

Chairman's Statement



2004 was a meaningful year in the development history of the Group. The Group took a critical step towards its international business expansion. TTE, the TCL-Thomson joint venture, commenced operations during the year, enabling the Group to become the largest TV manufacturer in the world. In addition, the Company became the first Chinese enterprise to collaborate with a world-class corporation to establish global market leadership.

The Group completed its business restructuring in 2004 and focused on developing its multimedia business. In September 2004, the Group divested its 40.8% interest in TCL Communication, the flagship mobile handset business, which was separately listed on the Hong Kong Stock Exchange. This has established an independent operation and capital market platform for the mobile handset business. To precisely reflect its line of business, the Company changed its name to TCL Multimedia Technology Holdings Limited. With the completion of the business restructuring, the Group's corporate governance standard and shareholding structure were further enhanced and in compliance with international standards.

Undeniably, the Group still has a long way to go for international business development. Amidst the backdrop of global business consolidation, overall synergies have yet to be fully realized, which inevitably have imposed short-term pressure on the operations and business performance of the Group. By leveraging on its experience in domestic and overseas markets, the Group endeavours to overcome the greatest of future challenges to capture market potential and realize synergies rapidly to, ultimately, become a competitive world-class enterprise.

Financial Performance

The consolidated turnover for the year ended 31 December 2004 amounted to HK\$25.6 billion, representing an increase of 69% as compared to the previous year. Gross margin was approximately 17% (2003: 16%). Profit attributable to shareholders during the year under review was HK\$317 million, a drop of 51%. Basic earnings per share also decreased to 11.57 HK cents (2003: 24.21 HK cents). The declining performance was mainly attributable to the substantial decrease of the contribution from mobile handset business and a loss of HK\$62 million brought forth by TTE's operation, which affected the Group's overall profitability. However, with the realization of certain synergies, the loss from TTE's operation was narrowed.

The Board of Directors believes the profit decline was only a short-term phenomenon. The Group proactively implements various measures to further enhance the benefits of its greater economies of scale in procurement, research and development, production and other aspects. It is expected that overall synergies will be realized over time.



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LI Dong Sheng
Chairman



The Board of Directors proposes the payment of a final dividend of 4 HK cents. Together with the interim dividend of 4 HK cents per share, total cash dividend payment for the year amounted to 8 HK cents per share, representing a payout ratio of 70%.

Business Review

TV Business

With the establishment of TTE, the Group was divided into five profit centres based on geographic region and business nature, namely the PRC market, the European market, the North American market, Emerging Markets and Strategic OEM business, forming a global business network. The Group captured different markets by capitalizing on its multi-brand strategy. TV brands under the Group's TV business include "TCL", "Rowa", "Thomson", "RCA" and "Schneider", each of which was well-recognized in its respective market.

Despite intense competition in the global market of consumer electronics, the Group continued to record remarkable turnover growth. For the year ended 31 December 2004, total TV sales reached almost 17 million sets, representing a significant increase of 43%. The encouraging growth in TV sales was mainly attributable to overseas TV sales generated by TTE. Domestic TV sales and overseas TV sales amounted to 8.88 million sets and 7.84 million sets, representing increases of 13% and 105% respectively.

The PRC remained as the major income source for the Group's TV business. To cater to market demand, the Group adopted a dual-brand strategy, selling "TCL" and "Rowa" branded TVs in the PRC. The "TCL" brand is renowned for

its innovative product ideas and distinguished product design. A series of mid to high-end "TCL" brand TV models were launched, targeting the respective markets. The "Rowa" brand, on the other hand, is targeted towards the second-tier and rural markets. According to the statistics provided by the Ministry of Information Industry ("MII") and the Company data, the market share of "TCL" and "Rowa" branded TVs increased to 20%. The Group proudly maintained its market leadership.

For Emerging Markets, the Group was mainly engaged in the sales of "TCL" branded TVs and the operation of its OEM business, which achieved impressive performance during the year. By leveraging on the Group's competitive edge in its production technology and production cost, its Strategic OEM business also attained encouraging results. The Board of Directors expects that the Emerging Markets and Strategic OEM businesses will become two of the Group's major growth drivers in the future.

