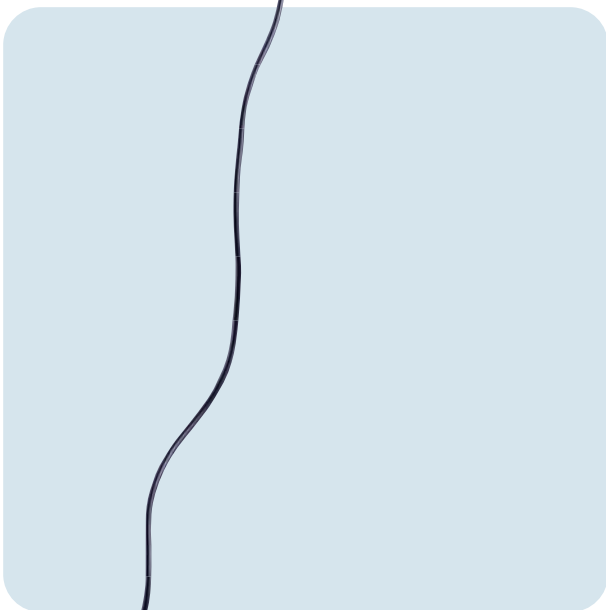
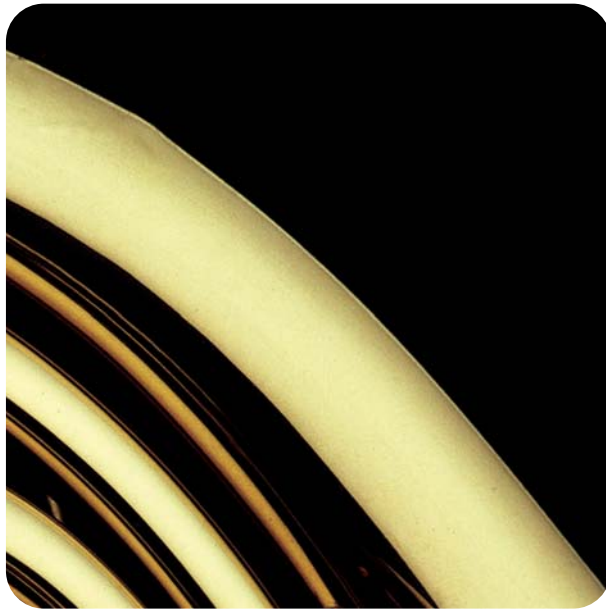
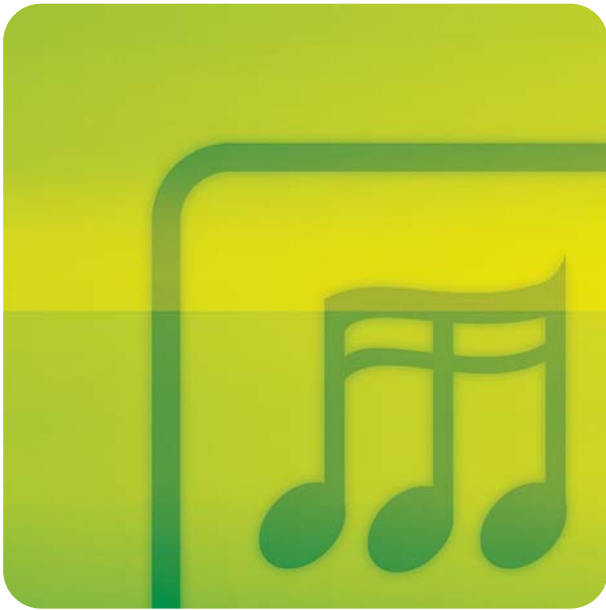


