



TCL International Holdings Limited



*global*

Interim Report 2002



# Corporate Information

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## BOARD OF DIRECTORS

### Chairman

Mr. Li Dong Sheng, Tomson

### Vice Chairman

Mr. Yuan Xin Cheng

### Executive Directors

Ms. Lu Zhong Li

Mr. Hu Qiu Sheng

Ms. Wu Shi Hong

Mr. Yan Yong

### Non-Executive Director

Mr. Wong Toe Yeung

### Independent Non-Executive Directors

Mr. Hon Fong Ming

Mr. Albert Thomas da Rosa, Junior

## COMPANY SECRETARY

Ms. Pang Siu Yin, Solicitor, Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd

CITIC Ka Wah Bank Ltd

The Development Bank of Singapore Ltd

Hang Seng Bank Ltd

The Hongkong and Shanghai Banking  
Corporation Ltd

Industrial and Commercial Bank of  
China (Asia) Ltd

Nanyang Commercial Bank, Ltd

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

## AUDITOR

Ernst & Young

Certified Public Accountants

15/F, Hutchison House

10 Harcourt Road

Central

Hong Kong

## PRINCIPAL REGISTRAR

Bank of Butterfield International  
(Cayman) Ltd

Butterfield House

Fort Street

P.O. Box 705, George Town

Grand Cayman

Cayman Islands

## BRANCH REGISTRAR

Tengis Limited

4/F, Hutchison House

Central

Hong Kong

## PRINCIPAL OFFICE

13th Floor

TCL Tower

8 Tai Chung Road

Tsuen Wan

New Territories

Hong Kong

## REGISTERED OFFICE

Ugland House

South Church Street

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

## INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations (China)  
Limited

Unit A, 29/F, Admiralty Centre

18 Harcourt Road

Hong Kong

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The Board of Directors of TCL International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 with comparative figures for the previous year as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
TURNOVER	2	<b>5,385,234</b>	4,529,129
Cost of sales		<b>(4,375,472)</b>	(3,780,949)
Gross profit		<b>1,009,762</b>	748,180
Other revenue and gains		<b>62,923</b>	35,688
Selling and distribution costs		<b>(601,007)</b>	(456,984)
Administrative expenses		<b>(247,490)</b>	(135,913)
Other operating expenses		<b>(33,626)</b>	(13,507)
PROFIT FROM OPERATING ACTIVITIES	2	<b>190,562</b>	177,464
Finance costs		<b>(8,002)</b>	(9,096)
Share of profits and losses of:			
Jointly-controlled entities	4	<b>122,669</b>	3,758
Associate		<b>(66)</b>	670
Amortization of goodwill on acquisition of interest in a jointly-controlled entity	4	<b>(10,923)</b>	—
Loss on deemed disposal of interest in a jointly-controlled entity	4	<b>(15,667)</b>	—

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		Unaudited Six months ended 30 June	
	Notes	2002 HK\$'000	2001 HK\$'000
PROFIT BEFORE TAX		278,573	172,796
Tax	6	(33,595)	(6,995)
PROFIT BEFORE MINORITY INTERESTS		244,978	165,801
Minority interests		8,015	(4,953)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		252,993	160,848
DIVIDEND	7	Nil	Nil
EARNINGS PER SHARE	8		
— Basic		10.03 cents	6.49 cents
— Diluted		9.77 cents	6.47 cents

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## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
	Notes		
<b>NON CURRENT ASSETS</b>			
Fixed assets		<b>814,069</b>	853,364
Goodwill		<b>289,478</b>	306,046
Interest in an associate		<b>15,028</b>	14,953
Interests in jointly-controlled entities		<b>605,003</b>	237,048
Long term investment		<b>1,682</b>	1,682
		<b>1,725,260</b>	1,413,093
<b>CURRENT ASSETS</b>			
Inventories		<b>1,877,835</b>	2,039,045
Trade and bills receivable	9	<b>934,004</b>	937,463
Other receivables		<b>377,019</b>	301,563
Pledged bank deposits		<b>72,814</b>	63,112
Cash and bank balances		<b>738,216</b>	1,021,009
		<b>3,999,888</b>	4,362,192
<b>CURRENT LIABILITIES</b>			
Trade and bills payable	10	<b>1,998,361</b>	2,151,096
Tax payable		<b>11,674</b>	20,895
Other payables and accruals		<b>530,790</b>	600,638
Interest-bearing bank borrowings	11	<b>311</b>	23,667
		<b>2,541,136</b>	2,796,296

