



MANAGEMENT DISCUSSION AND ANALYSIS

“TCL will play an increasingly important role in the domestic and international marketplace.”

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group laid down two main objectives in 2003: (1) commitment to developing the multimedia electronic business, (2) determination to drive the globalization of our business expansion. The rationale behind these two objectives is our vision to become one of the top five global TV manufacturers. During the year under review, the Group maintained its leading market position in China with its highly recognized TCL brand, extensive sales and distribution network covering all the regions and flexible, cost-effective manufacturing bases. The overseas business also grew rapidly at the same time. Having planted the seeds of further development in 2003, our corporate goal ahead is to become a world-class enterprise with high competitiveness on the global marketplace.

TV BUSINESS

Market competition in China in 2003 was even more ferocious than in 2002. The TV market saw further prices decline. Manufacturers battled on, competing in the high-end products market. An increasing number of new market players also led to a change in the operating environment. Despite the difficult operating environment, the Group continued to maintain its market leadership in the industry.

Domestic sales of TVs in 2003 amounted to 7.83 million sets, a growth of 16%. According to statistics issued by MII for the first 10 months of 2003, TCL accounted for a 19% share in the domestic TV market, similar to that in the previous year. As such, TCL continued to be the best selling TV brand in China. A report by China Economy Consultancy stated that TCL's rear projection TV accounted for

11% market share in 2003, ranking it the fifth largest TV brands in that product segment among all players, or the second among domestic brands.

In 2003, the Group lowered the proportion of low-end TV models in its sales mix as planned, and strengthened the sales of high-end models. This successfully enhanced the product mix. Despite keen market competition, the proportion of high-end products and “pure flat TVs” increased in the sales mix, helped to keep average selling prices stable as compared to that of the previous year. The Group's product development capabilities were substantially enhanced in 2003, and new models were rolled out at a higher pace. The sales of new products increased significantly, up from 31% in the previous year to 46% during the year under review. A total of 28 new high-



end models were launched, comprising 5 Plasma TV models, 9 LCD TV models and 14 rear projection TV models. An additional 57 regular CRT TV models, mostly featuring digital high definition and progressive scanning, were also introduced.

On the R&D front, the Group achieved a major breakthrough in the development and application of driving circuitry and control technology for Plasma TVs in China. Recognized at the State level, these technologies are regarded as internationally advanced and domestically leading. The Group has pioneered in the development of such technologies which are core to the production of Plasma TVs. In 2003, our efforts were focused on the research and development of rear projection TVs and LCD TV series. Among these models, the Group's 26 Series LCD TVs stayed ahead of its

rivals, being well-received by the market ever since they were launched. We were delighted to see this product series under the spotlight at the "Digital Window" and at the IFA Expo held in Germany. A substantial number of purchase orders for these products were also received by Schneider in Germany.

The Group will expand the high-end product range in 2004. A wide array of new products such as Plasma TVs, LCD TVs, and rear projection TVs will be introduced to the market to elevate

our brand image and broaden the room for future development. The launch of upgraded rear projection and CRT TVs (with digital high definition features) will also boost our profitability. Over 50 new models will be rolled out in 2004, among which, over 50% would be high-end models.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group signed a MOU with Thomson Group in November 2003 for the establishment of a joint venture company called TCL-Thomson Electronics to jointly develop, manufacture and distribute TVs and related products by integrating their respective strengths in the TV industry. The two parties have signed a Combination Agreement in January 2004 during the State visit of President Hu Jintao to France. This agreement provides the basis for the formation of TCL-Thomson Electronics which is expected to be fully operational by 1 July 2004. Through this initiative, TCL made a significant leap towards globalization, strengthening its presence in China and abroad.

OVERSEAS BUSINESS

2003 marked an important step in the Group's overseas business development. The TV and AV businesses extended their coverage to virtually every corner of the world. Following the business restructuring in the previous year, the overseas business improved significantly in terms of market understanding and operational efficiencies, resulting in rapid growth during the year under review. TV exports in 2003 amounted to 3.83 million sets, and AV products to 563,000 sets, representing a growth of 195% and 68% respectively.

