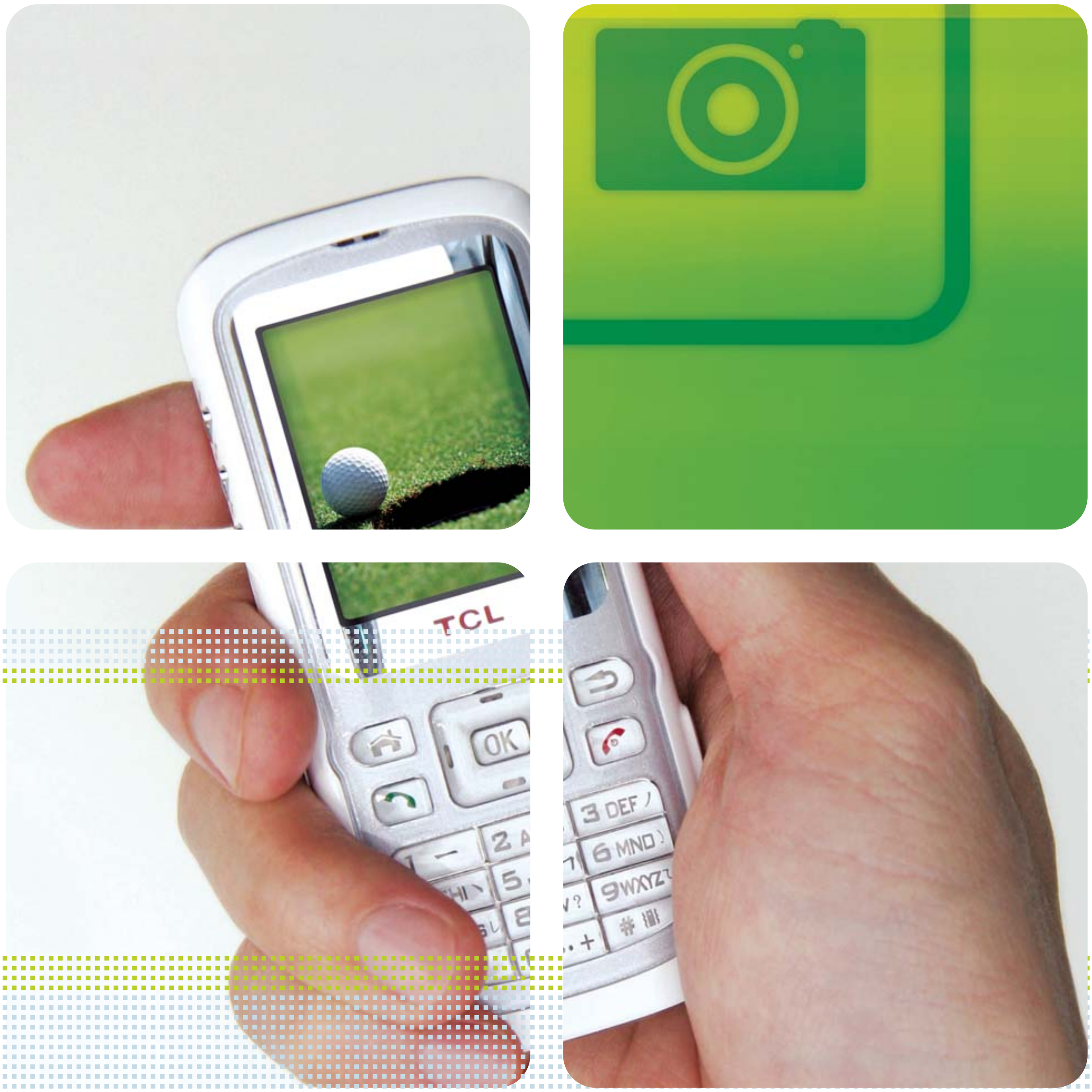
THE POWER OF
DISPLAY



With a well-defined business strategy, precise market positioning and the dedication of our staff, TCL Communication Technology Holdings Limited aims to become an accountable, respectable and sustainable global mobile terminal product provider

DISPLAY

MANAGEMENT DISCUSSION AND ANALYSIS

Leveraging on the strengths of the Alcatel brand name in Europe and LATAM and the low-cost manufacturing base in the PRC, the Company will optimize its strategy of "Chinese value @ Western quality" to capture market opportunities worldwide

INDUSTRY OVERVIEW

Global handset shipment recorded double digit growth in 2005 and reached over 800 million units, creating business opportunity for handset manufacturers in an apparent growing market. But in fact, 2005 was a challenging year for manufacturers of all scale.