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		<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
	Notes		
<b>NET CURRENT ASSETS</b>		<b>1,458,752</b>	1,565,896
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,184,012</b>	2,978,989
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	11	<b>6,471</b>	6,628
Deferred tax		<b>1,915</b>	1,915
		<b>8,386</b>	8,543
<b>MINORITY INTERESTS</b>		<b>28,720</b>	36,508
		<b>3,146,906</b>	2,933,938
<b>CAPITAL AND RESERVES</b>			
Issued capital	12	<b>253,551</b>	251,122
Reserves	13	<b>2,893,355</b>	2,682,816
		<b>3,146,906</b>	2,933,938

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Total equity at 1 January	2,933,938	2,566,611
Currency translation differences	13,298	(409)
Net gains not recognised in the profit and loss account	13,298	(409)
Net profit for the period	252,993	160,848
Dividend	(75,869)	(87,893)
Issue of shares	22,546	188,002
<b>Total equity at 30 June</b>	<b>3,146,906</b>	<b>2,827,159</b>

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Net cash inflow from operating activities	191,028	246,766
Net cash outflow from investing activities	(400,730)	(195,790)
Net cash outflow from financing activities	(76,836)	(202,317)
<b>Net decrease in cash and cash equivalents</b>	<b>(286,538)</b>	<b>(151,341)</b>
Cash and cash equivalents at beginning of period	1,021,009	1,000,928
Effect of foreign exchange rate changes, net	3,745	(288)
<b>Cash and cash equivalents at end of period</b>	<b>738,216</b>	<b>849,299</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	738,216	849,299



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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

### 2. Segment Information

An analysis of the Group's turnover and profit from operating activities by principal activities for the six months ended 30 June 2002 is as follows:

	Turnover		Profit from operating activities	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Continuing operations:				
Televisions	4,259,989	3,642,768	291,261	193,105
Computers related products	458,291	285,960	(7,841)	(5,710)
Other audio visual products	95,500	104,452	(15,473)	(7,936)
Others	58,960	30,217	(10,985)	(24,069)
	<b>4,872,740</b>	4,063,397	<b>256,962</b>	155,390
Discontinuing operations: (Note 3)				
White goods	512,494	465,732	(29,740)	48,278
	<b>5,385,234</b>	4,529,129	<b>227,222</b>	203,668
Less: Amortisation of goodwill			(16,568)	(8,995)
Corporate expenses			(20,092)	(17,209)
			<b>190,562</b>	177,464

More than 90% of the Group's turnover and contribution to trading results was derived from activities in the People's Republic of China mainland.

## 3. Discontinuation of White Goods Manufacturing Business

In view of the highly competitive nature of the white goods business, and the fact that the business does not fit into the Company's existing 3C strategy (convergence of consumer electronics, communication and computers) and its long term goal of becoming a leader of infotainment/multi-media device provider, the Directors consider that it is in the interest of the Company to terminate its white goods manufacturing business.

On 9 May 2002, the Company entered into an agreement with TCL Corporation (formerly Guangdong TCL Group Co., Ltd), the Company's ultimate controlling shareholder, for the disposal of its interest in a number of companies engaging in the white goods manufacturing business. The total consideration for the disposal is approximately HK\$54 million, calculated based on the net asset value of the respective interest as at 31 March 2002. It is expected that completion will take place on or before 31 December 2002. The Directors do not expect any material gain or loss arising from the transaction. Details of the transaction have been included in an announcement of the Company dated 9 May 2002.

It is the intention of the Company to terminate the remaining white goods manufacturing business other than those under disposal, in due course.

The results of the white goods division for the six months ended 30 June 2002 are as follows:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
TURNOVER	512,494	465,732
Cost of sales	(433,296)	(348,684)
Gross profit	79,198	117,048
Other revenue and gains	161	683
Selling and distribution costs	(77,139)	(61,029)
Administrative expenses	(30,559)	(8,213)
Other operating expenses	(1,401)	(211)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(29,740)	48,278
Finance costs	(6,470)	(4,221)
Share of loss of an associate	(66)	—
Share of profits and losses of jointly-controlled entities	(4,653)	(193)
PROFIT/(LOSS) BEFORE TAX	(40,929)	43,864
Tax	2,895	(657)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(38,034)	43,207
Minority interests	7,131	(5,558)
NET PROFIT/(LOSS)	(30,903)	37,649

