

CHAIRMAN'S STATEMENT



Mr. Li Dong Sheng, Tomson
Chairman

“Benefiting the community; Creating value for customers; Generating opportunities for employees.”

Despite the slow recovery of the world economy in 2002 and the ongoing global market uncertainty, TCL International Holdings Limited, through evolution and innovation, has managed to successfully expand even further into overseas markets in the first year following China's accession to World Trade Organization (“WTO”). Sales of the Group's key products grew much faster than the previous year, with substantially increased earnings. Having further enhanced our competitiveness, we have strengthened our position as a leading consumer electronics industry player in the PRC market during the year under review.

Results Overview

The Group's turnover increased 27% to HK\$12.2 billion in 2002. Profit attributable to shareholders amounted to HK\$570 million, representing a surge of 95% over the previous year. Earnings per share increased 91% to HK22.32 cents (2001: HK11.7 cents). The increase in sales turnover was attributable to the rapid growth of TV and PC businesses, while growth in net profit was mainly due to the fact that the Group twice increased its equity stake in Huizhou TCL Mobile Communication Co. Ltd. (“TCL Mobile”) during the year, greatly increasing profit contribution from this fast growing business. In line with our forecast made at the beginning of 2002, the Group's business recovered and returned on track to growth.

In view of the Group's satisfactory business performance, the Board of Directors recommended the payment of a final dividend of HK7 cents per share. As the Group did not distribute an interim dividend in 2002, total dividend for the year amounted to HK7 cents per share (2001: HK3 cents).

China's TV market started reviving during the year under review. Following the opt-out by some of the industry's players, the market returned to rational competition, and the severe price wars of the previous years were allayed. Market attention then shifted to the development of high-end products as well as the expansion into overseas markets. Seizing these market opportunities, the sales of televisions increased 28% to 8.1 million sets in 2002, ranking TCL as the best selling television brand in the PRC.

In view of the intense competition faced by the white goods business, additional resources will be needed to assure our competitive advantages in the marketplace. As such, to prevent the diversification of resource allocations and to mitigate against any negative effect on the development of the core businesses, the Group sold its white goods business to its parent company during the year under review.

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With regard to the PC business, the overall PC industry environment improved but market demand was still lukewarm. Following our guiding principle, "understanding the needs of customers and satisfying them with the most efficient means", we accurately positioned our products, continuously deepened and widened our sales channels, improved product quality and service standards, imposed stringent controls on operations, and improved our management efficiencies. We also effectively expanded our market share in the educational PC sector, and managed to emerge ahead of the difficult times. The sales of PCs reached 376,000 sets in 2002, representing a substantial growth of 87%, which surpassed the preset sales target. More importantly, our PC business started making profit contributions to the Group.

Although the world economy seemed to be at a virtual standstill in 2002, the Group achieved remarkable results in our overseas business. In implementing a series of management restructuring adjustments for our overseas business, we have built an all-rounded market and customer-oriented Platform Supporting System, providing sales, procurement, and production management facilities that further enhanced our operational efficiencies. The Group's overseas business, therefore, achieved a turnover of HK\$1.2 billion, representing a year-on-year growth of over 80%.

During the year under review, the Group took the strategic step to acquire certain major assets of Schneider Electronics AG ("Schneider") in Germany for entry into the European markets. In addition, the Group made favourable progress in establishing cooperation with some international consumer electronic players in early 2003. These measures are expected to accelerate the development of the Group's overseas business.

The Group's mobile communication business achieved highly satisfactory growth in 2002. Sales of handsets reached 6.24 million sets, representing exponential year-on-year growth of four times. In outpacing its competitors, the Group enjoys a 10% market share, elevating itself above fierce market competition. The Group also exercised sound cost controls, and stock levels remained healthy.

In 2002, the Group twice increased its stake in TCL Mobile, growing from 20% in the beginning of 2002, to 40.8% at present and widened its earnings base. As TCL Mobile achieved a net profit of HK\$1.2 billion during the year under review, the mobile phone business has emerged as one of the Group's major profit contributors.

