideration paid by a intermediate holding company for the acquisition of subsidiaries		(83,597)	133,771	(122)	83,719	—	—	—	—	133,771
Arising from the issue of shares by the Company for the acquisition of the intermediate holding companies		(2)	(133,771)	—	2	—	—	—	—	(133,771)
Issue of new shares	27	282,750	1,093,475	—	—	—	—	—	—	1,376,225
Exchange realignment		—	—	—	—	—	2,699	—	—	2,699
Net loss attributable to shareholders		—	—	—	—	—	—	(223,535)	—	(223,535)
At 31 December 2004		282,750	1,093,475	—	232,555	119,951	2,457	(208,220)	—	1,522,968

Notes:

(i) The share capital of the Group as at 1 January 2003 and 31 December 2003 represented the share capital of Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile").

(ii) The proposed final dividend as at 1 January 2003 represented the proposed final 2002 dividend of TCL Mobile which was paid in 2003.

Consolidated Cash Flow Statement
Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(342,843)	794,391
Adjustments for:			
Interest income	5	(16,469)	(9,091)
Interest expense	7	20,252	9,948
Depreciation	6	65,121	39,340
Amortisation of intangible assets	6	1,292	12,433
Recognition of negative goodwill	5	(2,760)	—
Loss on disposal of fixed assets	6	901	238
Gain on disposal of a subsidiary	5	(1,268)	—
Written back on impairment of fixed assets	6	(239)	(1,512)
Unrealised exchange gain		(91,535)	—
Operating cash flow before working capital changes		(367,548)	845,747
Decrease/(increase) in inventories		(195,523)	660,713
Decrease/(increase) in trade receivables		29,971	(316,113)
Decrease/(increase) in notes receivable		1,184,165	(85,091)
Decrease in prepayments, deposits and other receivables		138,668	143,085
Decrease/(increase) in due from related companies		(57,072)	64,588
Decrease in trade and notes payables		(300,691)	(171,505)
Decrease in other payables and accruals		(374,087)	(507,106)
Increase in long term liabilities		9,052	—
Decrease/(increase) in an amount due to related companies		(34,184)	101,421
Decrease in due to minority shareholder		(134)	—
Cash generated from operations		32,617	735,739
PRC income tax received/(paid)		5,954	(30,550)
Interest paid		(19,981)	(9,136)
Net cash inflow from operating activities		18,590	696,053
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(185,570)	(117,496)
Acquisition of intangible assets	14	(3,856)	(3,811)
Proceeds from disposal of fixed assets		2,070	5,355
Acquisition of subsidiaries	30(a)	1,255,034	—
Increase in other long term assets		(3,153)	(125)
Decrease in pledged deposits	19	149,981	204,595
Disposal of a subsidiary	30(b)	(11,188)	—
Decrease in advance to related companies		94,340	69,166
Interest received		16,469	9,091
Net cash inflow from investing activities		1,314,127	166,775

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	27	495,408	—
Increase/(decrease) in trust receipt loans		161,449	(53,792)
Capital element of finance leases		(2,332)	(5,635)
Interest element on finance lease rental payments		(271)	(812)
Dividend paid		(766,506)	(375,639)
Net cash outflow from financing activities		(112,252)	(435,878)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,220,465	426,950
Cash and cash equivalents at beginning of year		697,100	270,150
Effect of foreign exchange rate changes, net		88,118	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,005,683	697,100

Balance Sheet
31 December 2004

	Notes	2004 HK$'000
NON-CURRENT ASSETS		
Fixed assets	13	1,065
Intangible assets	14	10
Investments in subsidiaries	16	1,185,912
		1,186,987
CURRENT ASSETS		
Due from subsidiaries	16	841,470
Other receivables		509
Cash and cash equivalents	19	2,492
		844,471
CURRENT LIABILITIES		
Trade payables	21	38,218
Other payables and accruals	22	10,042
		48,260
NET CURRENT ASSETS		796,211
TOTAL ASSETS LESS CURRENT LIABILITIES		1,983,198
CAPITAL AND RESERVES		
Issued capital	27	282,750
Reserves	29(b)	1,700,448
		1,983,198

Notes to Financial Statements

31 December 2004

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company

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.

The head office and principal place of business of the Company is located at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacturing and sale of mobile phones.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 31 December 2003.

Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 September 2004, the Company became the holding company of all the wholly-owned subsidiaries now comprising the Group. This was accomplished by the Company acquiring the entire issued share capital of TCL Communication (BVI) Limited ("Communication BVI"), TCL Mobile Communication Holdings Limited ("Communication Holdings") and Alpha Alliance Enterprises Limited ("Alpha Alliance"), which are, subsequent to the Group Reorganisation, the intermediate holding companies of the other wholly-owned subsidiaries as set out in note 16 of this financial statements. The Group Reorganisation involved the following:

(a) On 26 February 2004, the Company was incorporated in the Cayman Islands.

(b) On 27 February 2004, Communication BVI allotted and issued one share to T.C.L. Industries Holdings (H.K.) Limited ("TCL Industries") at par credited as fully paid representing the entire issued share capital of Communication BVI.

(c) On 5 March 2004, the sole and nil paid subscriber share was transferred from Codan Trust Company (Cayman) Limited to TCL Industries.

(d) On 8 March 2004, TCL Mobile declared a dividend in the aggregate amount of RMB1,458,700,000 to its shareholders, TCL Corporation, TCL Holdings (BVI) Limited ("TCL BVI"), Cheerful Asset Investments Limited ("Cheerful Asset"), Jasper Ace Limited ("Jasper Ace") and Mate Fair Group Limited ("Mate Fair") on a pro rata basis to their equity interests in TCL Mobile.

(e) On 21 May 2004, Communication Holdings allotted and issued one share to TCL BVI credited as fully paid representing the entire issued share capital in Communication Holdings in consideration of the transfer from TCL BVI of a 40.8% equity interest in TCL Mobile to Communication Holdings.

(f) On 21 May 2004, Alpha Alliance allotted and issued 100 shares, 90 shares and 42 shares to Cheerful Asset, Jasper Ace and Mate Fair, respectively, credited as fully paid representing 10%, 9% and 4.2% of the enlarged issued share capital in Alpha Alliance, respectively, in consideration of transfer of their respective 10%, 9% and 4.2% equity interests in TCL Mobile to Alpha Alliance.

(g) On 21 May 2004, Communication BVI acquired a 36% equity interest in TCL Mobile from TCL Corporation for a cash consideration of RMB141,797,600.

(h) On 10 August 2004, the Company allotted and issued 408 shares, 100 shares, 90 shares and 42 shares to TCL Multimedia Technology Holdings Limited ("TCL Multimedia") (formerly known as TCL International Holdings Limited) (which was acquired from TCL BVI, its wholly-owned subsidiary, through a distribution in specie of the entire issued share capital in Communication Holdings), Cheerful Asset, Jasper Ace and Mate Fair, respectively, credited as fully paid at par in consideration of the transfer to the Company of their respective interests in Communication Holdings and Alpha Alliance.

(i) On 10 August 2004, the Company allotted and issued 359 shares to TCL Industries credited as fully paid at par and credited one nil paid share held by TCL Industries as fully paid at par in consideration of the transfer to the Company its entire interest in Communication BVI.

(j) On 25 August 2004, the Company allotted and issued 1,153,619,592 shares, 282,749,900 shares, 254,474,910 shares and 118,754,958 shares to TCL Multimedia (which was acquired from TCL BVI, its wholly-owned subsidiary, by way of a distribution in specie, the entitlement of TCL BVI to receive the dividend declared by TCL Mobile referred to in paragraph (d) above), Cheerful Asset, Jasper Ace and Mate Fair, respectively, credited as fully paid at par in consideration for their transfer to the Company of their respective entitlements to receive the dividend declared by TCL Mobile referred to in paragraph (d) above.

(k) On 25 August 2004, the Company allotted and issued 1,017,899,640 shares to TCL Industries credited as fully paid at par in cash consideration of RMB525,132,079.

Further details of the Group Reorganisation are set out in note 27 to the financial statements and in the Company's listing document dated 20 September 2004 (the "Listing Document").

The shares of the Company were listed on the Main Board of the Stock Exchange on 27 September 2004 (the "Listing Date") by way of introduction.

Basis of presentation and consolidation

Except for the acquisition of the TCL & Alcatel Mobile Phones Limited ("T&A") and its subsidiaries (hereinafter collectively referred to as "T&A Group", which had been accounted for using acquisition accounting and were acquired subsequent to the Group Reorganisation, the consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company was treated as the holding company of its subsidiaries except for T&A Group for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2004 and 2003 include the results of the Company and its subsidiaries except for T&A Group with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period. The comparative combined balance sheet as at 31 December 2003 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

Minority interests represent the interests of outsider shareholders in the results and net assets of the Company's subsidiaries.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shares by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2.86%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	20%
Motor vehicles	16.67% to 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Software product licenses

Purchased software product licenses are stated at cost and are amortised on the straight-line basis over their estimated useful life of two years.