The SARS outbreak in early 2003 did not have a major impact on the development of our overseas markets. The TCL brand continued to see stable

development in the Southeast Asian market, highlighting consumer confidence in the TCL brand. The Group recorded an impressive performance with significant market shares in emerging markets such as Bangladesh and Sri Lanka. The Group's business in North America was mainly on OEM basis through cooperation with international brands. In Europe, the Group mainly used the Schneider brand to tap this market. The Schneider business, acquired in the fourth quarter of 2002, was still in the investment stage in 2003. Schneider products displayed at the IFA exhibition in Berlin last August, especially its LCD TVs, were highly praised. The Schneider business started to record satisfactory sales in the fourth quarter which is also a peak season for product sales.

The Group's overseas OEM business extends its reach to the Far East, across the Pacific, Latin America as well as the Middle East and African regions. Our market share in the Middle East, Africa and Australia was encouraging.

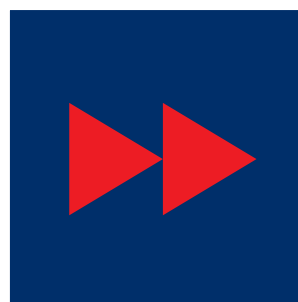
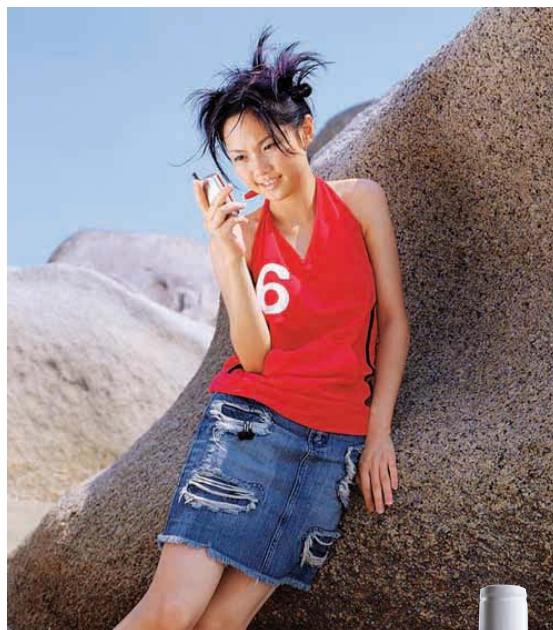
Looking to 2004, and building on an established base with several years of overseas market development experience, the Group will continue to undertake reforms and innovations to further elevate brand awareness of TCL, both in Asia and around the world. We anticipate that sales in emerging markets such as Bangladesh and Sri Lanka will increase steadily. In

view of the preliminary ruling with regard to anti-dumping, products exported to the US will primarily be confined to unaffected products. Additionally, the Group will consider various operational alternatives to continue exploring the potential in the US market. Regardless of the final ruling, the Group anticipates limited impact from this issue. Exports to North America in 2004 are expected to see stable growth, while in Europe, the Schneider brand will continue to enhance its competitive edge and capture the market with its cost advantages. We have every confidence that the overseas business will continue to post encouraging results in 2004.

HANDSET BUSINESS

The handset market experienced fierce competition in 2003. Market threats increased along with frequent turmoil in the industry.

The enormous market and high margins of the handset industry have encouraged manufacturers to expand their scale of production and output capacity. The frenzied competition, however, drove down average selling prices, leading to a drop in sales revenues despite the increase in sales volumes. In addition, "Xiaolintong" (小靈通) also ate up a portion of market share from the conventional handset market.



“Group will step up efforts to roll out new colour display models to enhance profitability and margins.”



Despite the keen competition, the Group's handset business remained at the forefront of the industry. Statistics from MII showed that the Group captured an 11% share in China handset market in the first 11 months of 2003, ranking as the second best selling handset brand among all players, which is higher than the 9% market share in 2002.

The Group sold 9.82 million handsets in 2003, representing a growth of 57%. Ferocious competition coupled with the Group's initiative to expand product lines led to a decline in average product prices. The overall profitability of this business also experienced a decline from 2002.