While the Group recorded remarkable growth in 2002, it has continued to seek further growth opportunities. The target is to

become a highly competitive international corporation in the global marketplace. China's entry into the WTO, precipitated rapid changes in both the operating environment and market competition. TCL will remain at the forefront by maintaining our vigilance, demonstrating our innovation, optimising every component of our operations, and improving our overall competitiveness to capitalize on emerging market opportunities.

Future Outlook

The global outlook for 2003 remains uncertain. But despite the sluggish global economy, we continue to see strong economic development in the PRC. Foreign investors have also showed increased confidence in China's economy following its entry into the WTO, as evidenced by the increasing number of investors shifting their production bases to China. These factors have brought China's exports into a new era. Household consumer electronic manufacturers in China are no longer confining themselves to the domestic market, but are also actively pursuing the enormous global market.

Looking at the macro operating environment for the domestic consumer electronics industry, the pace and in-flow of foreign investment is accelerating. At the same time, Chinese enterprises are taking increasing

steps to reach out to overseas markets. Changes are being seen in the operational modes of foreign investment in China — the domestic market is in the process of consolidation, and the cooperation between foreign companies and domestic companies are set to complement one another. The Group will strengthen its strategic planning and execution abilities, actively leverage opportunities arising from the international division of labour in various industries and the restructuring of the value-chain to fully exploit our inherent advantages and potential. In fostering cooperation with international manufacturers, the Group will keep an eye on new opportunities, consolidate internal and external affiliated resources, correctly align the business structure, further broaden business scope and augment corporate strengths. The Group will also focus on strengthening our ability to minimise risk. With a philosophy to develop business actively and manage risks cautiously, the Group is on the road to healthy growth and continuous development.

The Group anticipates that TV sales in the PRC will experience a steady rate of growth this year. As we expect the demand for high-end products to rise even further, we will increase our investment in R&D to enhance our long-term growth. Catering to customer needs, we will also launch new products continually. The Group has every confidence that in terms of operation efficiency, our TV business will continue to stay well ahead of other players.

Regarding overseas business, through proper planning and strategic OEM cooperation established last year, we believe that our overseas business will continue to grow rapidly. We will step up our overseas marketing, and put equal emphasis on the TCL brand as well as on OEM businesses.

Looking at the information technology business, the Group believes that it will improve through the consolidation of the product range, by focusing resources on those businesses with clear profit models, and by concentrating on the evident strengths of TCL's advantageous hardware business. The Group plans to accelerate the expansion of the commercial PC market by devoting efforts to the development of education and government information technology projects in order to establish competitive advantages in the industry.

As of the beginning of 2003, the Group holds 40.8% interests of the mobile phone business. Though this business has established an extremely strong base on the back of a remarkable rate of growth over the past few years, this pace of growth, while expected to continue, may dip slightly. With intensifying market competition, the profit margin will be lowered, while the frequency of product roll-outs will be increased. Manufacturers, therefore, have to keep a finger on the market pulse to keep up with the market.

In realizing the importance of investment in the research and development of mobile phones, the Group has strengthened cooperation with international players and started the manufacture of mobile handsets with chipset-based technology. Also, the Group has shortened the lead-time required for product development, and therefore launched new products to the market in a timely manner, and thus enjoyed a relatively high margin. We are confident that TCL will strengthen and maintain its leadership position and earnings capabilities, in spite of the fierce market competition. While the Group will continue to explore the domestic mobile phone market, it is also planning ahead for overseas expansion. We expect the overseas sales of mobile handsets to be a key growth driver in the years ahead.

The Group is dedicated to optimising shareholder value. We are confident that our long-term shareholders will enjoy an appreciation of their investments with improved returns.

Last but not least, I would like to extend my gratitude to all senior management members, staff, shareholders, auditors, and all friends of the Group.

Li Dong Sheng, Tomson
Chairman

18 March, 2003

MOBILE COMMUNICATION



Consumer Electronics
Communications
Computers

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The growth of the mobile phone business was extremely encouraging in 2002. A total of 6.24 million handsets were sold during the year, representing fourfold growth, truly exponential. According to the latest CCID monthly report, **TCL handset achieved a market share of 13%** and an average of 10% market share for the whole year, outperforming other players amid keen competition.