



CHAIRMAN'S STATEMENT

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CHAIRMAN'S STATEMENT

Year 2003 was an important one in the history of the Group — business in China experienced stable growth, and overseas expansion reaped fruitful results. With the efforts of staff at all levels, the Group continued to be the best selling TV manufacturer in China. Our handset business was ranked among the top 2 players in China. Overseas exports also grew rapidly, setting new records in sales and creating a new driving force. With

internationalization in full gear, the Group and Thomson S.A., a well-known French corporation entered into a Memorandum of Understanding (“MOU”) for a partnership in the TV business. This is the first time a Chinese enterprise has emerged as a global leader in terms of the scale of operations in its core business. This partnership carries significant implications for the long-term development of the Group.

FINANCIAL PERFORMANCE

Despite the adverse impact of the SARS outbreak which led to business slowdowns during the first half of 2003, the Group recorded rapid sales rebound in the second half of the year. Performance in 2003 as a whole was satisfactory. The consolidated turnover for the year ended 31st December 2003 amounted to HK\$15,149 million, representing an increase of 24% as compared to the previous year. Effective cost control measures also enabled us to maintain our gross margin at 16% (2002: 18%). Profit attributable to shareholders during the year under review rose to HK\$642 million, an increase of 12%. Basic earnings per share also went up to HK24.2 cents (2002: HK22.5 cents).



Mr LI Dong Sheng, Tomson
Chairman

The TV business continued to be the main profit contributor, accounting for 76% of the Group's net profit. This was followed by the handset business which accounted for 35% of the net profit.

In view of the satisfactory business performance of the Group in 2003, the Board of Directors has proposed a final dividend of HK10 cents (2002: HK7 cents).



CHAIRMAN'S STATEMENT

BUSINESS REVIEW

The TV market has long been one of the most competitive markets in China. With the increasing consumption power in the domestic market, the battlefield has shifted to the high-end TV market. The Group, committed to product research and development, strengthened the sale of high-end models to cater to market needs and improved its product mix in 2003. This allowed the Group to maintain a satisfactory gross margin amid fierce market competition. Domestic TV sales in 2003 reached 7.83 million sets, capturing a market share of 19%, making TCL the best selling TV brand in China.

The handset market is ever-changing. New product designs and functions continue to emerge everyday. Both domestic and foreign players joined the competition, launching new models in the fastest possible manner. This exerted pressure on product prices as a whole. The Group, as one of the pioneers in China handset market, established market leadership with its distinctive product design and stayed ahead of its rivals. In spite of the intensifying market competition, the Group recorded satisfactory sales of 9.82 million units, taking up a share of 11% in the China market. However, the price decline offset the impact of the growth in unit sales. The profit contribution from this business, as a result, decreased from HK\$353 million in 2002 to HK\$319 million this year.

The China PC market continued to maintain double-digit growth in 2003. However, the lack of technological breakthroughs in CPUs and related parts led to a continuing decline in PC prices. The Group's PC business, with its focus on meeting the needs of two main groups of users, namely home users and commercial users, witnessed a surge of 40%. Unit sales in 2003 reached 527,000 sets, narrowing the gap between TCL and other major players in the market. Statistics from CCID indicated that TCL ranked No. 5 in the overall PC market with a share of 4% in 4Q of 2003.

Our overseas business recorded encouraging growth in 2003, reaping the fruits of our strategic planning in 2002. The Group adopted a dual strategy with branded and OEM products running side-by-side. Branded products are mainly for the Southeast Asian markets. After a few years of business expansion, the Group's TCL branded products have established market leadership in countries such as Vietnam and the Philippines. In addition, the Group set up a branch office in Russia during the year under review to drive the sale of branded products there. Sales in other markets which include the U.S., South Africa, the Middle East, etc., are mainly for OEM business which also recorded strong performances. Total TV exports during the year under review amounted to 3.83 million sets, representing a surge of 195% as compared to the previous year.

The Group acquired assets from Schneider in September 2002. Subsequent corporate restructuring was completed during the year. At the IFA Expo held in Berlin last August, the Group launched a series of products under the Schneider brand, including LCD TVs. These products were highly praised by the industry. With Germany as one of its key focuses, the Group will tap opportunities in the European market with products under the Schneider brand.

The 3rd November 2003 marked an important milestone in the Group's internationalization plan. On that day, the Group entered into an MOU with Thomson to combine the TV businesses and related assets of the two companies and formed a joint-venture company named TCL-Thomson Electronics ("TCL-Thomson").

TCL-Thomson will combine and consolidate the resources of the two groups, helping us to realize our vision of becoming a major player in the global TV marketplace. The strengths of the Group and Thomson match and complement each other perfectly. The competitive advantages of TCL's fast growing TV business, coupled with the unparalleled R&D capabilities of Thomson, will enhance the product mix, increase our market share in the high-end market, raise the efficiency of resource allocation, and strengthen the Group's competitiveness globally. Upon completion of the merger, TCL-Thomson will be the leader in the

global TV market. Our brand image will be raised to an international level. This will not only enhance our competitive edge in the domestic market, but also lower our cost of overseas expansion. The resulting joint business network will cover the world's three major markets - Asia, Europe and North America, taking TCL's business to a new era of growth.

FUTURE OUTLOOK

Following the successful A-Share listing of TCL Corporation, the parent company of the Group, on the Shenzhen Stock Exchange, the blueprint for the business development and the division of businesses among the subsidiaries of TCL Corporation will be clearer. Looking to the future, the Group will focus on multimedia electronics products and information technology products comprising mainly PCs.

The globalization of the world economy means that Chinese corporations' challenge is not only to serve the needs of Chinese consumers, but also those of the global market. The partnership of the Group and Thomson will create a new leader that combines the R&D, manufacture and sales network on a global platform, which will strengthen the Group's operational efficiencies, enhance resources usage and further improve cost advantages.

The Group will adopt a multi-brand strategy, using the different brand names of TCL and Thomson to tap the different markets. The TCL brand will continue to be the major brand in Asia and emerging markets, while RCA will be seen in North America and the Thomson brand in Europe.

The key opportunity and challenge that lies ahead for the Group is the management team's ability to integrate the management cultures of East and West, combining the strengths of TCL and Thomson to take the TV and multimedia business on the journey to rapid growth, creating value for shareholders.

Along with our objective to focus on multimedia electronics products and information technology products mainly PCs, the Group will restructure its 40.8% owned handset business. This will enable the Group to consolidate resources on businesses that generate better returns for shareholders.

The Group's PC business will continue to focus on the home PC and commercial PC markets, while at the same time, developing products such as Home AV Centres that carry high added values and offer additional functions through external supplementary parts to create distinctive competitive advantages.

In conclusion, we will keep our spirit of innovation and improve ourselves constantly as we march into the global market at full speed.

Lastly, on behalf of the board of directors, I would like to extend my gratitude to the management and all staff members at TCL for their efforts and hard work. I would also like to thank our shareholders, auditors and business partners for their continued support.

LI Dong Sheng

Chairman

2nd March 2004



MOBILE COMMUNICATIONS

In 2003, the sales of mobile phones experienced remarkable growth. A total of 9.82 million handsets were sold, representing an increase of 57%. According to the statistics from the MII, TCL handsets achieved an encouraging market share of 11% in China during the year.



57%