The Group mainly sells Thomson and Schneider brand TVs in the European market while selling RCA brand TVs in the North American market. During the year, the performance of the two markets was in line with the Group's expectations. Meanwhile, the Group focused on enhancing its operational efficiency to explore competitive edges in procurement and production costs, so as to strengthen its market competitiveness.

As TTE operated for only five months in the year under review, relevant synergies are yet to be fully realized, affecting the Group's financial performance in the TV business.

PC Business

The PC market in the PRC experienced severe price wars during the second half of 2004, with domestic manufacturers continuing to reduce the prices of PCs with LCD monitors. The Group's PC business maintained sustainable growth despite the intensified competition. Commercial and home PCs, as well as notebook computers recorded stable growth. In 2004, PC sales reached 620,000 sets, and TCL was ranked No. 5 in the overall desktop PC market in the PRC with a share of 4%.

The Group further enhanced its product structure during the year under review. By introducing products with high gross profit margins and selling some high-end products on the foundation of the mid to low-end product segment, the Group effectively improved its product profitability. The Group also strengthened regional sales operations and management with product-driven strategies, which successfully increased sales volume and profit contribution.

Audio-Visual Business

The AV business is one of the indispensable parts of the Group's multimedia electronic business. During the year, the Group launched a number of high definition DVD and portable DVD player models, and the attractive prices of these products established a solid foundation for future growth in sales. The Group mainly developed its OEM business in the overseas markets. To stay abreast of market changes, the Group also launched various new products for the export markets. These products received overwhelming market response and are expected to become a major revenue source of the Group's AV business.

Mobile Handset Business

The Group divested its 40.8% interest in TCL Communication by way of distribution in species which has been listed on the Hong Kong Stock Exchange in September 2004. This arrangement allowed the Group and TCL communication to focus on their respective core businesses.

Future Outlook

2005 will be another year of challenges and difficulties for the Group, especially in business consolidation and development. The Group endeavours to fortify and expand its domestic business while significantly enhancing its profitability overseas. The Group will reinforce its marketing efforts and expand its business in a more proactive way, such as by way of increasing brand promotion in overseas markets, such as India, Thailand, Mexico, Australia and South Africa.

Looking ahead, super large, ultra-thin, high definition and intelligent TVs with 3C convergence functions will continue to propel TV market development. Combining the robust research and development capabilities of TCL and Thomson, the Group is poised to continue to lead the market. TCL will continue to outshine its peers with new breakthroughs in three aspects, namely digital high-definition, quality 3C convergence functions and prominent audio systems.

The Group has gradually implemented programmes for consolidating and developing TTE's business. It has adopted a global procurement programme for raw material sourcing and purchasing. Notable results have

been achieved. As for the European and North American markets, the two profit centres where the toughest competition are seen, the Group kicked off restructuring plans last year. Nevertheless, internationalization is always complex, and the integration between TCL and Thomson is no exception. The Group will cautiously seek measures to effectively improve the performance of the newly acquired operations. Given that the cost control measures over TTE's business in Europe and the North America take time to effect, the net loss position of TTE's business injected by Thomson remains difficult to turnaround in the near term. The Board of Directors anticipates that TTE will continue to record a loss in the first quarter of 2005.

By leveraging on our competitive edge in product research and development, supply chain management as well as sales and marketing, the Board of Directors believes that the Group will in the long run create remarkable value for shareholders. The Group is confident that synergies will be realized gradually and be more significant in 2005.

TCL has grown strong amidst keen competition, with our staff members fully embracing our motto of "dedication, loyalty, unity and innovation". TCL emerged from being a small organization to one of a respectable scale, from a purely domestic company to one that accesses the globe. Even when faced with severe price wars within the industry, TCL managed to maintain its leading competitive edge and profitability. In the years to come, TCL will continue to embrace our corporate mission of "creating value for



Mr. Li Dong Sheng was named Asia's Businessman of the Year in 2004 by *Fortune* magazine.

customers, providing opportunities for employees and making contributions to shareholders and society", and is committed to becoming a competitive global enterprise.

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 dedication and contribution. I would also like to thank our clients, suppliers and shareholders for their continuous support.

Li Dong Sheng

Chairman

16 April 2005

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