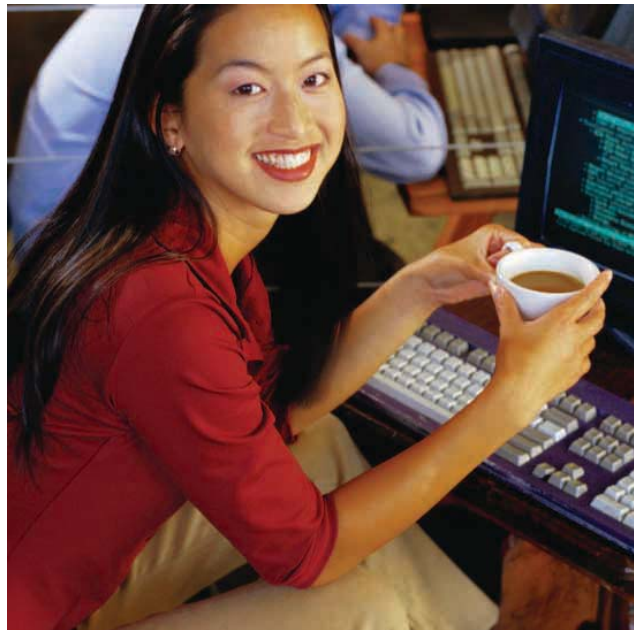
SARS impacted on the Group's handset business for a short while. Third quarter results showed signs of

the SARS impact, but sales soon rebounded to normal in the fourth quarter.

The Group rolled out a total of 30 new models in 2003, including 10 colour display models and 1 PDA model. Market response to these new products has been satisfactory with the colour display models particularly well received. The proportion of colour display models in the total sales mix increased substantially from 2% in the

first quarter to 35% in the fourth quarter of 2003.

In 2004, the Group will focus on the development and promotion of three major brands. The “神典” brand will establish our presence in the high-end masculine handset market, “MOBO 蒙寶歐” in the feminine market, and TCL mainly in the mass consumer market. The Group will step up efforts to roll out new colour display models to enhance profitability and margins. Currently a majority of the Group's resources are allocated to the manufacture of GSM handsets. But in future, the proportion of CDMA handsets in the total product mix will increase. To accelerate new product rollouts, the Group will be devoting additional resources to R&D, strategically increasing the number of R&D staff from 500 to 800.



“In 2004, the Group will continue to impose stringent cost control to maintain margins.”



MANAGEMENT DISCUSSION AND ANALYSIS

PC BUSINESS

The SARS epidemic, which broke out last spring and reached its peak towards the end of April 2003, did not impact the IT market much. However, the addition of new market players resulted in more competition and price pressure.

Under this unfavourable operating backdrop in 2003, the sales of TCL PCs still posted record highs in its history, amounting to 527,000 units, an increase of 40% over the previous year, well exceeding the overall industry growth rate.

The sales of Home PCs accounted for 48% of total units sold and increased 22% to 251,000, which demonstrated higher than industry growth rate .

The sales of commercial PCs which accounted for 52% of the total PC units sold, surged 75% to 276,000 units.

According to a report by CCID, TCL PCs are ranked fifth in terms of overall sales in the PC market with a market share of 4% in 4Q 2003.

With respect to Home PCs, we further increased our investment in distribution channels and enhanced channel capacities. The number of distributor points-of-sale increased to 2,875, a surge of 65% year-on-year. In increasing the number of shops, the Group also placed emphasis on raising the quality of the distributors and their management capabilities. Reasonable reward mechanisms were in place to effectively motivate our distributors.

The sales surge in commercial PCs is attributable to the breakthrough in the education sector, government purchasing and the increased computerization of SMEs. The education sector, in particular, recorded strong growth of 300% in

terms of unit sales. At the same time, our performance in various government tenders was also favorable.

The Group rolled out three home PC series, “Rui Li 6”, “Rui Xiang T” and “Rui Xiang A”, as well as a commercial PC series “精鼎 A” in 2003. We also introduced a range of TCL wireless AV products which not only connect IT products to home electronic appliances but also allow users to view photos stored in their PCs, download MP3, view DVDs, etc. These products are also equipped with storage functions, which are well received by the market .

In 2004, the Group will continue to impose stringent cost control to maintain margins. We will also segment product lines, expand our high-end market and increase our market share.



recording functions in November 2003. The rollout of this new product was 3-6 months ahead of its rivals. This is the first time our DVD player has truly surpassed other competitors on the technology front, marking a milestone in its history.

The Group believes that the restructuring in 2003 will set a solid base for the development of AV business in 2004. Through a series of marketing activities that focus on high-end products, the Group will establish a foothold in the high-end market and build a unique brand image. At the same time, we will also increase the competitiveness of our products, strengthen the sales terminal, speed up the consolidation and improvement of the professional sales channels.