Small handset manufacturers in particular, faced a tough operating environment. Fierce competition worldwide has forced manufacturers to lower handset prices while increasing investment in developing new products to cope with the changing consumer preference. In 2005, according to Strategy Analytics, emerging markets accounted for one half of the worldwide handset shipment. Consumer in emerging markets typically purchased lower priced handsets pushing the average selling price down. Owing to economies of scale, top tier manufacturers were able to offer lower prices without sacrificing profitability. Unfortunately for second or third-tier manufacturers, profit margin was greatly hampered and profitability eroded. In developed markets, on the other hand, customer preferences changed rapidly, driving manufacturers to increase R&D investment to keep up with the product lifecycle. Large global brands had substantial market share so that the top three global handset players already accounted for over half of the world's handset market share.

In the PRC market, global players gain more market share as they expanded their product line to penetrate every market segment. Despite the fierce competition, new domestic manufacturers

continued to enter the market. In 2005, telecommunication authorities in the PRC issued 20 licenses in four batches for developing, manufacturing and selling handsets within the country. Coupled with the flourishing illegal and parallel-imported handset markets, competition was further intensified, pushing small domestic players out of the market. Furthermore, the pending issuance of 3G licenses continued to stir uncertainty in the market notwithstanding that the industry expects tremendous business potential.

BUSINESS REVIEW

Overall performance

Facing the challenges, TCT adopted measures to counter the unfavourable operating environment by completing corporate restructuring. As a result, the Company successfully cultivated strong overseas market sales, which has brought improvement to the sales as a whole. In 2005, the Company repositioned itself as a global company and regained growth momentum amid difficult business environment. During the year, the Company recorded a total handset shipment of 10.9 million, representing an increase of 9% compared with last year (T&A was established in September 2004 and only four months were included in 2004) . Overseas shipment increased 136% to 7.5 million while the PRC shipment decreased 50% to 3.4 million units.

Sales Volume Breakdown by Geography

'000 units	2005	2004*	Change
Overseas market	**7,500**	3,177	+136%
PRC market	**3,389**	6,838	-50%
Total	**10,889**	10,015	+9%

**T&A was established in September 2004 and only 4 months were included in 2004*

In a bid to streamline the corporate structure and enhance overall competitiveness, TCT entered into Framework Agreement with Alcatel in May 2005 which was completed in July 2005. Upon completion, Alcatel became the Company's strategic shareholder and T&A became a wholly-owned subsidiary of TCT. The new structure improved the operation efficiency and enhanced the business development, sales and marketing and product development. The Company has successfully achieved a rise in overseas shipment. Overseas sales continued to increase over the second half of 2005, and the Company's overseas business achieved breakeven in the month of December 2005.

In June 2005, Dr. LIU Fei was appointed CEO of the Company to further strengthen the management team. The newly appointed management reviewed the Company's business and operations in the past few years and recognized the difficulties. New strategies were formulated with a focus on improving operating efficiency. The management adopted a pragmatic approach in terms of operations, taking into account the resources available. As for company culture, the management advocated passion, emphasizing the sense of belonging and teamwork, encouraging staff of all levels to aim higher, working together for the benefit of the Company. The transformation of organizational structure contributed to this goal by giving the Company full control of procurement, manufacturing and R&D, helping it realize bigger synergy. As a result, operating costs were reduced across the board.

Markets

TCT develops, manufactures and sells handsets under two brands, "TCL" and "Alcatel". In the overseas markets, handsets are mainly marketed under the Alcatel brand while in the PRC market handsets are mainly marketed under the TCL brand. In 2005, the two brands took up a global market share of 1 to 2% (Source: Strategy Analytics and Company data). Taken into consideration the changing market landscape, the Company strategically adopted a more aggressive approach to expand overseas markets, with emphasis on emerging markets such as Latin America, India and Russia where demand for entry level handsets was increasing. The Company continued to strengthen its brand recognition in regions such as Mexico, Argentina and other LATAM countries in 2005.