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Intellectual property

Purchased intellectual property is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful life of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounts receivables

Accounts receivables are recognised and carried at original invoiced amount, less provisions for doubtful debts when the collection of the full amount is no longer considered probable. Bad debts are written off as incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences:

— except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

— except where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carry amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow into the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(c) subsidy income, when there is reasonable assurance that the subsidy will be received and all attaching conditions have been complied with; and

(d) value-added services income, upon the provision of the relevant services.

Employee benefits

Central Pension Scheme

Subsidiaries operating in Mainland China have participated in the Central Pension Scheme (the "CPS") operated by the government of the People's Republic of China (the "PRC") for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the profit and loss account as they become payable in accordance with the rules of the CPS.

Mandatory Provident Fund

The Company's subsidiaries, incorporated in Hong Kong, operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the MPF Scheme except for the employer voluntary contributions, which are refunded to the Company and its subsidiaries which are incorporated outside the PRC when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Retirement indemnities

A subsidiary of the Group incorporated in France operates a defined contribution plan (the "contribution plan") and a defined benefit pension plan (the "pension plan"). For the pension plan, corresponding to retirement indemnities relating to its employees, liabilities and prepaid expenses are determined as follows:

- using the "Projected Unit Credit Method", with projected final salary, which considers that each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and

- recognising, over the expected average remaining working lives of the employees participating in the plan, actuarial gains and losses in excess of more than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets.

Long service medals

In accordance with the local rules and regulations of France, an enterprise is required to make contributions to its employee benefits scheme as long service medals effective 1 January 2003. The cumulative effect of such change was recorded in other expenses.

Government grant

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction on production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sales. Investment income earned on the temporary investment of specific borrowings pending their expenditure qualifying assets is deducted from the borrowing costs capitalised.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of mobile phones and related components. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

The Group's operations are located in France, the PRC and Mexico. Each of the Group's geographical segment represents the location of the business divisions' production or service facilities which are subject to risks and returns that are different from those of the other geographical segments.

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

	France		PRC		Mexico		Eliminations		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	1,433,237	—	5,759,694	9,019,503	116,807	—	—	—	7,309,738	9,019,503

	France		PRC		Mexico		Eliminations		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:										
Segment assets	1,730,545	—	4,048,946	4,191,301	127,428	—	(424,509)	—	5,482,410	4,191,301
Capital expenditure	15,685	—	173,741	121,308	—	—	—	—	189,426	121,308

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold net of value-added tax ("VAT"), and services rendered during the year, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue and gains is as follows:

	Notes	2004 HK$'000	2003 HK$'000
Turnover			
Sale of mobile phones and related components		7,309,738	9,019,503
Other revenue			
Interest income		16,469	9,091
Subsidy income		48,315	8,877
Value-added services income		10,211	1
Exchange gains		82,465	—
Other		3,558	3,232
		161,018	21,201
Gains			
Gain on disposal of a subsidiary	30(b)	1,268	—
Negative goodwill recognised	15	2,760	—
		4,028	—
Other revenue and gains		165,046	21,201

Negative goodwill recognised represents the portion of negative goodwill arising on acquisition in expectation of identified future losses and expenses, which did not represent identifiable liabilities as at the date of acquisition, recognised during the year.

6. PROFIT/ (LOSS) FROM OPERATING ACTIVITIES

The Group's profit/ (loss) from operating activities is arrived at after charging/(crediting):

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold		6,124,561	7,127,920
Depreciation	13	65,121	39,340
Amortisation of intangible assets	14	1,292	12,433
Advertising and promotion expenses		443,749	647,138
Brand management fee/TCL Brand Common Fund		27,816	26,906
Research and development costs:			
Software expenses		44,026	22,921
Minimum lease payments under operating leases in respect of land and buildings		20,024	1,918
Auditors' remuneration		1,922	292
Staff costs (excluding directors' remuneration *(note 8)*):			
Salaries and wages		343,408	151,934
Pension scheme contributions:***			
Defined contribution scheme		14,018	11,628
Defined benefit scheme	24	3,098	—
		360,524	163,562
Provision for doubtful debts		4,355	2,025
Provision against inventory obsolescence and net realisable value*		156,881	942
Product warranty provisions		88,472	53,998
Loss on disposal of fixed assets		901	238
Reversal of impairment of fixed assets**	13	(239)	(1,512)

* The provision against inventory obsolescence and net realisable value is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The reversal of impairment of fixed assets is included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** During the year, there were no forfeited contributions available to offset the Group's pension contributions.

7. FINANCE COSTS

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Interest on discounted notes	5,361	8,734
Interest on bank loans and other loans wholly repayable within one year	14,620	402
Interest on finance leases	271	812
	20,252	9,948

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Fees	94	—
Salaries, allowances and benefits in kind	1,986	2,100
Pension scheme contributions	42	35
	2,122	2,135

Fees include HK$94,000 (2003: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2004	**2003**
Nil to HK$1,000,000	10	6

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees for the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,810	1,689
Pension scheme contributions	77	51
	1,887	1,740

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of non-director, highest paid employees	
	2004	2003
Nil to HK$1,000,000	3	3

During the year no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAX

Group:

	2004	2003
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	348	3,645
Mainland China		
Charge for the year	48,106	6,325
Overprovision in prior years*	(45,950)	—
Elsewhere	(4,181)	—
Deferred *(note 26)*	(1,321)	257
Tax charge/(credit) for the year	(2,998)	10,227

* The overprovision in prior years included a refund of approximately HK$35,695,000 (2003: Nil) in respect of the re-investment to TCL Mobile by the then shareholders in 2002.

Hong Kong profits tax has been provided at a rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The normal national income tax rate in China is 30%. However, China provides a number of tax benefits to foreign investment enterprises. Those foreign investment enterprises accredited as high and new technology enterprises in the high and new technology development parks designated by the State Council enjoy a national income tax rate of 15%. Those foreign investment enterprises located in the designated western areas of China (including Inner Mongolia) also enjoy a national income tax rate of 15% from 2001 to 2010. In addition, foreign investment enterprises that are in manufacturing business and scheduled to operate no less than 10 years are exempt from national income tax for two years starting from the first profit-making year and enjoy a 50% reduction in the applicable national income tax rate for the following three years. Furthermore, those manufacturing foreign investment enterprises designated as advanced technology enterprises enjoy additional three years' 50% reduction in the applicable national income tax rate subject to a minimum rate of 10%. Local enterprise income tax is often waived or reduced during this tax incentive period.

TCL Mobile, a subsidiary of the Company in the PRC, has a high and new technology enterprise accreditation effective until 28 May 2005. It was exempt from the national income tax in 2000 and 2001 and has been subject to a national income tax rate of 7.5% since 2002. The 7.5% income tax rate for TCL Mobile expired at the end of 2004. By the end of 2004, TCL Mobile obtained its advanced technology enterprise accreditation and hence would be subject to a national income tax rate of 10% from 2005 to 2007.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, is entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. Mobile Hohhot also enjoys preferential tax treatment granted to foreign investment enterprises located in the western region of China, including a 50% reduction in national corporate income tax until 2010. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rate in 2004 to 2006 is 7.5%. If Mobile Hohhot received its advanced technology enterprise accreditation at or before the end of 2006 and the relevant PRC tax law remains effective, Mobile Hohhot would enjoy a PRC corporate income tax rate of 10% for three years starting 2007. Otherwise, Mobile Hohhot would be subject to the PRC corporate income tax rate of 15% from 2007 to 2010 and 30% thereafter.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2004		2003	
	HK$'000	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(342,843)		794,391	
Tax at the applicable rates:				
33%	(128,631)	37.5	259,007	32.6
17.5%	8,224	(2.4)	1,666	0.2
Sub-total	(120,407)	35.1	260,673	32.8
Lower tax rate for specific provinces or local authority	25,292	(7.3)	(253,833)	(31.9)
Income not subject to tax	(23,789)	6.9	(1,677)	(0.2)
Expenses not deductible for tax	275	(0.1)	5,064	0.6
Tax loss not recognised	161,581	(47.1)	—	—
Adjustments in respect of current tax of previous periods	(45,950)	13.4	—	—
Tax charge/(credit) at the Group's effective rate	(2,998)	0.9	10,227	1.3

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK$62,934,000 (note 29(b)).

11. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

In 2004, TCL Mobile declared an interim dividend of HK$1,376,132,000 (RMB1,458,700,000) to its then shareholders. Subsequently on 25 August 2004, all the shareholders had reinvested this dividend into the Company except for TCL Industries whose reinvestment was in the form of cash.

A final dividend in the amount of HK$271,098,000 (RMB287,363,000) were declared and paid by TCL Mobile to its then shareholders for the year ended 31 December 2003.

The dividend rates and the number of shares ranking for dividends are not presented because such information is not considered meaningful for the purpose of this report.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$223,535,000 (2003: net profit of HK$784,164,000), and the weighted average of 2,827,500,000 (2003: 2,827,500,000) ordinary shares in issue during the year. The weighted average of 2,827,500,000 ordinary shares for 2003 was deemed to have been in issue.

The calculation of diluted loss per share for the year is based on the net loss before minority interests of HK$339,845,000 of which the minority shareholder of the Group will become the shareholder of the Company upon the exercise of the option for converting its interest in the T&A into the shares of the Company. Details of the respective option agreement are disclosed in note 28 to the financial statements.