IT BUSINESS

In order to further streamline our IT business, the Group disposed of its interests in TCL Network Equipment (Shenzhen) Limited to TCL Communication Equipment at a consideration of HK\$12.5 million in September 2003. The IT business showed an improvement in 2003, with substantial reduction in loss.

The Group strategically adjusted the focus of its distance learning business in 2003, moving from offering network education services for the China Central Radio Television University (CCRTU), to a self-developed open distance-learning educational platform for the community as a part of the public services. In addition, the Group also established a solid business network for expansion through direct online recruitment on the Internet together with a nationwide branch network for educational institutions and distance learning.

As the job market in China becomes increasingly competitive, the demand and acceptance for flexible network distance education are emerging. The market offers ample room for expansion. Looking to 2004, overseas-funded or overseas distance education service providers are expected to create a new wave of competition. The key differential to success or failure remains service quality. The Group will consolidate resources to strengthen areas where synergies can be generated, elevating its market position, actively exploring new growth opportunities, enhancing its service quality, to increase the overall competitiveness and profitability of this business.

AV BUSINESS

The AV business underwent restructuring in 2003.

The Group commenced a channel restructuring in March 2003 to implement a "professional sales agent model". As a result, sales were affected to some extent. Also, as the Group gradually cleared its inventory at the channel, the performance of this business was below expectation.

In cooperation with Philips, the Group launched the first DVD player with

SALES OVERVIEW

For the Year ended 31st December 2003

	Sales Volume ('000)		Change
	2003	2002	
TVs — Domestic sales	7,826	6,753	+16%
— Overseas exports	3,828	1,299	+195%
Mobile Handsets	9,817	6,236	+57%
PCs	527	376	+40%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

OVERALL PERFORMANCE

Benefiting from China's continuous economic growth, together with the Group's pro-active business development strategy in overseas markets which proved to be a stunning success, the Group was able to sustain good growth in its financial results. The consolidated turnover for the year ended 31 December 2003 amounted to HK\$15,149 million, representing an increase of 24% as compared to the previous year. 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).

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.

TURNOVER AND GROSS MARGIN

Turnover in every business division experienced satisfactory growth and have all surpassed their original sales target set at the beginning of the year. Even more impressive performance was recorded in the Group's overseas business. Despite annoyance on anti-dumping case in the US, overseas sales surged enormously. The proportion of overseas sales to total sales increased from 10% in 2002 to 20% in 2003.

Overall gross margin declined slightly, from 18% to 16%, which was largely attributed to the margin erosion of TV business.

Ferocious market competition in China which led to continuous decline in selling prices, together with the increase in component cost in 2003 put pressure on gross margin of the Group's domestic TV sales.

In addition, as a result of the higher proportion of overseas TV sales which normally commands a lower gross margin, overall consolidated gross margin for TV was diluted from 21% to 18%.

EXPENSES

With the Group's efficient cost control policies, coupled with the benefits of economies of scale, expenses were controlled at a satisfactory level. Selling & distribution expenses and administration expenses constituted 9% and 4% of consolidated turnover, respectively (2002: 11% and 4%, respectively).

PERFORMANCE INDICATORS OF TCL INTERNATIONAL

	2003	2002
Gross Margin	16%	18%
Net Margin	4%	5%
Return on Equity	16%	16%
Current Ratio	1.5	1.5
Interest Cover	21	45
Debt/Equity Ratio	0.18	0.21
Inventory Turnover (days)	72	84
Trade Receivable Turnover (days)	36	29

In 2002, a total of HK\$400 million term loan was raised and HK\$350 million convertible notes were issued as consideration for the acquisition of additional interest in TCL Mobile. As a result, financial expenses increased substantially. Interest cover is still maintained at a healthy level of 21 times.

TAX

During the year, the Group changed its accounting policy to comply with the SSAP12 (Revised) "Income tax" issued by the HKSA, which is effective for accounting period commencing on or after 1 January 2003. The principal impacts of the revision are that the opening retained profits at 1 January 2003 and 1 January 2002 have been increased by approximately HK\$8.0 million and HK\$4.5 million respectively and the tax charge for the current and prior year decreased by approximately HK\$0.9 million and HK\$3.5 million respectively.