During the year, emerging markets like Latin America became one of the Company's growth drivers, partly attributable to Alcatel's good relationship with operators in the region. In September 2005, aiming to supply affordable and robust handsets for people in developing countries, the Company's proposal of "connecting the unconnected" was highly commended by GSM Association as efforts to serve emerging markets. It was also the Company's commitment to delivering high-value handsets tailored to emerging markets, building on the Company's values of flexibility, innovation and entrepreneurship. Sales volume and brand recognition began to build up in the region in the fourth quarter in 2005.

For the PRC market, the Company targeted urban wage-earners, students and first-time buyers in the counties with lower end products and strategically tapped into the upper market with advanced products in a bid to strengthen its brand image.

Products development

The restructuring of the Company effectively slimmed the R&D team, R&D facilities were slowly shifted to the PRC to maximize cost efficiency. The R&D division in Huizhou was relocated to Shenzhen for better coordination. Owing to the unfavourable market conditions in 2005, the Company redefined its R&D strategy, with a focus on cost competitive entry level products.

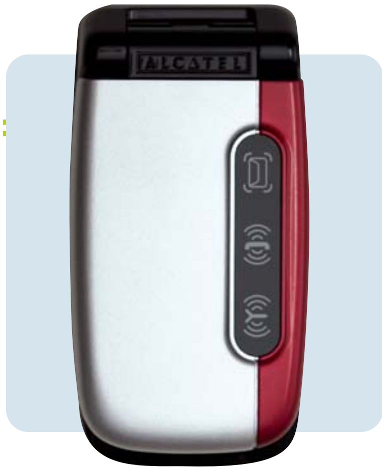
Strengthening R&D capability is the Company's long-term goal. To achieve this, the Company fostered a strategic partnership for a 3G project with a major platform supplier in September 2005. It also won strategic support from Texas Instruments to ramp up the most competitive GSM phones.

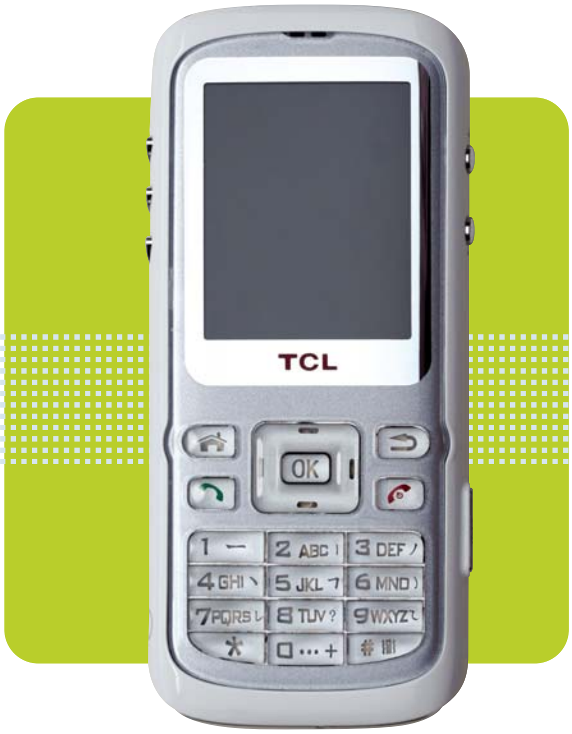
The Company is devoted to strengthening the brand recognition of Alcatel handsets in the European and Latin American markets, where Alcatel has always been recognized as the equivalence of style. Taking full advantage of its manufacturing bases in the PRC, the Company was able to deliver Chinese value@Western quality. During the period under review, the Company launched 12 models of Alcatel handsets. In addition, fashionable model "Elle" was launched through brand licensing to target female users. This product was well received by the market and results were very encouraging.