The weighted average number of ordinary shares used in the calculation is 2,827,500,000 ordinary shares in issue during the year, as used in the basic loss per share calculations; the weighted average of 131,409,915 ordinary shares assumed to have been issued upon the exercise of the option by the minority shareholder to convert its interest in the T&A into the shares of the Company.

Diluted earnings per share have not been disclosed for the year ended 31 December 2003 as no dilutive potential ordinary shares existed.

13. FIXED ASSETS

Group

	Leasehold land and buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:						
At 1 January 2004	35,186	244,558	21,718	11,174	10,833	323,469
Additions	46,368	121,234	12,116	987	4,865	185,570
Acquisition of subsidiaries *(note 30(a))*	—	72,889	44,811	882	319	118,901
Transfer in/out	14,173	337	—	—	(14,510)	—
Disposals	—	(2,318)	(1,459)	(583)	—	(4,360)
Exchange realignment	—	5,594	1,086	2	18	6,700
At 31 December 2004	95,727	442,294	78,272	12,462	1,525	630,280
Accumulated depreciation and impairment:						
At 1 January 2004	1,860	57,013	5,572	3,385	—	67,830
Acquisition of subsidiaries *(note 30(a))*	—	25,785	31,541	823	—	58,149
Provided during the year	1,837	53,451	7,165	2,668	—	65,121
Written back on disposal	—	(503)	(525)	(361)	—	(1,389)
Reversal of impairment during the year recognised in the profit and loss account	—	(239)	—	—	—	(239)
Exchange realignment	—	938	192	2	—	1,132
At 31 December 2004	3,697	136,445	43,945	6,517	—	190,604
Net book value:						
At 31 December 2004	92,030	305,849	34,327	5,945	1,525	439,676
At 31 December 2003	33,326	187,545	16,146	7,789	10,833	255,639

The Group's land and buildings, included above at cost, were valued at HK$120,950,000 as at 30 June 2004 in the Listing Document issued on 20 September 2004 in connection with the listing by way of introduction of the Company's shares on 27 September 2004 (note 27). Had the Group's land and buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2004, an additional depreciation charge of HK$1,054,000 would have been charged to the consolidated profit and loss account for the year ended 31 December 2004.

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery as at 31 December 2004, amounted to nil (2003: HK$20,186,792).

During the year, impairment provision was made in respect of assets that the directors believe the respective recoverable amount in the future is lower than the carrying amount.

The Group's land and buildings are situated in Mainland China and are held under the following lease terms:

	HK$'000
At cost:	
Long term leases	95,727

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 26 February 2004 (date of incorporation)	—	—	—	—
Additions	256	466	429	1,151
At 31 December 2004	256	466	429	1,151
Accumulated depreciation and impairment:				
At 26 February 2004 (date of incorporation)	—	—	—	—
Provided during the period	42	30	14	86
At 31 December 2004	42	30	14	86
Net book value:				
At 31 December 2004	214	436	415	1,065

14. INTANGIBLE ASSETS

Group

	Software product licenses HK$'000	Computer software HK$'000	Intellectual property HK$'000	Total HK$'000
Cost:				
At 1 January 2004	21,574	4,909	—	26,483
Acquisition of subsidiaries	—	1,274	23,510	24,784
Additions	—	3,856	—	3,856
Disposals	(21,574)	—	—	(21,574)
Exchange realignment	—	143	2,687	2,830
At 31 December 2004	—	10,182	26,197	36,379
Accumulated amortisation:				
At 1 January 2004	21,574	1,220	—	22,794
Provided during the year	—	1,292	—	1,292
Disposals	(21,574)	—	—	(21,574)
At 31 December 2004	—	2,512	—	2,512
Net book value:				
At 31 December 2004	—	7,670	26,197	33,867
At 31 December 2003	—	3,689	—	3,689

Company

	Computer software *HK$'000*
Cost:	
At 26 February 2004 (date of incorporation)	—
Additions	11
At 31 December 2004	11
Accumulated amortisation:	
At 26 February 2004 (date of incorporation)	—
Provided during the period	1
At 31 December 2004	1
Net book value:	
At 31 December 2004	10

15. NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group:

	HK$'000
Cost:	
At 1 January 2004	—
Acquisition of subsidiaries *(note 30(a))*	41,398
At 31 December 2004	41,398
Accumulated recognition as income:	
At 1 January 2004	—
Recognised as income	2,760
At 31 December 2004	2,760
Net book value:	
At 31 December 2004	38,638
At 31 December 2003	—

16. INTERESTS IN SUBSIDIARIES

	Company **2004** *HK$'000*
Unlisted shares, at cost	1,185,912
Due from subsidiaries	841,470
	2,027,382

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/place of registration and operations	Nominal value of issued and fully paid share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
TCL Communication (BVI) Limited	British Virgin Islands 27 February 2004/ British Virgin Islands	US$1	100%	—	Investment holding
TCL Mobile Communication Holdings Limited	British Virgin Islands 12 February 2003/ British Virgin Islands	US$1	100%	—	Investment holding
Alpha Alliance Enterprises Limited	British Virgin Islands 12 December 2003/ British Virgin Islands	US$1	100%	—	Investment holding
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999/ Hong Kong	HK$5,000,000	—	100%	Trading of mobile phones components
Huizhou TCL Mobile Communication Co., Ltd. *(note (i))*	PRC 29 March 1999/ Mainland China	US$29,800,000	—	100%	Manufacture and sale of mobile phones
TCL Mobile Communication (Hohhot) Co., Ltd. *(note (i))*	PRC 29 April 2002/ Mainland China	RMB30,000,000	—	100%	Manufacture and sale of mobile phones
TCL & Alcatel Mobile Phones Limited ("T&A")	Hong Kong 17 May 2004/ Hong Kong	HK$10,000,000	55%	—	Investment holding
TCL & Alcatel Mobile Phones China Holding Limited	Hong Kong 17 May 2004/ Hong Kong	HK$1	—	55% *(note (iii))*	Investment holding
TCL & Alcatel Mobile Phones Americas Holding Limited	Hong Kong 17 May 2004/ Hong Kong	HK$1	—	55% *(note (iii))*	Investment holding
TCL & Alcatel Mobile Phones SAS	France 1 January 2004/ France	Euro20,040,000	—	55% *(note (iii))*	Development and distribution of mobile phones
TCL & Alcatel Mobile Phones SA de CV *(note (ii))*	Mexico 24 May 2004/ Mexico	US$4,300	—	55% *(note (iii))*	Distribution of mobile phones
Alcatel Suzhou Telecommunications Co., Ltd. *(note (i))*	PRC 14 December 1998/ Mainland China	US$28,000,000	—	55% *(note (iii))*	Development and distribution of mobile phones

Notes:

(i) The subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

(ii) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

(iii) These subsidiaries are held through T&A.

During the year, the Group disposed to the management of TCL Mobile Information International Company Limited its 100% equity interest in TCL Mobile Information International Company Limited, which was incorporated in Hong Kong. The disposal of TCL Mobile Information International Company Limited which, in the opinion of the directors, had no material impact on the Group's consolidated turnover or net loss attributable to shareholders for the year.

The above table lists all the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

17. INVENTORIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Raw materials	664,590	589,403
Work in progress	62,510	80,995
Finished goods	525,374	150,882
	1,252,474	821,280
Provision for inventory obsolescence and net realisable value	(220,657)	(60,315)
	1,031,817	760,965

The carrying amount of inventories carried at net realisable value included in the above balances was HK$249,495,000 (2003: HK$106,620,000).

18. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Within 3 months	1,039,339	392,615
4 to 6 months	170,082	688
7 to 12 months	7,353	1,543
Over 1 year	5,194	113
	1,221,968	394,959
Provision for doubtful debts	(11,448)	(2,768)
	1,210,520	392,191

For the majority of the Group's sales in PRC, the Group requests their customers to pay in advance through commercial notes guaranteed by banks with credit periods ranging from 90 days to 180 days.

For customers to whom the Group has granted credit terms, the credit terms are generally ranging from 31 days to 180 days.