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## 4. 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. ("TCL Mobile"), a company mainly engaged in the manufacturing and selling of mobile phones. Details of the consolidated results of TCL Mobile are as follows:

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Turnover of mobile phones	3,064,271	436,713
Net profit attributable to shareholders	420,868	51,987
Share of net profit attributable to the Group	115,116	10,397
Amortization of goodwill	(10,923)	—
Loss on deemed disposal	(15,667)	—

On 21 January 2002, the Group's interest in TCL Mobile was increased from 20% to 30% by an acquisition of an additional 10% equity interest in TCL Mobile at a consideration of approximately HK\$282.7 million. Goodwill on acquisition in the amount of HK\$238,324,000 was resulted.

On 29 May 2002, the registered capital of TCL Mobile was increased from US\$10 million to US\$29.8 million, of which US\$2.98 million was contributed by Cheerful Asset Investment Limited ("Cheerful Asset") in return for a 10% equity interest in TCL Mobile. Cheerful Asset is a company controlled by the management of TCL Mobile. The remaining amount was contributed by the existing shareholders of TCL Mobile through a capitalization of dividend from TCL Mobile. As a result of the transaction, interest in TCL Mobile held by the Group was diluted from 30% to 27% and loss on deemed disposal in the amount of HK\$15.7 million was charged to the profit and loss account.

## 5. Depreciation and Amortization

During the period, depreciation of HK\$68,250,000 (2001: HK\$41,393,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK\$27,491,000 (2001: HK\$8,995,000) was charged to the profit and loss account in respect of the Group's goodwill arising on consolidation.

## 6. Tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 7.5% to 33%.

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Group:		
Hong Kong	2,614	900
Elsewhere	21,740	5,199
	24,354	6,099
Share of tax attributable to:		
Jointly-controlled entities	9,241	896
	33,595	6,995

## 7. Dividend

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

## 8. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$252,993,000 (2001: HK\$160,848,000) and the weighted average of 2,521,147,479 (2001: 2,477,374,434) shares in issue during the period.

The calculation of diluted earnings per share is also based on the net profit from ordinary activities attributable to shareholders for the period of HK\$252,993,000 (2001: HK\$160,848,000). The weighted average number of shares used in the calculation is 2,521,147,479 (2001: 2,477,374,434) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 67,436,463 (2001: 7,817,303) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

#### 9. Trade and Bills Receivable

The majority of the Group's sales in the PRC were made on cash-on-delivery basis and on commercial bills guaranteed by banks with credit period ranging from 30 days to 90 days. For overseas sales, the Group usually requires settlement by letter of credit with tenure ranging from 90 days to 180 days. An aged analysis of the trade and bills receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Current to 90 days	660,855	744,785
91 days to 180 days	236,001	152,559
181 days to 365 days	18,458	14,619
Over 365 days	18,690	25,500
	<b>934,004</b>	937,463

#### 10. Trade and Bills Payable

The aged analysis of the trade and bills payable as at the balance sheet date, based on invoice date, is as follows:

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Current to 90 days	1,622,323	1,925,597
91 days to 180 days	309,902	199,948
181 days to 365 days	48,795	10,545
Over 365 days	17,341	15,006
	<b>1,998,361</b>	2,151,096

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## 11. Interest-bearing Bank Borrowings

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Secured	6,782	6,931
Unsecured	—	23,364
	<b>6,782</b>	30,295
Bank loans repayable:		
Within one year	311	23,667
In the second year	320	312
In the third to fifth year, inclusive	1,021	998
Beyond five years	5,130	5,318
	<b>6,782</b>	30,295
Portion classified as current liabilities	<b>(311)</b>	(23,667)
Long term portion	<b>6,471</b>	6,628

- (a) Certain of the bank loans were secured by the Group's land and buildings with a total net book value of HK\$10,419,000 (31 December 2001: HK\$10,529,000).
- (b) As at 31 December 2001, unsecured bank loans amounting to HK\$4,673,000 were guaranteed by the Company's ultimate holding company.