The Company launched 48 models in the PRC during the period under review, out of which 11 models were MPEG4 multimedia handsets designed to fill a relatively unexplored market space. Initial sales were very encouraging, which paved the way for brand building in the high-end market. In order to make full use of its resources, the Company streamlined its product line as to maintain a reasonable portfolio and put more emphasis on quality control.

Sales & Marketing

The Company operates six sales & marketing centers worldwide, namely, EMEA, LATAM, TCL PRC, Alcatel PRC, APAC and ODM. The full integration of T&A and Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile") has given rise to an opportunity for the Company to further fine-tune its sales network. In the overseas market, the Company's strategy is to focus on fostering relationship with main operators and explore new business opportunities in emerging markets. In the PRC market, on the one hand the Company continued to streamline its sales network in the year, and on the other hand efforts were invested in exploring and cultivating loyal provincial distributors while strengthening the cooperative relationship with super chain stores of PRC mobile handset markets. The Company further reduced distribution layers in a bid to maintain profit margins.





OUTLOOK

TCT experienced difficult years, yet it never ceased to adjust and improve in terms of business strategies or product development in order to overcome the hurdles. During 2005, the Company had undergone restructuring; the Company believes that 2006 will be a year of revival. Looking ahead, the Company will focus on global operations, business model, synergy and new strategies with the goal to turnaround in 2006.

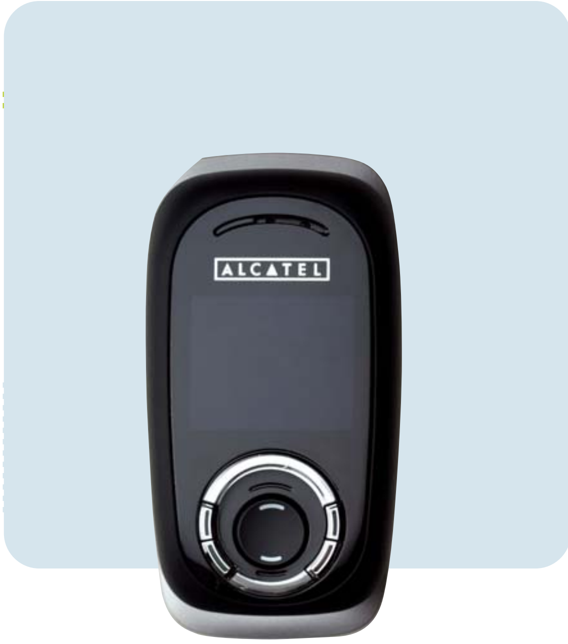
In 2005, the Company has established a solid foundation as a global handset player. The Company will continue to develop its overseas market and aim to turn it into the growth engine. Leveraging on the strengths of the Alcatel brand name in Europe and the low-cost manufacturing base in the PRC, the Company will optimize its strategy of "Chinese value @ Western quality" to capture worldwide market share.

In the PRC market, the Company will maintain its market position. The Company will implement measures to improve product quality and to build brand recognition in the long-run. The launch of MPEG4 models in the end of 2005 has stirred positive sales and market response. These new models will help re-establish the Company's position as one of the premier brands in the PRC. Along this line, the Company will strategically seek to recapture the high-end market.

In terms of product strategy, the Company introduced the most competitive entry level voice phones in 2005. Leveraging on the success, the Company will focus on the most competitive entry level camera phone in 2006 and the most competitive entry level 3G handset in 2007/08. The Company's strategy is to streamline the product line and focus on cost competitive entry level products, emphasize quality and enhance brand recognition.

More will be done in 2006 as the Company's continuously reinforces its R&D capability. In order to fully utilize its R&D resources to support the large production volume, the Company has announced to form an R&D joint venture with outside parties. The Company expects that the joint venture will generate income by providing R&D services to other manufacturers in the future. Hence, this will release the burden on the R&D cost.

All in all, the Company will continue to materialize the synergy from restructuring and adopt effective cost control measures to enhance its competitiveness. The Company has full confidence in achieving profitability in 2006.