19. CASH AND CASH EQUIVALENTS

	Group		Company
	2004	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	2,005,683	697,100	2,492
Pledged deposits	11,373	161,354	—
	2,017,056	858,454	2,492
Less: Pledged deposits:			
— for notes issued *(note 21)*	11,373	161,354	—
Cash and cash equivalents	2,005,683	697,100	2,492

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$665,992,000 (2003: HK$510,513,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. DUE FROM/TO RELATED COMPANIES

Particulars of the amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

		Group	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
TCL 通訊設備(國際)有限公司 ("TCL Communication (Int'l) Ltd.")*	(ii)	73	127
TCL Integrated Marketing Inc.*	(ii)	234	194
TCL 通訊設備(惠州)有限公司 ("TCL Communication Equipment (Huizhou) Co., Ltd.")*	(ii)	2,071	87,777
TCL 集團股份有限公司 ("TCL Corporation")*	(i)	46,381	—
Alcatel Mexico*	(iii)	2,071	—
		50,830	88,098

* The amounts due are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the maximum outstanding balance of amounts due from related companies are as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
TCL Communication (Int'l) Ltd.	127	127
TCL Integrated Marketing Inc.	234	194
TCL Communication Equipment (Huizhou) Co., Ltd.	214,390	214,390
TCL Corporation	46,381	—
Alcatel Mexico	2,071	—

Particulars of the amounts due to related companies are as follows:

		Group	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
TCL 集團物流有限公司 ("TCL Corporation Logistic Co., Ltd.")*	(ii)	41,380	—
TCL Corporation**	(i)	—	134,947
惠州 TCL 金能電池有限公司 ("TCL Hyper Power Batteries Co., Ltd.")*	(ii)	24,369	17,121
華通紙製品(惠州)有限公司 ("Chinaway Paper Production (Huizhou) Co., Ltd.")*	(ii)	958	587
TCL Communication Equipment (Huizhou) Co., Ltd.*	(ii)	609	—
TCL 空調器(中山)有限公司 ("TCL Air-conditioner (Zhongshan) Co., Ltd.")*	(ii)	143	—
TCL 王牌電器(惠州)有限公司 ("Huizhou TCL King Electronics Co., Ltd.")*	(ii)	719	—
惠州 TCL 文化發展有限公司 ("TCL Culture Development (Huizhou) Co., Ltd.")*	(ii)	132	—
TCL 通訊技術貿易有限公司 ("Huizhou TCL Communication Technology & Trade Co., Ltd.")*	(ii)	—	3,419
Alcatel Business Systems*	(iii)	34,031	—
Alcatel Espana SA*	(iii)	11,019	—
Alcatel China Investment Co., Ltd.*	(iii)	495	—
Alcatel China Ltd.*	(iii)	102	—
Alcanet International Asia Pacific Pte. Ltd.*	(iii)	232	—
Alcatel Shanghai Bell Co., Ltd.*	(iii)	20	—
		114,209	156,074

* The amounts due are unsecured, interest-free and have no fixed terms of repayment.

** Except for the balance of HK$4,068,383,000 in 2004, which was unsecured, bore interest at a rate of 3.2% per annum and had no fixed terms of repayment, the amounts due are mainly trading balances and are unsecured, interest-free and have no fixed terms of repayment.

Notes:

(i) TCL Corporation is the ultimate controlling shareholder of the Company.

(ii) These companies are subsidiaries of TCL Corporation.

(iii) These companies are subsidiaries of the Group's minority shareholder.

21. TRADE AND NOTES PAYABLES

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company
	2004	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Within 3 months	1,756,319	1,142,514	31,542
4 to 6 months	110,097	35,506	6,676
7 to 12 months	1,124	57,329	—
More than 1 year	10,173	2,353	—
	1,877,713	1,237,702	38,218

Notes payables of HK$107,568,000 (2003: HK$353,268,000) were secured by the pledge of deposits amounting to HK$11,373,000 (2003: 161,354,000) (note 19).

22. OTHER PAYABLES AND ACCRUALS

	Group		Company
	2004	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Value-added tax payable	—	72,004	—
Advances from customers	109,661	430,142	—
Salaries and welfares payable	107,171	15,143	—
Accrued operating expenses	847,701	24,175	10,042
Other payables#	153,661	211,800	—
Provision for warranties*	143,248	12,755	—
	1,361,442	766,019	10,042

Other payables mainly comprised deposits received from customers and distributors in respect of additional handsets obtained for replacement of problematic handsets returned from ultimate users.

* The movements of provision for warranties during the year are as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
At beginning of year	12,755	11,691
Acquisition of subsidiaries	143,416	—
Provision	88,472	53,998
Utilised	(112,574)	(52,934)
Exchange realignment	11,179	—
At end of year	143,248	12,755

The Group generally provides one-year warranty to its customers on all products, under which faulty products are repaired or replaced. The amount of the provision for warranty is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision of warranty was not discounted, as the effect of discounting was not material.

23. FINANCE LEASE PAYABLES

The Group acquired certain of its machinery through finance leases. All the leases were repaid during the year.

As at 31 December 2004, the total future minimum lease payments under finance leases and their present values for Group were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts repayable:				
Within one year	—	2,603	—	2,332
Total minimum finance lease payments	—	2,603	—	2,332
Future finance charges	—	(271)		
Total net finance lease payables	—	2,332		
Portion classified as current liabilities	—	2,332		
Long term portion	—	—		

24. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the defined benefits scheme for the year ended 31 December 2004 amounted to HK$45,030,000.

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Present value of fund obligation	45,030	—
Unrealised actuarial losses	—	—
Net liabilities in the balance sheet	45,030	—

Movement in the net liabilities recognised in the balance sheet during the year are as follow:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Net liabilities at beginning of year	—	—
Acquisition of subsidiaries	37,418	—
Benefit expenses recognised in the consolidated results *(note 6)*	3,098	—
Exchange realignment	4,514	—
Net liabilities at end of year	45,030	—

TCL & Alcatel Mobile Phones SAS does not have any unfunded obligations.

The main assumptions used in the retirement indemnity computation for the defined benefits scheme are as follows:

- Discount rate: 4.3%
- Future salary increase: 1% per annum

25. LONG SERVICE MEDALS

TCL & Alcatel Mobile Phones SAS provides for the probable future long service medals expected to be made to employees, as further explained under the heading "Long service medals" in note 3. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to TCL & Alcatel Mobile Phones SAS to the balance sheet date.

26. DEFERRED TAX

Deferred tax assets

Group

	2004				
	Product warranty provision *HK$'000*	**Provision against obsolete stock** *HK$'000*	**Impairment for fixed assets** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2004	957	4,524	242	442	6,165
Acquisition of subsidiaries	7,143	—	—	—	7,143
Exchange realignment	1	—	—	—	1
Deferred tax credited/(charged) to the profit and loss account during the year *(note 9)*	1,344	—	—	(23)	1,321
Gross deferred tax assets at 31 December 2004	9,445	4,524	242	419	14,630
Net deferred tax assets at 31 December 2004	9,445	4,524	242	419	14,630

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

	2003				
	Product warranty provision	**Provision against obsolete stock**	**Impairment for fixed assets**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	876	4,454	355	737	6,422
Deferred tax credited/(charged) to the profit and loss account during the year *(note 9)*	81	70	(113)	(295)	(257)
Gross deferred tax assets at 31 December 2003	957	4,524	242	442	6,165
Net deferred tax assets at 31 December 2003	957	4,524	242	442	6,165

27. SHARE CAPITAL

Shares

	2004
	HK$'000
Authorised:	
5,000,000,000 (2003: Nil) ordinary shares of HK$0.10 each	500,000
Issued and fully paid or credited as fully paid:	
2,827,500,000 (2003: Nil) ordinary shares of HK$0.10 each	282,750

The following changes in the Company's authorised and issued share capital took place during the period from 26 February 2004 (date of incorporation) to 31 December 2004:

(a) As at the date of incorporation of the Company, its authorised share capital was HK$380,000, divided into 3,800,000 shares of par value HK$0.10 each. Following incorporation, one share was allotted and issued nil paid.

(b) On 5 March 2004, the sole and nil paid subscriber share was transferred to TCL Industries.

(c) On 10 August 2004, as consideration for the acquisition of the entire issued share capital of Communication Holdings, the Company issued and allotted 408 shares of HK$0.10 each credited as fully paid at par.

(d) On 10 August 2004, as consideration for the acquisition of the entire issued share capital of Communication BVI, the Company (i) issued and allotted 359 shares of HK$0.10 each credited as fully paid at par, and (ii) credited as fully paid at par the existing one nil paid share as set out in (b) above.

(e) On 10 August 2004, as consideration for the acquisition of the entire issued share capital of Alpha Alliance, the Company issued and allotted 232 shares of HK$0.10 each credited as fully paid at par.

(f) On 25 August 2004, the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000.

(g) On 25 August 2004, the Company issued and allotted 1,153,619,592 shares, 282,749,900 shares, 254,474,910 shares and 118,754,958 shares of HK$0.10 each credited as fully paid at par to TCL Multimedia, Cheerful Asset, Jasper Ace and Mate Fair, respectively, the former shareholders of TCL Mobile in consideration of the transfer to the Company of their respective entitlement to receive the dividends declared by TCL Mobile.

(h) On 25 August 2004, the Company issued and allotted 1,017,899,640 shares of HK$0.10 each credited as fully paid at par in consideration for a cash contribution of HK$495,408,000 by TCL Industries, a wholly-owned subsidiary of TCL Corporation, the former shareholder of TCL Mobile.

Save as described herein, there has been no change in the share capital of the Company since its date of incorporation.

A summary of the transactions with reference to the above movements in the Company's issued ordinary share capital is as follows:

		Number of shares in issue	Issued share capital	Share premium account	Total
			HK$'000	*HK$'000*	*HK$'000*
Shares allotted and issued nil paid following incorporation	(a), (b)	1	—	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Communication Holdings	(c)	408	—	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Communication BVI	(d)	359	—	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Alpha Alliance	(e)	232	—	—	—
Shares issued as consideration for the acquisition of the entitlement of dividends declared by TCL Mobile	(g)	1,809,599,360	180,960	699,857	880,817
Shares issued as consideration for the cash contribution by TCL Industries	(h)	1,017,899,640	101,790	393,618	495,408
At 31 December 2004		2,827,500,000	282,750	1,093,475	1,376,225

Share options

Details of the Company's share option scheme are included in note 28 to the financial statements.

