


TV

BUSINESS



YEAR 2005 IS A YEAR OF INTEGRATION, RE-ENGINEERING AND CONSOLIDATION. AFTER OVER A YEAR'S OPERATION, THE GROUP HAS ACHIEVED CONSIDERABLE PROGRESS IN MANY ASPECTS



23 MILLION

SETS TVS SOLD
IN YEAR 2005





CHAIRMAN'S STATEMENT



LI Dong Sheng
Chairman



Dear Shareholders,

Year 2005 is a year of reform and evolution. In the pursuit of excellence, the Company met different challenges on the road to internationalization, impacting its development and financial performance. During the year under review, the Company implemented a series of new measures that aims to strengthen its competitiveness in response to the difficult market condition and obstacles that arose, laying solid foundations for future development.

Since TTE, the world's largest TV enterprise, was established by the Company and Thomson in August 2004, the Company has made full commitment to combining best of the two TV leaders, with the ultimate goal of uplifting the profitability of the TTE. The Company thereby underwent business reorganization, adjusted operational management model, strengthened

THE COMPANY UNDERWENT BUSINESS REORGANISATION, ADJUSTED OPERATIONAL MANAGEMENT MODEL, STRENGTHENED SHAREHOLDING STRUCTURE, AND ENHANCED CORPORATE GOVERNANCE PRACTICES

shareholding structure, and enhanced corporate governance practices. With all these efforts paid, we are glad to see improvements in many aspects. Yet, the overall results for the year were a set of mixed results. While certain markets recorded good performance, some other markets performed unsatisfactorily.

ESTABLISHED THE FLAT PANEL AND THE CRT TV DIVISIONS

The global TV market witnessed the emergence of two trends - in developed markets, there is an increasingly strong demand for large display flat panel TVs that are light in weight and thin in shape, while in developing markets, the demand for high quality CRT TVs remained strong. As a global TV player serving the worldwide market, the Company established two major divisions,

namely the flat panel TV division and the CRT TV division, to centralize the deployment of resources of its global business platform and to fully capture market opportunities.

A STRENGTHENED SHAREHOLDING STRUCTURE

During the year under review, Thomson exercised its right to swap its shares in TTE for shares of TCL Multimedia and became the Company's second largest shareholder. At the same time, TTE became a wholly-owned subsidiary of the Company. This empowered the Company to have full control over the entire operation of TTE, flexibly managing resources allocation and the functions of sales, marketing and supply chain management.



NEW MANAGEMENT INSIGHTS

With a view to further strengthening its corporate governance, the Company appointed two senior management members from Thomson Group to the Board. They are Mr. CAMPBELL Alastair Kenneth Ruskin and Mr. TRUTT Didier who brought valuable international vision and new management insights to the operations of the Company. In addition, new management members were appointed to TTE to spearhead its growth. Mr. HU Qiu Sheng, executive director of the Company, was appointed executive chairman of TTE. We believe that talents with international insight and management expertise as well as profound understanding of Chinese enterprises are crucial to the success of the internationalization process. Looking into the future, we will introduce new talented staff with high caliber and sound management philosophy, to turn the Company into the best TV enterprise in the world.

BUSINESS REVIEW

During the year under review, the Company continued to achieve remarkable performance in the PRC market, with a dominant 21% share. Amongst all of its core markets, TTE's profitability was the highest in the PRC market.

The Company's business performance in the North American market improved considerably since the establishment of TTE, as the Company successfully identified the key obstacles that hindered its business performance and tackled them with specific enhancement programmes. The results were astonishing. During the year, the Company substantially reduced the production cost of its production platform in Mexico by utilizing the edges of its production facilities in the PRC. On the other hand, it also tapped the potential of this market by focusing on the products and clients with high potential. Additional resources were placed onto major clients and business development opportunities were actively sought after. The Company also strengthened its product research and development to introduce new models suitable

for the local market. The implementation of these reform measures, coupled with the realization of benefits upon business integration, the Company is pleased to see that the North American market achieved breakeven in the fourth quarter of 2005.

Prior to the establishment of TTE, Thomson Group recorded relatively stable business performance in the European market. However, unexpected changes were seen in this market in 2005, bringing results below the Company's expectation. We re-evaluated the competitive landscape and the Company's performance in the European market starting from the third quarter of 2005. McKinsey, an acclaimed management consultancy firm, was appointed to provide a series of operational analysis and improvement solutions to the Company. We implemented the corresponding measures step by step in the fourth quarter, consolidating resources in the European market and focusing on tapping into markets with enormous potential. Europe is such a huge market that spans across wide geographical areas. To reduce transportation cost, efforts were placed on adjusting its logistics system, increasing the proportion of direct shipment to reduce transshipment costs. We expect to see visible improvements in the performance of the European market in 2006.

After years of robust development, emerging markets experienced a state of downward adjustment in 2005, which was mainly because the Company placed strong emphasis on expanding market shares in the shortest possible time and neglected the importance of strengthening its operational management capabilities to match such rapid growth. The Company will adopt a more prudent development strategy to bring this business back onto a stable growth track.

During the year under review, the Company's strategic OEM business recorded satisfactory performance. Despite the slowdown in growth rate, the Company's newly developed clients are all prominent international clients. We expect to see sustainable growth in this market.



The PC business attained steady growth during the year and maintained its market share. Along with our business globalization steps, the weight of the PC business in the total sales composition decreased drastically. Targeting mainly the PRC market, the PC business did not benefit from the Group's global business platform. The Group is considering means to re-define its business strategies for PC, in a bid to bring new breakthroughs for this business.

COMPANY OUTLOOK

Looking ahead, the Company targets to attain breakeven of its business in the European and North American markets, that contribute to the Company's overall profitability. Year 2006 will be a critical year for the Company. We expect further intensified market competition, the launch of new TV models, and the rapid decline in product price will bring forth numerous challenges to TV players. The Company will strengthen its supply chain and inventory management to reduce cost. More resources will be deployed to product research and development so as to launch products that cater to the needs of customers. The Group will increase its penetration in various markets by offering a diverse range of flat panel TVs and quality CRT TVs. The Company's competitiveness will ultimately be enhanced. In addition, the Company will fortify the management of sales and marketing activities in different markets for boosting product profitability.



The Company anticipates sustainable and stable business development in the PRC market, breakeven in North America and reduction of loss in the European market in 2006. In the long term, TCL is committed to becoming the leading TV enterprise in the world.

APPRECIATION

Without our united staff members and an insightful and energetic management with extensive international market experience, the Company would not have achieved its success to date. Under their capable leadership, the Group is well-poised to improve our performance steadily. On behalf of the Group, I would like to express my sincere gratitude to all our directors and management staff for their valuable advice during the year. I would also like to thank our shareholders, suppliers, business partners and customers for their continued support to the Group as well as our dedicated staff members for their hard work and dedication.

Li Dong Sheng

Chairman

27 April 2006