FINANCIAL REVIEW

Results

For the year ended 31 December 2005, the Group's audited consolidated revenue amounted to HK$5,664 million (2004: HK$7,310 million), representing a decrease of 22.5% as compared to the last year. Loss attributable to equity holders of parent increased by 769.2% to HK$1,608 million. (2004: HK$185 million). Basic loss per share was HK55.6 cents (2004: HK6.5 cents).

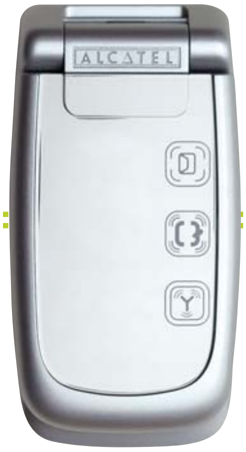
Expenses

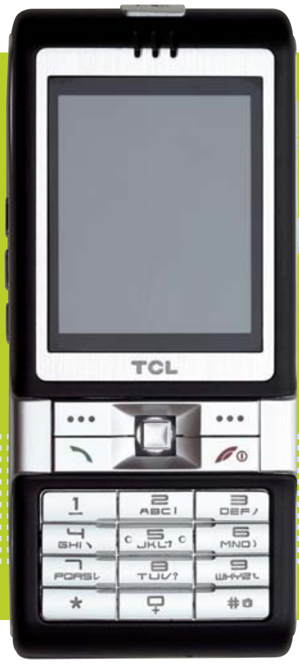
Completion of full integration between TCL Mobile & T&A in fourth quarter 2005 gave rise to slight reduction of selling and distribution costs and administrative expenses during the period compared with the third quarter 2005. Selling and distribution costs and administration expenses in the fourth quarter 2005 accounted for 12% and 15% of the total revenue respectively (third quarter 2005: 14% and 16% respectively).

Significant Investments and Acquisitions

On 11 May 2005, the Company entered into the Framework Agreement with Alcatel Participations pursuant to which the Company conditionally agreed to acquire 45% interest of T&A in exchange for such number of shares of the Company equivalent to 5% of the issued share capital of the Company or approximately 4.76% of the enlarged issued share capital of the Company immediately after completion of the aforesaid share swap. As Alcatel Participations by virtue of its then 45% interest in T&A was a connected person of the Company, the Framework Agreement constituted a connected transaction for the Company under the Listing Rules. Given the amount involved thereunder exceeds 2.5% of the applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules), the Framework Agreement was subject to the requirements of reporting, announcement and independent shareholders' approval which was duly obtained by the Company at the extraordinary general meeting of its shareholders held on 22 June 2005. The Framework Agreement also constituted a discloseable and share transaction for the Company under the Listing Rules. On 18 July 2005, the transaction was completed and T&A became a wholly-owned subsidiary of the Company. For further details of the Framework Agreement, please refer to the circular of the Company dated 6 June 2005.

On 9 March 2006, TCL Corp. entered into the Investment Agreement with TCL Mobile Communication (Hohhot) Co., Ltd. ("TCL Mobile Hohhot") (an indirect wholly-owned subsidiary of the Company) in relation to the establishment of the Finance Company. The Finance Company will be owned as to 62% by TCL Corp., 14% by an indirect wholly-owned subsidiary of TCL Multimedia Technology Holdings Limited, 4% by TCL Mobile Hohhot and 20% by The Bank of East Asia Limited. The Finance Company will be a connected person of the Company. Further, the Company will enter into a Financial Services Framework Agreement with TCL Corp. after the establishment of the Finance Company. Pursuant to the Financial Services Framework Agreement, the subsidiaries of the Company may from time to time utilize the financial services which may be provided by the Finance Company including the deposit services, the services of money lending and other financing and financial





services. Accordingly, the transactions between the Finance Company and the Group under the Financial Services Framework Arrangement will constitute continuing connected transactions for the Company under the Listing Rules. Since the maximum outstanding balances of the deposits to be placed by the Group with the Finance Company are expected to exceed 2.5% of the applicable percentage ratio of the Company (as defined in Rule 14.07 of the Listing Rules), the deposit services to be provided by the Finance Company to the Group will be subject to the requirements of reporting, announcement and the independent shareholders' approval. The independent shareholders' approval was duly obtained by the Company at the extraordinary general meeting of its shareholders held on 13 April 2006 in respect of the aforesaid deposit services and the related caps for the 3 years ending 31 December 2008. For further details of establishment of the Finance Company and the aforesaid continuing connected transactions, please refer to the announcement and the circular of the Company dated 9 March 2006 and 27 March 2006 respectively.