28. SHARE OPTION

(i) Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, or employees, contractors, agents, persons or entities that provide advisory, consultancy, professional services for the business of the Group; vendors; suppliers; customers of any member of the Group or any other person whom the directors in their sole discretion considers may contribute or have contributed to the Group. The Scheme became effective on 13 September 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the average Stock Exchange closing price of the Company's shares for the trading days which have elapsed from the Listing Date; and (ii) the offer price, if the option is granted before five business days have elapsed from (and including) the Listing Date or (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, if the option is granted after five business days have lapsed from (and including) the Listing Date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Further details of the Scheme are set out in the Listing Document.

(ii) The Option Agreement

On 31 August 2004, the Company and Alcatel, a company incorporated in France with its shares listed on *Premier Marche of Euronext Paris S.A.* and the New York Stock Exchange (the "Alcatel"), entered into a put and call option agreement (the "Option Agreement"). Under the Option Agreement, the Company granted to Alcatel a put option (the "Alcatel Put Option") and Alcatel granted to the Company a call option (the "Company Call Option") to exchange all of the shares held by Alcatel in the T&A. The Alcatel Put Option shall be exercisable on or after the fourth anniversary of 31 August 2004, the closing date of subscription by the Company and Alcatel of their respective shareholdings in the T&A (the "Joint Venture Closing Date") and the Company Call Option on or after the fifth anniversary of T&A Closing Date. There is no expiry date for the exercise of the options. The number of shares to be issued to Alcatel on exercise of the Alcatel Put Option or the Company Call Option is calculated by a formula specified in the Option Agreement with reference to the fair market value of Alcatel's interest in the T&A at the time of exercise of the relevant option. The fair market value of the T&A of this purpose shall be determined using internationally recognised valuation methodologies and adopting reasoning therefor. In the event that the Company and Alcatel cannot reach agreement on the valuation, they shall engage an expert to assist in such valuation. Further details of the Option Agreement are set out in the Listing Document.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 47 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group Reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries established in the PRC should be transferred to the statutory reserves which are restricted as to use.

(b) Company

	Contributed surplus	Share premium account	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 26 February 2004 (date of incorporation)	—	—	—	—
Arising on Group Reorganisation	669,907	—	—	669,907
Issue of new shares	—	1,093,475	—	1,093,475
Net loss attributable to shareholders	—	—	(62,934)	(62,934)
At 31 December 2004	669,907	1,093,475	(62,934)	1,700,448

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation referred to in notes 1 and 16, over the nominal value of the Company's shares issued in exchange therefor. Under the Company Law of the Cayman Islands, a company may make distribution to its members out of the contributed surplus in certain circumstances.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Notes	2004 *HK$'000*	2003 *HK$'000*
Net assets acquired:			
Fixed assets	13	60,752	—
Intangible assets		24,784	—
Other long term assets		288	—
Deferred tax assets		7,143	—
Inventories		75,329	—
Trade receivables		848,300	—
Notes receivables		1,248	
Other receivables		214,830	—
Cash and bank balances		1,771,039	—
Trade and notes payables		(940,702)	—
Tax payable		(7,132)	
Other payables and accruals		(974,440)	—
Due to shareholder		(24,392)	
Other long term liabilities		(43,587)	—
Minority interests		(456,057)	—
		557,403	
Negative goodwill on acquisition	15	(41,398)	—
		516,005	—
Satisfied by Cash		516,005	—

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 *HK$'000*	2003 *HK$'000*
Cash consideration	(516,005)	—
Cash and bank balances acquired	1,771,039	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	1,255,034	—

On 31 August 2004, the Company had established a joint-venture with Alcatel, the T&A, of which the Company has an equity interest of 55%. The mobile phone division of Alcatel was injected into the T&A. The purchase consideration for the acquisition was in the form of cash and being paid at the acquisition date.

Since its acquisition, the T&A contributed HK$1,729,989,000 to the Group's turnover and HK$258,466,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2004.

(b) Disposal of a subsidiary

	Note	2004 HK$'000	2003 HK$'000
Net assets disposed of:			
Fixed assets		21	—
Cash and bank balances		11,488	—
Other receivables		134	—
Other payables and accruals		(4,930)	—
Amounts due to related companies		(7,681)	—
		(968)	—
Gain on disposal of a subsidiary	5	1,268	—
		300	—
Satisfied by:			
Cash		300	—

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2004 HK$'000	2003 HK$'000
Cash consideration	300	—
Cash and bank balances disposed of	(11,488)	—
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(11,188)	—

On 26 March 2004, the Group disposed to the managements of TCL Mobile Information International Company Limited its 100% equity interest in TCL Mobile Information International Company Limited, which was incorporated in Hong Kong.

The disposal of TCL Mobile Information International Company Limited had no material impact on the Group's consolidated turnover or net loss attributable to shareholders for the year ended 31 December 2004.

31. CONTINGENT LIABILITIES

(i) As at 31 December 2004, contingent liabilities in respect of discounted notes and endorsed notes with recourse not provided for in the financial statements were as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Notes discounted or endorsed with recourse	48,657	599,155

(ii) One of the Group's subsidiary, Alcatel Suzhou Telecommunications Co., Ltd. ("ASTEC") was involved in a patent infringement litigation brought by Hubin, Huxuanhua and Dalian Hanpu Applied Technology Co., Ltd. (the "plaintiff") in March 2001. In May 2002, the PRC trial court rendered civil judgement in favour of ASTEC with no damages or expenses to be borne by ASTEC. In the same month, the plaintiff appealed to the High Court and up to date, the appellate proceeding is still in progress.

According to the legal letter and the opinion from the engaged lawyer, it is very likely for the appellate court to render judgement in favor of ASTEC again. Accordingly, no provision was made for such Litigation in the financial statements.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to six years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company
	2004	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	41,455	1,328	1,003
In the second to fifth years, inclusive	59,364	380	523
Over five years	45,572	—	—
	146,391	1,708	1,526

33. COMMITMENTS

In addition to the operating lease commitments detailed above, the Group had the following capital commitments for the procurement of production facilities at the balance sheet date:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Contracted, but not provided for	23,845	19,044

34. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004, the Group had the following material transactions with the following related parties:

Company name	Nature of transaction	*Notes*	2004 *HK$'000*	2003 *HK$'000*
Jasper Ace (HK) Limited	Consultancy Fee	(i), (v)	—	180
Markden Limited	Consultancy Fee	(ii), (v)	990	1,250
TCL Corporation	Brand name management fee/ TCL Brand Common Fund	(iii), (vi)	27,816	26,906
	Interest expenses	(vii)	12,636	—
	Short-term loan obtained	(viii)	4,068,383	—
	Sale of finished goods	(ix)	—	1,593
	Purchase of raw materials	(x)	2,400,354	3,549,876
TCL Corporation Logistic Co., Ltd.	Purchase of raw materials	(iv), (x)	456,515	—
TCL Hyper Power Batteries Co., Ltd.	Purchase of raw materials	(iv), (xi)	133,451	143,523
Chinaway Paper Production (Huizhou) Co., Ltd.	Purchase of raw materials	(iv), (xi)	1,730	1,877
TCL 通訊設備股份有限公司 ("TCL Communication Equipment Co., Ltd.")	Purchase of raw materials	(iv), (xi)	—	44,175
	Fund advanced	(xii)	—	13,190,419
	Interest income	(xiii)	—	1,790
TCL Communication Equipment (Huizhou) Co., Ltd.	Purchase of raw materials	(iv), (xi)	8,245	—
	Fund advanced	(xii)	7,880,342	—
	Interest income	(xiii)	871	—
	Sale of finished goods	(ix)	4,117	—
Huizhou TCL King Electronics Co., Ltd.	Rental charges	(iv), (xiv)	2,625	1,181
Huizhou TCL Communication Technology & Trade Co., Ltd.	Sale of finished goods	(iv), (ix)	15,705	26,480
TCL Air-conditioner (Zhongshan) Co., Ltd.	Purchase of finished goods	(iv), (xv)	—	17,144
TCL 家用電器(惠州)有限公司 ("TCL Householding Appliance (Huizhou) Co., Ltd.")	Purchase of finished goods	(iv), (xv)	—	5,379
TCL Culture Development (Huizhou) Co., Ltd.	Purchase of raw materials	(iv), (xi)	166	—
惠州 TCL 電器銷售有限公司 ("TCL Household Appliance Marketing Co., Ltd.")	Purchase of raw materials	(iv), (xi)	1,081	—

Company name	Nature of transaction	Notes	2004 HK$'000	2003 HK$'000
Alcatel Mexico	Agency services obtained	(xvi), (xvii)	1,960	—
	Administrative and management services obtained	(xviii)	12,334	—
	Sale support services obtained	(xix)	4,084	—
Alcatel Espana SA	Sale support services obtained	(xvi), (xix)	12,619	—
Alcatel Business Systems	Administrative and management services obtained	(xvi), (xviii)	71,468	—

Notes:

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business.

(i) A director of the Company is also a shareholder of Jasper Ace (HK) Limited.

(ii) A director of the Company is also a shareholder of Markden Limited.

(iii) TCL Corporation is considered by the Company's directors as the Company's ultimate controlling shareholder.