Effective tax rate increased from 13% in 2002 to 16% in 2003. It is mainly

due to the reduction of the number of loss-making subsidiaries and the increase of Hong Kong profits tax rate.

WORKING CAPITAL

One of the Group's competitive strengths is its efficient utilization of working capital. Inventory turnover decreased from 84 days in 2002 to 72 days in 2003. Over 90% of the inventory was of age less than 6 months. As a result of the outstanding overseas performance, the proportion of overseas sales increased. These sales were mainly made with large strategic OEM customers with credit terms from 60 days to 180 days. As a result, receivables turnover increased from 29 days in 2002 to 36 days in 2003. We do not foresee any recovery problems on these receivables as most of the overseas receivables were either in the form of bills or covered by credit insurance or advance deposits.

JOINTLY CONTROLLED ENTITIES

More than 90% of the Group's share of results of its jointly-controlled entities

was derived from Huizhou TCL Mobile Communication Co., Ltd and its subsidiaries ("TCL Mobile Group"), a group mainly engaged in the manufacture and the sales of mobile phones.

The handset market experienced fierce competition in the year under review.

Most of the increase in revenue resulting from substantial growth in sales quantity was offset by the decrease in average selling prices. Sales turnover increased by a modest 15%. Gross margin shrunk from 27% in 2002 to 20% in 2003. Operational expenses in 2003 were higher than that of 2002, reflecting higher advertising expenses. Net profit shared by the Group decreased from HK\$353 million last year to HK\$319 million in 2003. Together with a higher goodwill amortization expense in 2003, the proportion of net contribution from the Mobile business decreased from 50% in 2002 to 35% in 2003.

TURNOVER			
(HK\$ million)	2003	2002	Change
TV — Domestic	9,722	8,336	+17%
— Overseas	2,700	1,058	+155%
PC	1,776	1,389	+28%

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT ACQUISITIONS AND DISPOSALS

The 3rd of November 2003 marked an important milestone in the Group's internationalization plans. On that day, the Group entered into a MOU with Thomson to combine the TV businesses and related assets of the two companies and form a joint-venture company named TCL-Thomson Electronics ("TCL-Thomson"). TCL-Thomson will be held as to 67% and 33% by the Group and Thomson respectively.

TCL-Thomson will combine and consolidate the resources of the two groups. It is estimated that the combined net asset value of the TCL-Thomson will be in excess of Euro 450 million (approximately HK\$4.41 billion) and it is the Directors' belief that TCL-Thomson will become a major global

company with long term competitiveness in the businesses of TV R&D, manufacturing, distribution and sales. The strengths of the Group and Thomson match and complement each other. 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 allocations, and strengthen the Group's competitiveness globally. The partnership will not only enhance our competitive edge in the domestic market and improve our international corporate image, 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 the Group's business to new growth era.

Further details of the joint venture are set out in the Company's announcements dated 3 November 2003 and 30 January 2004.

LIQUIDITY AND FINANCIAL RESOURCES

The Group consistently maintained a strong liquidity position throughout the year. Through its centralized treasury function, the Group was able to make efficient allocation of its financial resources and reduce any unnecessary financial expenses. The cash and bank balances as at the year end amounted to HK\$1,075 million, of which 38% was maintained in Hong Kong Dollars, 11% in US Dollars, 48% in Renminbi and 3% was held in other currencies for the overseas operations. The Group's gearing ratio at the year end was 0.18 which is calculated based on the Group's total interest-bearing borrowings at approximately HK\$743

PERFORMANCE INDICATORS OF TCL MOBILE GROUP

	2003	2002
Gross Margin	20%	27%
Net Margin	9%	15%
Return on Equity	39%	75%
Current Ratio	1.8	1.5
Interest Cover	81	76
Debt/Equity Ratio	0.01	0.04
Inventory Turnover (days)	55	56
Trade Receivable Turnover (days)	9	3

