

## Chairman's Statement

**Our long-term mission is to become a first-tier global handset player. The Group will accelerate the pace of product launch to enhance its profitability.**

The overall operating environment of the PRC handset industry in 2004 was worse than everyone could expect. The Group resolutely made great progress towards internationalization amidst various challenges with cooperation with the renowned French handset provider, Alcatel, to form a joint venture, T&A, enabling the Group's business to expand abroad, and evolve from a PRC enterprise to a multinational company.

In addition, TCL Corporation, the Group's parent company, underwent corporate restructuring last year to streamline its business. As a result, the Group was successfully listed on the Main Board of HKSE by way of introduction on 27 September 2004. This move strengthened the Group's corporate governance system and shareholding structure. Not only did it offer the Group a stronger capital platform, it also enhanced the Group's reputation and expedited its internationalization progress.

However, the synergies from the newly established T&A are yet to be generated, and consequently it has had an adverse impact on the Group's operations and business performance. In addition, following some years of rapid development, the PRC handset industry became sluggish in 2004, coupled with the Group's slow pace of product rollout, resulted in unsatisfactory performance in 2004.

In spite of the ferocious competition in the market, the Group proactively improved its business strategies to raise its operational efficiencies in the year under review. Furthermore, dedicated staff strived to maintain the Group's competitive edge under such difficult market environment. According to the statistic of Ministry of Information Industry ("MII"), the Group

successfully retained position as one of the market leaders ranked top 5 among other players in the PRC handset market in 2004 in terms of market share.

### RESULTS OVERVIEW

For the year ended 31 December 2004, the Group recorded a consolidated turnover of HK\$7.31 billion (2003 : HK\$9.02 billion), representing a decline of 19% as compared to the same period of previous year. Gross margin declined to 14%, as compared to 21% in the same period last year. Net loss attributable to shareholders amounted to HK\$224 million, as compared to a net profit of HK\$784 million in the same period last year. Basic loss per share was HK7.9 cents (2003 earnings per share: HK27.7 cents).

The board of directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: nil).

### BUSINESS REVIEW

The PRC handset market experienced rapid growth in the past few years. As such, both large and small handset manufacturers expanded their production capacities with an aim to capture a larger market share. Nevertheless, the pace of the PRC's market growth slowed down in 2004, leading to an oversupply of handsets in the market and as a result, causing a decrease in average selling price. Furthermore, overseas handset manufacturers were eager to capture market share in the PRC by triggering fierce competition in product functions and pricing. The operating environment in the PRC handset market as a whole was simply difficult.





## Chairman's Statement



The market challenges were not confined to the PRC market only. Competition in the global handset market was as intense as in the PRC. Along with the advancement of new technologies, world leading handset giants leveraged on their edge in production innovation and functionality and launched a number of new models with unrivalled functions, and at the same time, triggered price reductions as marketing means to conquer the market by their internationalized brands.

In response to the vigorous competition, the Group devised strategies actively. In order to maintain a reasonable profit margin, the Group did not engage in significant price reductions for certain new products. In addition, sales were also impacted by the delays in new product launch. Sales of TCL brand handsets therefore declined to 6.7 million units in the PRC. Through the Group's dedicated efforts in 2004, although TCL brand handset market share in the PRC slipped to 6%, the Group managed to maintain its top 5 position in the PRC market.

To further broaden its earnings base, TCL Mobile actively expanded sales of TCL brand handsets to overseas markets during the year under review. The Group successfully expanded its business to Southeast Asia, South Asia and Russia. Overseas sales reached 848,000 units, representing over 200% year-on-year growth.

Following the establishment and commencement of T&A's operations in September 2004, the Group expanded its business to over 50 countries globally. For

the four months ended 31 December 2004, T&A sold 2.5 million units of Alcatel brand handsets worldwide, and posted a loss of HK\$258 million. The Group is working on restructuring measures in order to improve the profitability of T&A.

### FUTURE OUTLOOK

Challenges and difficulties will continue to arise in 2005, particularly in the Group's business development. While solidifying and extending the Group's business in the PRC market, the Group has to enhance the profitability of its overseas operations substantially. A series of measures has been implemented by the Group to rectify the downward trend within the shortest period of time. The ultimate objective is to maintain the Group's competitive edge and profitability even under cut-throat price competition.

Furthering the Group's active R&D effort with respect to developing high-end handsets and enhancing digital technologies in 2004, with complement of Alcatel's R&D strength, the Group plans to launch a series of high-end TCL brand handsets in 2005. Innovative functions, such as over 1+ mega pixel camera, music and multimedia movie recordable, intelligent handwriting and digitalization features, are expected to raise the Group's position among its PRC peers. Moreover, the Group will launch low-range handsets to capture a larger market share, consolidating its leading position.

Furthermore, the Group plans to expand its sales channels. Going forward, the Group will not only distribute its products through its existing network operators and retail chain stores, but also adjust the sales and distribution channel in accordance with the specially designed functions to target users in different industries. Currently, the Group's new intelligent handset model specifically designed with automobile testing functions is being sold via auto industry-related sales channels. The Group will continue to devise intelligent functions catering to the specific needs of users in different industries, such as medical and security, to explore new markets for the Group.

The sales of TCL brand handsets to overseas emerging markets saw fruitful results in 2004 as a first step. The Group's OEM business also established strong

competitive advantages overseas. In 2005, strong emphasis will be placed on Southeast Asia and the Russian markets. Therefore, it is anticipated that both businesses will together form a driving force, broadening the profit base and enhancing TCL brand handset's foothold abroad.

Combining Alcatel's world class R&D technology together with TCL Mobile's innovative industrial design, the Group will launch an increasing number of innovative multimedia and digital handsets under the Alcatel brand via T&A in 2005. In addition, it is the intention for the Group to solidify the position of Alcatel brand handsets in the European market, so as to strengthen the Group's profit base and revenue streams.

In 2005, the Group will continue to expand through reforms and innovation. It will strive to achieve synergies in R&D, distribution, manufacturing, procurement of parts and components. Sharing resources in all aspects, the Group will leverage on TCL's and Alcatel's highly complementary distribution networks for cross-selling their respective brand products.

The Group is well positioned to direct all its effort to materialize the synergies in every aspect. Nevertheless, during the course of synergies realization, the operating costs of T&A remain comparatively high. Together with the difficult handset market situation around the globe, it is expected that T&A will continue

to be in a loss position in the near future which will consequently post an adverse impact on the Group's financial performance in 2005. In addition, due to the Group's slow pace of product rollout in the PRC market, the Group's overall financial performance will remain unsatisfactory from the first quarter to the first half of the year.

However, the Group will try its utmost best to improve the position with its long-term mission to become a first-tier handset player in the global market. The Group will accelerate the pace of product launch to enhance its gross margin through innovative products. The ultimate goal is to improve profitability. We are committed to the Group's long-term business development and bringing satisfactory returns to shareholders.

Finally, on behalf of the Board, I would like to express my sincerest gratitude to our staff for their hard work and dedication in the past year. I would also like to thank our shareholders, customers, suppliers, bankers and business acquaintances for their continued support.

**Li Dong Sheng**  
Chairman

16 April 2005



“To stay competitive under tremendous market challenges, the Group has extended its business coverage and broadened its revenue base.”



# A GLOBAL NETWORK

BRANCHING OUT TO  
THE WORLD

The Group and Alcatel joined hands to establish T&A, a joint-venture that officially commenced operations in September 2004. This extended the Group's network coverage to over 50 countries and initially formed an international operating platform.