(iv) Those companies are subsidiaries of TCL Corporation.

(v) The consultancy fee was calculated on terms mutually agreed by the contracting parties.

(vi) The brand name management fee/TCL Brand Common Fund was calculated on terms mutually agreed by the contracting parties.

(vii) The interest was charged with reference to the interest rate published by the Peoples' Bank of China on the amount due to TCL Corporation during the year.

(viii) The short-term loans from TCL Corporation were secured by the same amount of the Group's notes receivable, which bore interest at a rate of 3.2% per annum and are repayable within three months.

(ix) The directors considered that the sale of finished goods were made according to the published prices and conditions similar to those offered to the major customers of the Company.

(x) The raw materials were sold by TCL Corporation and TCL Corporation Logistic Co., Ltd. with a 0.2% margin.

(xi) The directors considered that the purchase of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the suppliers.

(xii) The fund advanced to TCL Communication Equipment Co., Ltd. and TCL Communication Equipment (Huizhou) Co., Ltd. were unsecured, bore interest at a rate of 1.4% per annum and had no fixed terms of repayment.

(xiii) The interest is charged at a rate of 1.4% per annum on the amount advanced to TCL Communication Equipment Co., Ltd. and TCL Communication Equipment (Huizhou) Co., Ltd.

(xiv) The rental charges were calculated on terms mutually agreed by the contracting parties.

(xv) The directors considered that the purchase of finished goods was made according to the published prices and conditions similar to those offered by major suppliers.

(xvi) This company is a subsidiary of the Group's minority shareholder.

(xvii) The directors considered that the agency services obtained were calculated on terms mutually agreed by the contracting parties.

(xviii) The directors considered that the administrative and management services obtained were calculated on terms mutually agreed by the contracting parties.

(xix) The directors considered that the sales support services obtained were calculated on terms mutually agreed by the contracting parties.

35. COMPARATIVE AMOUNTS

During current year, certain comparative amounts have been reclassified to conform to the current year's presentation.

36. POST BALANCE SHEET EVENTS

There were no significant events after 31 December 2004.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2005.

UNAUDITED CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

The following information is extracted from the Company's announcement dated 28 October 2005 of the Group's unaudited consolidated results for the nine months ended 30 September 2005.

The Board announces the unaudited consolidated results of the Group for the nine months ended 30 September 2005 together with the comparative figures for the nine months ended 30 September 2004 as follows:

Condensed Consolidated Profit and Loss Account

	Notes	**Nine months ended 30 September 2005** *(unaudited)* *HK$'000*	**Nine months ended 30 September 2004** *(restated)* *HK$'000*
TURNOVER	(2)	4,021,453	5,175,433
Cost of sales		(4,091,788)	(4,272,475)
Gross profit/(loss)		(70,335)	902,958
Interest income		15,908	3,990
Other revenue and gains, net	(3)	41,847	93,868
Research and development costs		(234,079)	(109,698)
Selling and distribution costs		(676,748)	(516,788)
Administrative expenses		(651,109)	(199,318)
Other operating expenses		(550)	(1,520)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(4)	(1,575,066)	173,492
Finance costs		(17,210)	(11,939)
PROFIT/(LOSS) BEFORE TAX		(1,592,276)	161,553
Tax	(5)	(9,008)	(35,194)
PROFIT/(LOSS) FOR THE PERIOD		(1,601,284)	126,359
ATTRIBUTABLE TO:			
Equity holders of the parent		(1,313,411)	154,888
Minority interest		(287,873)	(28,529)
		(1,601,284)	126,359
DIVIDENDS			
Interim	(6)	—	1,376,132
EARNINGS/(LOSS) PER SHARE *(HK Cents)*	(7)		
Basic		(45.8)	5.5
Diluted		(54.6)	4.4

Condensed Consolidated Balance Sheet

	Notes	30 September 2005 (unaudited) HK$'000	31 December 2004 (restated) HK$'000
NON-CURRENT ASSETS			
Fixed assets		392,706	439,676
Intangible assets		33,205	33,867
Deferred tax assets		14,555	14,630
Other non-current assets		3,549	3,711
		444,015	491,884
CURRENT ASSETS			
Inventories		702,146	1,031,817
Trade receivables		837,976	1,210,520
Notes receivable		417,900	174,363
Prepayments, deposits and other receivables		699,708	544,578
Due from related companies		12,082	50,830
Tax receivable		2,218	—
Pledged bank deposits		35,371	11,373
Cash and bank balances		546,094	2,005,683
		3,253,495	5,029,164
CURRENT LIABILITIES			
Trust receipt loans		—	175,300
Advances for discounted bills		228,612	—
Trade and notes payables		1,535,149	1,877,713
Tax payable		—	11,925
Other payables and accruals		1,237,043	1,361,442
Due to related companies		178,775	114,209
Due to minority shareholders		—	24,258
		3,179,579	3,564,847
NET CURRENT ASSETS		73,916	1,464,317
TOTAL ASSETS LESS CURRENT LIABILITIES		517,931	1,956,201
NON-CURRENT LIABILITIES			
Convertible notes		165,670	—
Retirement indemnities		11,204	45,030
Long service medals		2,064	7,609
		178,938	52,639
TOTAL ASSETS LESS TOTAL LIABILITIES		338,993	1,903,562
CAPITAL AND RESERVES			
Equity attributable to equity of holders of the parent:			
Issued capital		296,888	282,750
Reserves		42,105	1,278,856
		338,993	1,561,606
Minority interests		—	341,956
		338,993	1,903,562

Notes to Condensed Consolidated Financial Statements

1. Basis of Preparation and Principal Accounting Policies

The quarterly financial report is unaudited, but has been reviewed by the Audit Committee.

The condensed financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include the Statement of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention. The accounting policies and method of computation used in the preparation of these financial statements are consistent with those used in annual financial statements for the year ended 31 December 2004 except those mentioned below as well as that in the first quarter and interim result announcement.

The Group has adopted HKAS 32 ("Financial Instruments: Disclosure and Presentation") and HKAS39 ("Financial Instruments: Recognition and Measurement") prospectively:

i. The Group's discounted bills with recourse, which were previously disclosed as contingent liabilities, have been accounted for as collateralized bank advances;

ii. The Group further recognized convertible notes at fair value in the balance sheet.

2. Segment Information

The Group is principally engaged in the manufacture and sale of mobile phones and related components. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

The Group's operations are located in France, the PRC and Mexico. Each of the group's geographical segment represents the location of the business division's production or service facilities which are subject to risks and returns that are different from those of the other geographical segments.

The following tables present revenue for the Group's geographical segments:

	France Nine months ended 30 September		**The PRC Nine months ended 30 September**		**Mexico Nine months ended 30 September**		**Consolidated Nine months ended 30 September**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(restated)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	1,614,740	366,319	1,750,945	4,780,148	655,768	28,966	4,021,453	5,175,433

3. Other Revenue and Gains

Included in the total is government subsidies of approximately HK$20,086,000 (2004: HK$84,893,000) granted for general purposes for encouragement to develop advanced technology.

4. Profit/(Loss) from operations

	Nine months ended 30 September	
	2005	**2004**
	(unaudited)	*(restated)*
	HK$'000	*HK$'000*
Profit/(Loss) from operations has been arrived at after charging:		
Depreciation of fixed assets	81,405	48,673
Amortisation	3,224	823
Provision for inventory obsolescence	—	133,941

5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect there of:

	Nine months ended 30 September	
	2005	**2004**
	(unaudited)	*(unaudited)*
	HK$'000	*HK$'000*
Group:		
Current year provision		
Hong Kong		
Charge for the year	1,758	5,861
Overprovision in prior years	—	—
Mainland China	6,039	39,760
Elsewhere	1,038	(1,284)
Deferred	173	(9,143)
	9,008	35,194

6. Dividend

The directors of the Company do not recommend the payment of dividend for the nine months ended 30 September 2005.

In 2004, for the purpose of the Group Reorganization that was effected in preparation for the Introduction, Huizhou TCL Mobile Communication Co., Ltd declared an interim dividend of HK$1,376,132,000 (RMB1,458,700,000) to its then shareholders.

7. Earnings (Loss) Per Share

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the nine months ended 30 September 2005 of HK$1,313,411,000 (2004: net profit attributable to shareholders of HK$154,888,000), and the weighted average of 2,866,339,000 (2004: 2,827,500,000) ordinary shares in issue during the period. The weighted average of 2,827,500,000 ordinary shares for 2004 were deemed to have been in issue.

The calculation of diluted loss per share for the period ended 30 September 2005 is based on the net loss for the period of HK$1,600,481,000 (2004: net profit of HK$126,359,000) after adjusting the 45% share of loss by minority interest in respect of the joint venture formed between the Company and Alcatel (the "Joint Venture") amounting HK$287,873,000 (2004: HK$28,529,000), and reversing interest expenses, net of tax effect, on convertible notes for the period of HK$803,000 (2004: nil). The weighted average number of shares used in the calculation is 2,931,650,000, which comprises the

2,866,339,000 ordinary shares, as used in the basic loss per share calculation, and the weighted average of 65,311,000 ordinary shares assumed to be issued on the deemed exercise of the shares option granted to Alcatel for converting its interest in the Joint Venture.