On 31 March 2006, the Company entered into the Share Purchase Agreement with Power Century Investments Limited ("Power Century") pursuant to which the Company agreed to purchase from Power Century 771,500 shares of JRD Communication Inc. ("JRDC"), representing 38.58% equity interest in JRDC, at a cash consideration of US$12.3 million (equivalent to approximately HK$95.33 million). JRDC was established by the Company and Power Century under the Joint Venture Agreement dated 19 December 2005 as a joint venture company which was initially held by the Company and Power Century as to approximately 9.45% and approximately 90.55% respectively. Immediately after the completion of the Share Purchase Agreement, the shareholding of the Company and Power Century in JRDC was changed to approximately 46.25% and 35% respectively. The consideration payable by the Company under the Share Purchase Agreement was financed by the proceeds from the open offer of the Company completed on 27 February 2006 ("Open Offer"). The Joint Venture Agreement and the Share Purchase Agreement have been aggregated pursuant to Rule 14.22 to constitute a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. The Share Purchase Agreement was completed in April 2006. Reference is made to the announcement of the Company dated 21 April 2006 in relation to the director of the Joint Venture Agreement.

Fund Raising

On 11 May 2005, the Company entered into the Subscription Agreement with its ultimate controlling shareholder, pursuant to which the Company conditionally agreed to issue to TCL Corp. an aggregate of €20 million principal amount (equivalent of HK$185,100,000) of 3% convertible notes ("Convertible Notes"). The Convertible Notes were issued on 29 July 2005 ("Issue Date") under which the Subscriber has the right to convert the Convertible Notes during a period of three years from the Issue Date, in whole or part in the principal amount into shares of the Company at the initial conversion price of HK$0.58175 (subject to adjustment in certain circumstances including rights issue). The Company has option to redeem, in whole or any part, the Convertible Notes at 100% of their principal amount plus interest accrued to but excluding the date of redemption after 24 months from the Issue Date. Unless previously redeemed, converted or purchased and cancelled, the Company shall repay such principal moneys outstanding under the Convertible Notes to the holder thereof together with all interest accrued thereon up to and including on the third anniversary of the Issue Date.

As TCL Corp. is the ultimate controlling shareholder of the Company, the Subscription Agreement constituted a connected transaction for the Company under the Listing Rules. Given the amount involved thereunder exceeds 2.5% of the applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules), the Subscription Agreement was subject to the requirements of reporting, announcement and independent shareholders' approval which was duly obtained by the Company at the extraordinary general meeting of its shareholders held on 22 June 2005. The Subscription Agreement also constituted a discloseable transaction for the Company under the Listing Rules. For further details of the Subscription Agreement, please refer to the circular of the Company dated 6 June 2005.

Of the total funds raised by the issue of the Convertible Notes, approximately HK$40 million was applied by the Company to settle the balance of the expenses incurred for the listing of the shares of the Company on the Main Board of the Stock Exchange in September 2004, HK$120 million was applied as working capital for Huizhou TCL Mobile (an indirect wholly-owned subsidiary of the Company) and the remaining was for general operating usage of the Group.

On 22 December 2005, the Company proposed to issue 2,968,875,000 new shares ("Offer Shares") at a price of HK$0.2 per Offer Share by way of Open Offer, on the basis of one Offer Share for every one share of the Company held on 6 February 2006. The open offer was completed on 27 February 2006 with a result of application of 4,768,225,969 Offer Shares, representing approximately 160.6% of the total number of Offer Shares. Out of the entire net proceeds from the Open Offer of HK$587.8 million, HK$200 million will be used for the R&D activities of the Group in advanced technology of the industry including 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 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 receivables as a result of the growth of the Group's business. For further details of the Open Offer, please refer to the prospectus of the Company dated 7 February 2006.

