



Tune in **FASHION**



One of the winning factors in the mobile handset industry is fashionable and trendy design. TCL Communication has a team of talented designers to come up with fresh, innovative designs that tune in with the latest trend. Our ultimate goal is to be a trend setter in the mobile communication industry.

TCL



Chairman's Statement

The Company's business was back to growing track with the implementation of initiatives for business restructuring, corporate and product repositioning and strengthening of research and development capabilities.



Dear Shareholders,

In 2006, competition of the global handset market aggravated, resulting in a difficult operating environment. In view of the growing demand of the global handset market in 2006, major handset manufacturers thereby introduced a number of innovative products and launched series of marketing and promotion activities to capture higher market share, which further intensified market competition. However, the Group consolidated its market position by proactively implementing different product and market positioning strategies, creating a solid foundation for future development. Currently, the Company is one of the most reputable second tier handset manufacturers in the global arena, focusing on becoming a major partner for handset network operators.

During the year under review, the Company's business was back to growing track with the implementation of initiatives for business restructuring,

corporate and product repositioning and strengthening of research and development capabilities. Business operations in overseas markets achieved breakeven in December 2005 and recorded a turnaround since the first quarter of 2006, maintaining stable profit performance. As for the PRC market, the Company also achieved breakeven in the third quarter of 2006 as scheduled. In 2006 second quarter, the Company has successfully attained an overall turnaround, which is in line with management's expectation.

COMPLETED RESTRUCTURING & FORMULATED UNIQUE CORPORATE POSITIONING

Upon completion of business and corporate restructuring in 2005 and 2006, the Company, originally a Chinese enterprise, has transformed into a global enterprise and become one of the major handset manufacturers in the global market. In 2006, the Company further established its corporate positioning as a major second tier handset manufacturer in

Chairman's Statement

the world by concentrating on solidifying its collaboration with handset network operators.

ESTABLISHED PRECISE PRODUCT POSITIONING

By leveraging on the worldwide network, comprehensive after-sales services and a number of patents, including the patent of core GSM and GPRS technologies, obtained through the acquisition of Alcatel handset business, the Company promoted "Alcatel" brand and "TCL" brand in overseas as well as domestic markets, while enhancing its competitive edges in production and sales network. The Company will continue to implement its product strategy of "Chinese value @ World quality" and gradually develop entry level, mid-to-high end handsets with multiple functions, so as to increase its market share in each segment with highly competitive products.

The Company has devised precise market positioning for its handset products. While "Alcatel" brand products are primarily different models of entry level handsets, which outpace the market with sound basic functions, euphonious audio effects and refined display, "TCL" brand products focus on mid-to-high end handsets with

extraordinary functions and innovative design.

STRENGTHENED PRODUCT RESEARCH & DEVELOPMENT AND TECHNOLOGY LEVEL

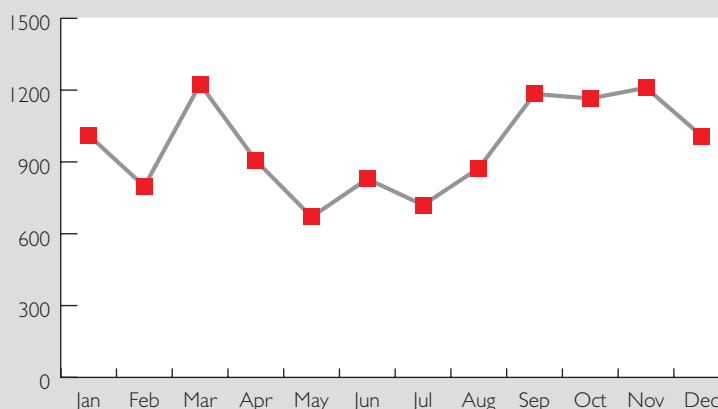
In order to enhance the technology level of its products, the Company joined hands with renowned and leading organizations in the handset industry and established a joint venture, JRDC, with an aim of gathering research and development professionals and raising funds for strengthening the cost effectiveness of product research and development. In addition, the Company increased its shareholding in JRDC for twice in 2006. In June, the Company introduced two strategic investors into JRDC and further strengthened its capital position by raising an amount of US\$46 million. Upon the introduction of strategic

investors, the shareholding structure of JRDC was more well-defined, which enabled the Company to continue to emphasize on the development of products with creative design and improvement on overall operation efficiency.

After a year of joint operation, the Company considered JRDC's business model of outsourcing product development not conforming to overall economic benefits. To ensure it is well-positioned for coping with keen competition of the global market, the Company proposed the acquisition of the remaining 61.46% interest in JRDC at a consideration of HK\$307 million in April 2007. Upon completion of the acquisition, JRDC will become a wholly-owned subsidiary of the Company, enabling complete control and management of its development



MONTHLY UNIT SHIPMENT IN 2006



Chairman's Statement



progress, which will significantly enhance the Company's capabilities and efficiency in the research and development of mobile technology.

EXPLORED NEW MARKETS

In 2006, each of the Company's overseas markets recorded satisfactory business development, especially the Emerging Market. To capture the growth potential and market opportunities of the Emerging Market, the Company successfully tapped into Brazil and India market in 2006 and established a local business department. Foreseeing the immense development and growth potential in Brazil and India, the Company is dedicated to expediting business development in these lucrative markets.

During the year, the Company allocated resources in exploring CDMA products and technology, paving a new direction in future product development. Furthermore, the Company collaborated with renowned brands to launch co-branded products

and improved product attractiveness. In 2006, these new initiatives were still at the early stage of development and did not bring forth significant contribution to the Company.

FUTURE PROSPECTS

In 2006, the Company carried out various measures and proactively consolidated its business and corporate structure, formulated precise business positioning and product strategies as well as enhancing product research and development and technology level. During 2006, the Company successfully achieved an overall turnaround and was transformed into a global second tier handset manufacturer. Looking ahead, we will embark on a new stage of business development and will endeavor to provide our clients with competitive handset products of innovative design, meticulous quality at reasonable price. In addition, the Company will concentrate on brand revamping and enhancement of brand reputation to be a leading second tier handset manufacturer within a short period of time. Entering into a new era in 2007, we will strive for integrating "TCL" brand and improving product quality to offer our clients with quality handset products.

By leveraging on the abovementioned competitive edges, the Company aims to become an "accountable,

respectable and sustainable global wireless product supplier", while targeting to develop into a first tier handset manufacturer.

In the long run, we will continue to embrace our corporate culture with perseverance to propel business development. Meanwhile, we are committed to maintaining outstanding corporate governance, enhancing corporate transparency and facilitating communication with investors and the public. We will also cultivate a holistic atmosphere and cooperate with the management and all staff members for future business growth.

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express our sincere gratitude to our shareholders, customers, suppliers and business partners for their faithful support. Also, I would like to thank our staff members for their valuable contribution and exertions over the past years.

LI Dongsheng

Chairman

27 April 2007