THE POWER OF
MUSIC

MUSIC





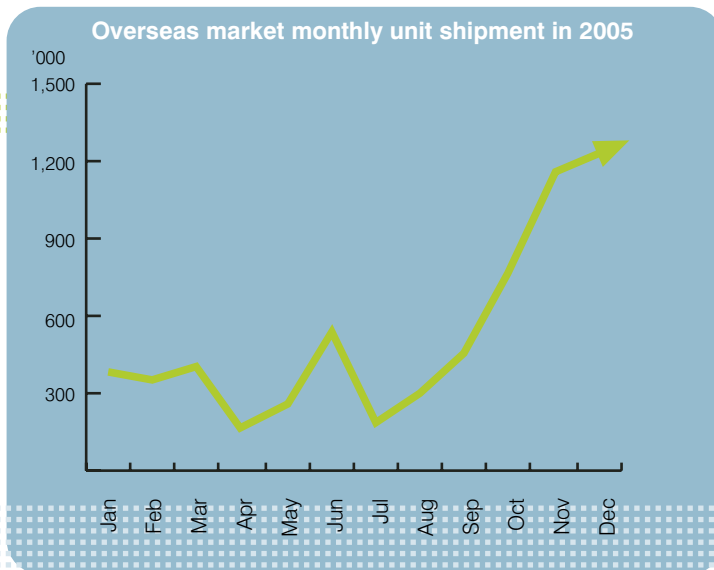
Mission
To become a globally competitive and innovative mobile phone producer, supplying quality products that satisfy the ever-changing needs of customers, and providing employees with career advancement and job satisfaction.

CHAIRMAN'S STATEMENT



Dear Shareholders,

The Company has experienced a very difficult year in 2005. The handset market is ever-changing and the fierce competition worldwide has given rise to the absolute leading position of top-tier brands. It was therefore very difficult for small handset manufacturers to counter this trend. Although the business scale of the Company is far larger than its domestic peers, it is still comparatively smaller than the global giants. In view of this market landscape, the new management team of TCT has led the Company to implement reforms and enhancement programmes to form a new organizational structure, to reposition its products, to redefine R&D direction and to broaden customer base, with an aim to enhance its core competitiveness and build a strong foundation for sustainable growth in the long run.



BUSINESS PERFORMANCE

During the year under review, the Company redefined its R&D strategies and decided to slow down the pace of R&D. New product launches were delayed, hampering overall sales, especially in the PRC market. Furthermore, the change in the operating mode of sales channels and the initiatives to assist distributors to clear channel inventories affected the Group's sales performance in the PRC. Meanwhile, the Group aspired to enhance its operation efficiency and strengthen its supply chain management capability, rather than seeking sheer sales volume growth. Although these measures have caused reduction in sales, the management believes that will benefit the Company's long term development.

Upon the establishment of T&A, the Company actively expanded to overseas markets through Alcatel's global network, targeting high-demand global operators and aiming to exploring new room for development by providing cost effective and high quality entry level handsets to these operators. The Group recorded satisfactory results during the year under review. Notable achievements were made in the second half of the year, which was marked by the breakeven of the overseas business in the month of December 2005.

INTERNATIONAL AND PROFESSIONAL MANAGEMENT

In the year under review, the Company appointed Dr. LIU Fei as executive director and CEO. Including Dr. Liu, the management team now comprises 25 professional members with international experience. Steered by a new management team, we believe that the Group's management and business development will be further strengthened in the future.

SHAREHOLDING AND ORGANIZATION RESTRUCTURING

During the past year, the Company completed its shareholding restructuring through a share swap. Alcatel exercised its option and transferred its interest in T&A into a stake in TCT. Hence, Alcatel became a strategic shareholder of TCT and T&A became a wholly owned subsidiary of the Company. Upon completion of the shareholding restructure, the resources of the two subsidiaries were utilized efficiently. Restructuring of the operating structure facilitated integration and realization of synergies.

CHAIRMAN'S STATEMENT

Vision

To be a trusted and respected mobile terminal product provider in the global marketplace with sustainable growth.