The weighted average number of shares used in the calculation of the diluted earnings per share for the period ended 30 September 2004 is 2,869,238,000, which comprises the 2,827,500,000 ordinary shares, as used in the basic earnings per share calculation, and the weighted average of 41,738,000 ordinary shares assumed to be issued on the deemed exercise of the shares option granted to Alcatel for converting its interest in the Joint Venture.

PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

For illustrative purposes only, the pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to provide the investors with further information on how the Open Offer might have affected the financial position of the Group after completion of the Open Offer. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial position of the Group after the completion of the Open Offer.

Set out below is the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group based on the unaudited consolidated net tangible assets of the Group as at 30 September 2005 adjusted to reflect the effect of the Open Offer assuming that 2,968,875,000 Offer Shares will be issued pursuant to the Open Offer:

Unaudited consolidated net tangible asset as at 30 September 2005	**Estimated net proceeds of the Open Offer** *(Note 1)*	**Pro forma net tangible assets**	**Net tangible assets per Share before the Open Offer**	**Net tangible assets per Share after the Open Offer** *(Note 2)*
HK$'000	*HK$'000*	*HK$'000*	*HK$*	*HK$*
305,788	587,800	893,588	0.103	0.150

The statement has been prepared for illustrative purposes only and because of its nature, it may not reflect the financial position of the Group following the Open Offer.

Notes:

1. The estimated net proceeds of the Open Offer are based on the Subscription Price of HK$0.20 per Offer Share.

2. Based on the 5,937,750,000 Shares which comprise 2,968,875,000 Shares in issue as the Latest Practicable Date and the 2,968,875,000 Offer Shares to be issued pursuant to the Open Offer (assuming that no Options or Convertible Notes will be exercised or converted before the Record Date).

COMFORT LETTER ON PRO FORMA STATEMENT OF NET TANGIBLE ASSETS OF THE GROUP

ERNST & YOUNG
安永會計師事務所

20 January 2006

The Directors
TCL Communication Technology Holdings Limited

Dear Sirs,

We report on the pro forma financial information (the "Pro forma NTA") relating to adjusted net tangible assets set out in the Section headed "PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP" of Appendix III to the circular of TCL Communication Technology Holdings Limited (the "Company") dated 20 January 2006 (the "Circular").

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion on the pro forma consolidated financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulleting 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted principally of comparing the unadjusted net tangible assets with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Because the above work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared in accordance with the basis set out in the section headed "PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP" of Appendix III to the Circular for illustrative purposes only and, because of its nature, it may not give an indicative financial position of the Company and its subsidiaries (the "Group") as at 30 November 2005 or at any future date.

OPINION

In our opinion:

(a) the Pro forma NTA has been properly complied on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

INDEBTEDNESS

Borrowings

As at 30 November 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$332 million comprising advances for discounted bills of approximately HK$166 million which are repayable within a period not exceeding one year and the convertible notes of approximately HK$166 million which are repayable within three years from the date of issue of the convertible notes.

Contingent liabilities

As at 30 November 2005, one of the Group's subsidiaries, Alcatel Suzhou Telecommunication., Ltd. ("ASTEC") was involved in a patent infringement litigation brought by Hubin, Huxuanhua and Dalian Hanpu Applied Technology Co., Ltd. (the "plaintiff") in March 2001. In May 2002, the PRC trial court rendered civil judgement in favour of ASTEC with no damages or expenses to be borne by ASTEC. In the same month, the plaintiff appealed to the High Court and up to date, the appellate proceeding is still in progress. According to the legal letter and the opinion from the engaged lawyer, it is very likely for the appellate court to render judgement in favour of ASTEC again. Accordingly, no provision was made for such litigation in the financial statements.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-Group liabilities, the Group did not have outstanding at the close of business on 30 November 2005 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 30 November 2005.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in its interim report for the six month ended 30 June 2005 and the Company's announcement dated 28 October 2005 of the Group's unaudited consolidated results for the nine months ended 30 September 2005, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Group were made up of.

WORKING CAPITAL

The Directors are of the opinion that, following the Open Offer, taking into account the existing cash and bank balances and the expected net proceeds of the Open Offer, the Group will have sufficient working capital for its present requirements in the absence of unforeseeable circumstances.

1. RESPONSIBILITY OF THE DIRECTORS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL AND SECURITIES

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and following completion of the Open Offer will be, as follows:

Authorized		*HK$*
5,000,000,000	Shares as at the Latest Practicable Date	500,000,000
5,000,000,000		500,000,000

Issued and to be issued as fully paid		*HK$*
2,968,875,000	Shares in issue as at the Latest Practicable Date	296,887,500
2,968,875,000	Offer Shares to be issued pursuant to the Open Offer *(Note)*	296,887,500
5,937,750,000		593,775,000

Note: Based on 2,968,875,000 Shares in issue as at the Latest Practicable Date on the basis of one Offer Share for every existing Share held.

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the Offer Shares which will be issued upon completion of the Open Offer will rank pari passu in all respects with each other and with all the Shares in issue as at the date of allotment and issue of the Offer Shares including as regards to all rights as to dividends, voting and return of capital. All the Offer Shares to be issued will be listed on the Stock Exchange.

As at the date of this circular, there were outstanding Convertible Notes in the principal amount of €20,000,000 (in its Hong Kong dollars equivalent of HK$185,100,000) carrying rights to convert into up to 318,177,911 Shares at an initial conversion price of HK$0.58175 per Share (subject to adjustment); and (b) outstanding Options carrying rights to subscribe for up to 282,750,000 Shares if exercise in full by the holders thereof. TCL Corporation, the ultimate controlling shareholder of the Company and the holder of the Convertible Notes has irrevocably undertaken to the Company and the Underwriter not to convert the Convertible Notes prior to the Record Date. Accordingly, no Offer Shares will be issued by virtue of any exercise of the subscription rights attaching to the Convertible Notes and the outstanding Options prior to the Record Date. For details of the terms of the Convertible Notes and the Options, please refer to the Company's circular dated 6 June 2005 and the Listing Document respectively.

Other than the Convertible Notes and Options, the Company had no other outstanding warrants or convertible securities as at the date of this circular.

There is no arrangement under which future dividends will be waived or agreed to be waived.

No share or loan capital of any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right (save as disclosed above) affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

There is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong.

3. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

(a) Long positions in the Shares of the Company

Directors	Type of Interest	No. of Shares held	Percentage of issued share capital of the Company
Mr. Wong Toe Yeung	Interest of controlled corporation	288,317,500 *(Note)*	9.71%
Mr. Li Dong Sheng	Beneficial owner	36,614,400	1.23%
Mr. Du Xiaopeng	Beneficial owner	8,064,030	0.27%
Mr. Liu Fei	Beneficial owner	20,000	0.001%
Mr. Guo Aiping	Beneficial owner	26,400	0.001%

Note: Mr. Wong Toe Yeung was deemed to be interested in the 288,317,500 shares of the Company held by Mate Fair Group Limited, a company which is wholly owned by him.

(b) Options outstanding to subscribe for shares of the Company

Directors	Type of Interest	No. of Shares held	Percentage of issued share capital of the Company
Mr. Li Dong Sheng	Beneficial owner	5,000,000	0.17%
Mr. Wong Toe Yeung	Beneficial owner	5,000,000	0.17%
Mr. Du Xiaopeng	Beneficial owner	3,200,000	0.12%
Mr. Yuan Xin Cheng	Beneficial owner	3,000,000	0.10%
Mr. Liu Fei	Beneficial owner	1,600,000	0.05%
Mr. Yan Yong, Vincent	Beneficial owner	1,050,000	0.04%
Mr. Guo Aiping, George	Beneficial owner	950,000	0.03%
Mr. Shi Cuiming	Beneficial owner	300,000	0.01%
Mr. Wang Chongju	Beneficial owner	300,000	0.01%
Mr. Lau Siu Ki, Kevin	Beneficial owner	300,000	0.01%

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

Directors	Name of associated corporation	Type of Interest	No. of shares held	Approximate percentage of issued share capital in associated corporation
Mr. Li Dong Sheng	TCL Corporation	Beneficial owner	144,521,730	5.59%
Mr. Li Dong Sheng	TCL Multimedia	Beneficial owner	17,232,000	0.44%
Mr. Yuan Xin Cheng	TCL Corporation	Beneficial owner	24,791,527	0.96%

Notes:

(a) TCL Corporation is the ultimate controlling shareholder of the Company.

(b) TCL Multimedia Technology Holdings Limited ("TCL Multimedia", formally known as TCL International Holdings Limited), a company controlled by TCL Corporation, which is also a subsidiary of the Company.