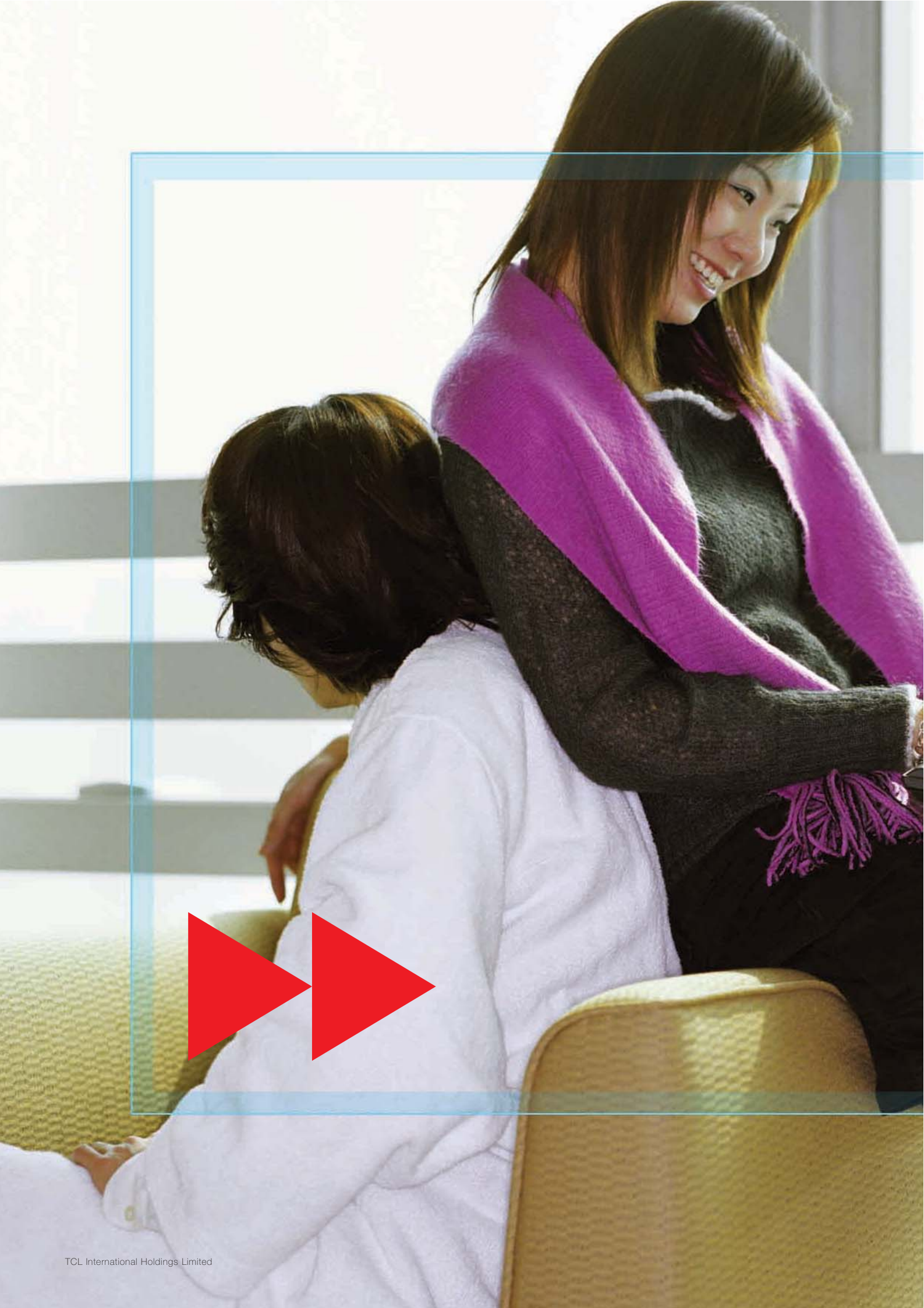
million and the shareholders' funds of approximately HK\$4,120 million.

There was no material change in available credit facilities when compared with 2002 and there was no asset held under finance lease at the year end.

Convertible notes were subject to fixed interest rate at 3% per annum. During the year, a total amount of HK\$3 million convertible notes were exercised and converted into 1,173,708 shares of the Company at an exercise price of HK\$2.556 per share.

FOREIGN EXCHANGE EXPOSURE

Since most business transactions conducted by the Group and payments made to suppliers are made in either Hong Kong Dollars, US Dollars or Renminbi, use of financial instruments for hedging purposes is considered unnecessary.





COMPUTERS

The sales of TCL PCs reached new highs, ascending to 527,000 units for the year, representing a rise of 40%. Sales surged substantially among commercial PCs, especially in the education sector.



40%