Upon completion of shareholding restructure, the Company endeavoured to reform its organizational structure in order to materialize the synergies through the integration of the two wholly-owned subsidiaries. In terms of organizational restructuring, the Company has established six sales and marketing centers around the world, namely Europe, the Middle East and Africa ("EMEA"), Latin America ("LATAM"), Alcatel brand in the PRC ("Alcatel PRC"), TCL brand in the PRC ("TCL PRC"), Asia Pacific ("APAC") and ODM. At the same time, the Company also consolidated its manufacturing, R&D and after sales services to optimize resource allocation through centralized operation and integration. To further enhance manufacturing and operation efficiency, reduce management costs and avoid mismatching of resources, the Company has gradually streamlined its product line and started the outsourcing of product development projects. In addition, the Company also implemented centralized procurement to reduce costs and improve competitiveness.

STRENGTHENING FINANCIAL POSITION

To achieve sustainable growth in the global market, we have set priority to the strengthening of our financial position. The Group entered into Framework Agreement with its strategic shareholder Alcatel and obtained €20 million as a result of this. Additional funding was obtained from its ultimate controlling shareholder TCL Corp.

through the issue of approximately HK\$185 million convertible notes. In addition, the Company successfully completed an open offer to shareholders and raised approximately HK\$600 million in February 2006. The related proceeds will be applied for R&D, settlement of accounts payable and as general working capital. These moves have greatly strengthened the Company's financial position.

PRODUCT R&D

During the year under review, the Company has repositioned its products with focuses on manufacturing the most competitive entry level voice phones and innovative multimedia phones. Amid fierce competition in the global handset market, the availability of R&D resources is not only the key to success, but also one of the determining factors for the Company to achieve sustainable growth.

Huge R&D investment is needed to support the development of innovative ideas to solidify the Company's core competitiveness and market position. In view of this, the Company announced in April 2006 its plan to increase investment in a handset R&D joint venture which was established with strategic partners. By consolidating R&D expertise and resources, the Company seeks to strike a balance between strengthening product development and controlling costs. According to the plan, the Company will transfer a certain part of the product development assets and the related staff to the joint venture in order to integrate the R&D



resources. On the other hand, the Company will retain its product development and strategy team to ensure sufficient internal expertise and close relationship with customers.

In the future, the Company will significantly reduce fixed internal R&D expenses and effectively realise the R&D advantages of the joint venture through outsourcing product R&D projects and cooperation with the joint venture. In the meantime, TCT will deploy additional resources for promoting the brand recognition of TCL and Alcatel, strengthening advantages in manufacturing and distribution network, and solidifying the relationship with strategic partners to produce quality products and enhance operation efficiency.

ACCOUNTABLE, RESPECTABLE AND SUSTAINABLE CORPORATION

Faced with the unprecedented challenges in 2005, the Company remained perseverance as always and made its best effort to implement substantial restructuring and reform. Year 2006 will be a crucial year for the development of TCT. With the new structure and new business model in place, we are confident that TCT will be able to implement its new business strategies more effectively and enhance profitability across the board. We believe the profitability of our overseas business will continue to improve and begin to make contribution to the Company while the market position of TCL brand will be strengthened in the PRC.

"Practicality, progress and boundlessness" are the three themes of our progressive and perseverant corporate culture. We value staff opinion on the development of the Company and encourage communication between management and staff. We aim to cultivate holistic and people-oriented working atmosphere to promote corporate development and to bring the Company to new heights.

With a well-defined business strategy, precise market positioning and dedicated team of staff, we aim to become an accountable, respectable and sustainable global mobile terminal product provider, a leading manufacturer of quality handsets and a partner of choice for operators.

Finally, on behalf of the Board of Directors ("Board"), I would like to thank all staff members for their contribution in the past year and at the same time, I would also like to express our gratitude towards our shareholders, consumers, suppliers and business partners for their long-term support.

LI Dong Sheng

Chairman

27 April 2006