Of the total equity funds raised by the Open Offer, the Group has utilized approximately HK$150 million to settle the payables incurred in its ordinary business, about HK$237.8 million in the general working capital and about HK$30 million in research and development activities of advanced technology of the industry.

As a result of the completion of the Open Offer, the conversion price of the Convertible Notes had been adjusted from HK$0.58175 per share to HK$0.528324 per share in accordance with the relevant terms of Convertible Notes and accordingly the Convertible Notes will now entitle the holder thereof to convert them into up to 350,353,192 shares (instead of 318,177,911 shares as previously envisaged). Further, the exercise price and the number of the share options ("Share Options") granted under the share option scheme adopted by the Company on 13 September 2004 ("Share Option Scheme") and outstanding as at 27 February 2006 had also been adjusted in accordance with the terms of the Share Option Scheme and the relevant requirements of the Listing Rules as follows:

	BEFORE THE OPEN OFFER		AFTER THE OPEN OFFER	
Grant Date	Exercise price per share	No. of outstanding Share Options	Adjusted exercise price per share	Adjusted no. of outstanding Share Options
31 May 2005	HK$0.415	120,570,000	HK$0.3804	131,531,019
16 January 2006	HK$0.230	162,180,000	HK$0.2108	176,923,784
Total:		282,750,000		308,454,803

For further details of the adjustments, please refer to the Company's announcement dated 28 February 2006.

Proforma Consolidated Net Asset Value Statement

The following is a summary of the adjusted unaudited proforma consolidated net asset value of the Group after the completion of the Open Offer which has a material impact on the net assets value of the Group:

	HK$ million
Audited consolidated net asset value of the Group as at 31 December 2005	40.9
Add: Issue of 2,968,875,000 ordinary shares at the price of HK$0.2 per share	593.8
Less:Open Offer estimated expenses	(6.0)
Adjusted unaudited pro-forma consolidated net asset value of the Group	628.7

Inventory

The Group's finished goods turnover period was 24 days. Over 80% of the inventories have an aging period of less than 3 months.

Revenue Breakdown

(HK$ million)	2005		2004*		Change
Overseas market	**3,736**	**66%**	1,995	27%	+87.3%
PRC market	**1,928**	**34%**	5,315	73%	–63.7%
Total	**5,664**	**100%**	7,310	100%	–22.5%

**T&A was established in September 2004 and only 4 months of its sales figures were included in 2004*

Liquidity and Financial Resources

The Group maintained a liquidity position throughout the year. The cash and cash equivalents balances as at 31 December 2005 amounted to HK$406 million, of which 12% was in Hong Kong dollars, 24% in Renminbi, 37% in US dollars, 27% in Euros and in other currencies for the operations. The Group had total assets of HK$4,084 million and a gearing ratio of 19% at the end of the year calculated based on the Group's total interest-bearing borrowings and total assets.

Pledged Bank Deposits

Discounted notes of HK$118,156,000 (2004: nil) which were secured by the pledge of deposits amounted to HK$35,447,000 (2004:nil). Deposit balance of HK$18,870,000 (2004:nil) represented the retention guarantee for factored trade receivable.

Capital Commitment and Contingent Liabilities

As at 31 December 2005, the Group had capital commitments of

(i) approximately HK$18,111,000 contracted, but not provided for (2004: HK$23,845,000); and

(ii) US$1.5 million contracted for an investment at the balance sheet date.

As at 31 December 2005, the group had no contingent liabilities in respect of discounted notes and endorsed notes with recourse not provided for in the financial statements (2004: HK$48,657,000).

One of the Group's subsidiaries, T&A Mobile Phones Suzhou Limited ("T&A Suzhou") 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 judgment in favor of T&A Suzhou with no damages or expenses to be borne by them. 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 opinion from the Group's PRC lawyer, it is very likely for the appellate court to render judgment in favor of T&A Suzhou again. Accordingly, no provision was made for such litigation in the financial statements.

Foreign Exchange Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, USD and RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

Employees and Remuneration Policy

The Group had 5,172 employees as at 31 December 2005. Total staff costs for the year were approximately HK$700 million. The remuneration policy was reviewed in line with current legislation, market conditions and both individual and company performance.