(d) Options outstanding to subscribe for shares of associated corporations of the Company

Directors	Name of associated corporation	Type of Interest	No. of shares held	Approximate percentage of issued share capital in associated corporation
Mr. Li Dong Sheng	TCL Multimedia	Beneficial owner	5,000,000	0.13%
Mr. Yan Yong, Vincent	TCL Multimedia	Beneficial owner	3,518,000	0.09%
Mr. Yuan Xin Cheng	TCL Multimedia	Beneficial owner	3,000,000	0.08%
Mr. Wong Toe Yeung	TCL Multimedia	Beneficial owner	3,000,000	0.08%
Mr. Du Xiaopeng	TCL Multimedia	Beneficial owner	400,000	0.01%
Mr. Liu Fei	TCL Multimedia	Beneficial owner	400,000	0.01%
Mr. Guo Aiping	TCL Multimedia	Beneficial owner	318,000	0.01%

Save as disclosed above, as at the Latest Practicable Date, 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 for Securities Transactions by Directors of Listed Companies in the Listing Rules.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company:

Long Positions in shares of the Company

Shareholders	**Type of Interest**	**No. of shares held**	**Percentage of issued share capital of the Company**
TCL Corporation	Interest of controlled corporation	1,622,748,480 *(Note 1)*	54.66%
Choi Koon Shum Jonathan	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Innovation Assets Limited	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Kingsway Financial Services Group Limited	Interest of Underwritten Shares	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Kingsway International Holdings Limited	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Kwan Wing Kum, Janice	Interest of spouse	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Lam William Ka Chung	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Lam Wong Yuk Sin Mary	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
SW Kingsway Capital Group Limited	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
SW Kingsway Capital Holdings Limited	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
World Developments Limited	Interest of controlled corporation	1,057,809,020 *(Note 2)*	17.81% *(Note 3)*
Mate Fair	Beneficial Owner	288,317,500	9.71%

Notes:

1. TCL Corporation was deemed to be interested in the 1,622,748,480 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly owned subsidiary of TCL Corporation.

2. These interests refer to the same Underwritten Shares.

3. These percentages are based on the issued share capital of the Company as enlarged by the issue of the Offer Shares.

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of subsidiaries of the Company or any options in respect of such capital.

5. MATERIAL CONTRACTS

Other than the Underwriting Agreement and those material contracts as disclosed in paragraph 5A of Appendix IX of the Listing Document, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group within the two years immediately preceding the date of this circular that are or may be material.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, 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 employer within one year without payment of compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
VXLFS	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	certified public accountants (practising)

VXLFS and Ernst & Young have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters both dated 20 January 2006 and references to their names, in the form and context in which they appear. As at the Latest Practicable Date, neither VXLFS nor Ernst & Young had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. CORPORATE INFORMATION

Registered Office:	Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies
Head office and, principal place of business in Hong Kong:	Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong
Company secretary:	Pang Siu Yin
Authorized Representatives:	Guo Aiping, George and Pang Siu Yin
Qualified accountant:	Ng Kwok Lun
Principal share registrars and transfer office:	Butterfield Bank (Cayman) Limited Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands
Hong Kong branch share registrars and transfer office:	Tricor Investor Services Limited Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong
Principal bankers:	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central, Central, Hong Kong Nanyang Commercial Bank, Ltd. 151 Des Voeux Road Central, Central, Hong Kong
Auditors:	Ernst & Young, Certified Public Accountants 15th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
Legal adviser:	Cheung, Tong & Rosa Rooms 1621–33, 16th Floor, Sun Hung Kai Centre, 30 Harbour Road, Hong Kong

10. PROCEDURE TO DEMAND A POLL AT THE EGM

Pursuant to Article 66 of the articles of association of the Company, at any general meeting of the company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person or in the case of Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) a Shareholder or Shareholders present in person or in the case of Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) a Shareholder or Shareholders present in person or in the case of Shareholder being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

11. MISCELLANEOUS

(a) Save as disclosed herein, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

(b) As at the Latest Practicable Date, none of the Directors or the expert(s) referred to in paragraph headed "Experts and Consents" of this Appendix was interested, directly or indirectly, in any assets which had since 31 December 2004 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(c) The secretary of the Company is Ms. Pang Siu Yin who is a practicing solicitor in Hong Kong.

(d) The qualified accountant of the Company is Mr. Ng Kwok Lun. He is a fellow member of the Chartered Association of Certified Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretary and Administrators and the Hong Kong Institute of Company Secretaries.

(e) None of any part of the equity or debt securities of the Group is listed or dealt in or any other recognized stock exchange or on which listing or permission to deal is being or is proposed to be sought.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon Hong Kong for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the accountants' report of the Group (as defined in the Listing Document) prepared by Ernst & Young for each of the two years ended 31 December 2003, the text of which is set out in Appendix I to the Listing Document;

(c) the annual report of the Company for the year ended 31 December 2004;

(d) the framework agreement dated 11 May 2005 entered into between Alcatel and the Company in relation to the equity restructuring of T&A HK and the future operation of T&A HK and its subsidiaries;

(e) the subscription agreement in connection with the issue of the Convertible Notes dated 11 May 2005 entered into between TCL Corporation and the Company;

(f) the circular of the Company dated 6 June 2005 regarding items (d) and (e) above;

(g) the interim report of the Company for the six months ended 30 June 2005;

(h) the Underwriting Agreement dated 22 December 2005;

(i) each of letters of undertaking of TCL Corporation, Mate Fair and TCL Industries dated 22 December 2005;

(j) the letter from the Independent Board Committee, the text of which is set out on page 22 of this circular;

(k) the letter from the IFA, the text of which is set out on pages 23 to 38 of this circular;

(l) the comfort letter issued by Ernst & Young on pro forma statement of unaudited adjusted consolidated net tangible assets of the Group, the text of which is set out on pages 86 to 87 of this circular; and

(m) the written consents from the IFA and Ernst & Young as referred to in paragraph headed "Experts and Consents" of this Appendix.

TCL 通訊科技控股有限公司
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of the Company ("EGM") will be held at 3:00 p.m. on 6 February 2006 at Hennessy Room, 7th Floor, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, to consider and, if thought fit, pass the following resolutions (with or without modifications):

ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the authorized share capital of the Company be increased from HK$500,000,000 divided into 5,000,000,000 shares of HK$0.10 each ("Shares") to HK$800,000,000 divided into 8,000,000,000 Shares by the creation of an additional 3,000,000,000 Shares ("Capital Increase"); and

   (b) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things as he may deem necessary or desirable for or in connection with the completion of the Capital Increase and the matters contemplated thereunder."

2. "**THAT**, subject to the passing of Ordinary Resolution No. 1 above and the fulfilment of other conditions in the underwriting agreement entered into between the Company and Kingsway Financial Services Group Limited dated 22 December 2005 (the "Underwriting Agreement"), a copy of which has been tabled at the meeting and initialled by the chairman of the meeting for the purpose of identification:

   (a) the offer (the "Open Offer") of new shares of the Company (the "Offer Shares") to the shareholders of the Company whose names appeared on the register of members of the Company at the close of business of a date to be fixed by the directors of the Company on an assured basis of provisional allotments of one (1) Offer Share for every one (1) Share then held at the subscription price of HK$0.20 per Offer Share according to the terms of the Open Offer as set out in the circular of the Company dated 20 January 2006 (the "Circular") be and is hereby approved, the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to and in accordance with the terms of the Open Offer;

   (b) the Underwriting Agreement be and is hereby approved, confirmed and ratified and any Director be and is hereby authorized to do such acts or execute such other documents which may be necessary, desirable or expedient in his opinion to carry into effect or to give effect to the terms of the Underwriting Agreement; and

(c) any Director be and is hereby authorized to sign and execute such documents and do all such acts and things incidental to the Open Offer or as they consider necessary, desirable or expedient in connection with the Open Offer and to carry out or give effect to any or all the transactions contemplated in this resolution and the Circular."

3. "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in such number of Shares in the capital of the Company representing 10 per cent. of the Shares in issue as at the date of passing this resolution, which may be issued pursuant to exercise of options to be granted under the Refreshed Scheme Mandate Limit (as defined below), the existing scheme mandate limit under the share option scheme adopted by the Company on 13 September 2004 ("Share Option Scheme") be refreshed so that the aggregate nominal amount of the share capital of the Company to be allotted and issued pursuant to the exercise of the options under the Share Option Scheme and other share option scheme(s) of the Company (excluding options previously granted, outstanding, cancelled, lapsed or exercised) shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution ("Refreshed Scheme Mandate Limit") and that any director of the Company be and are hereby authorized to do such act and execute such document to effect the Refreshed Scheme Mandate Limit."

By order of the Board
Li Dong Sheng
Chairman

Hong Kong, 20 January 2006

Notes:

1. The Hong Kong Branch Register of Members of the Company will be closed from 3 February 2006 to 6 February 2006 (both days inclusive), during which period no transfers of Shares will be registered. In order to be eligible to attend and vote at the EGM to be held on 6 February 2006, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong not later than 4:00 p.m. on 2 February 2006.

2. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the EGM is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the EGM and vote in person. In such event, his form of proxy will be deemed to have been revoked.

3. A form of proxy for the EGM is enclosed. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the principal place of business of the Company at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.

4. T.C.L. Industries Holdings (H.K.) Limited and its associates are required to abstain from voting in respect of the Ordinary Resolution No. 2 in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

5. As at the date of this notice, the board of Directors is composed of Messrs. Li Dong Sheng, Yuan Xin Cheng, Liu Fei, Yan Yong, Vincent, Du Xiaopeng, Simon, Guo Aiping, George and Wong Toe Yeung as executive directors, Messrs. Shi Cuiming, Wang Chongju and Lau Siu Ki, Kevin as independent non-executive directors.