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## 12. Share Capital

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Authorised:		
5,000,000,000 shares of HK\$0.10 each	<b>500,000</b>	500,000
Issued and fully paid:		
2,535,514,289 (2001: 2,511,219,289) shares of HK\$0.10 each	<b>253,551</b>	251,122

A summary of the movements in the Company's share capital is as follows:

	<b>Number of shares issued</b>	<b>Paid-up nominal value HK\$'000</b>
Issued capital at 1 January 2002	2,511,219,289	251,122
Share options exercised	24,295,000	2,429
Issued capital at 30 June 2002	<b>2,535,514,289</b>	<b>253,551</b>

Details of the movements in respect of the share option schemes during the period are set out under the "Share option schemes" section on page 26.

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## 13. Reserves

	Share premium account HK\$'000	Capital reserve HK\$'000	Reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002	1,105,063	64,915	309,243	(1,166)	1,204,761	2,682,816
Currency translation differences	—	—	—	13,298	—	13,298
Net profit for the period	—	—	—	—	252,993	252,993
Dividend	—	—	—	—	(75,869)	(75,869)
Transfer from retained profits	—	—	39,321	—	(39,321)	—
Issue of shares upon exercise of share options	20,117	—	—	—	—	20,117
At 30 June 2002	1,125,180	64,915	348,564	12,132	1,342,564	2,893,355

## 14. Capital Commitments

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Contracted, but not provided for	190,084	22,720
Authorised, but not contracted for	—	229,725
	190,084	252,445



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## 14. Capital Commitments (continued)

In addition, the Group's share of capital commitments of jointly-controlled entities not included in the above is as follows:

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Contracted, but not provided for	<b>9,138</b>	16,279

## 15. Contingent Liabilities

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Bills receivable endorsed to suppliers	<b>105,534</b>	120,769
Bills discounted with recourse	<b>386,786</b>	4,673
	<b>492,320</b>	125,442

In addition, the Group's share of contingent liabilities of jointly-controlled entities not included above is as follows:

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Bills receivable endorsed to suppliers	<b>1,737</b>	49,444

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## 16. Related Party Transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Jointly-controlled entities:		
Sales of raw materials	203,977	131,783
Purchase of raw materials and finished goods	32,637	—
Sales commission income	20,416	—
Minority shareholder of a subsidiary:		
Sales of finished goods	23,983	—
Companies controlled by the ultimate holding company:		
Purchase of raw materials	160,780	138,558
Cash discounts	—	8,019
Sales commission	—	377,527
Subcontracting fees	—	28,919
Company controlled by a jointly-controlled entity:		
Purchase of raw materials	28,699	39,227

### BUSINESS REVIEW AND OUTLOOK

The Group is pleased to see steady growth in its core businesses, amongst which the Television Business and the Mobile Phone Business recorded strong increases in sales, consolidating the Group's position as the leading consumer electronics brand in the PRC. For the six months ended 30 June 2002, turnover amounted to HK\$5,385 million, an increase of 19% as compared to the corresponding period last year, while profit attributable to shareholders increased by 57% to HK\$253 million. Basic earnings per share were HK10.03 cents.

#### The Television Business

TCL is the best-selling television brand in the PRC. Building on this solid foundation, sales of TCL televisions continued to outpace competitors, reaching 3.5 million sets in the first half of 2002. Domestic sales in the PRC amounted to 3 million sets, an increase of 13% over the same period last year. The Group's market share further increased to 20%.

Market competition eased in the first half of the year as compared to the same period last year. Price reductions for televisions in general were flattened. Competition moved towards high-end products, such as PDP, LCD, LCOS rear projection TV etc. As the market leader, the Group introduced 18 new models in the first half of the year with a focus on middle to high-end models such as PDP and HiD. Not only did the launch of these products cater to market changes, but also increased the Group's competitiveness in the high-end market.

In addition to the comparatively stable television price, the reduction in component prices as well as the enhanced product mix also contributed to an increase in the gross profit margin, up from 16% last year to 21% for the first half of 2002.

Looking to the second half of the year, the Group will speed up the launch of new products. A total of 35 new models, mostly high-end designs, will be launched to strengthen high-end product portfolio. The Group will also place more efforts on marketing to seize arising opportunities and to enhance its market presence.

### Mobile Phone Business

Following the rapid development of the mobile communications market in the PRC, the Group successfully captured market opportunities. As a result, the mobile phone business recorded an outstanding performance in the first half of 2002.

The sale of TCL handsets reached 2.21 million sets in the first six months of 2002, representing a strong increase of 6 times over the same period last year. According to the CCID report on the first half of 2002, TCL, enjoying a market share of 7%, was ranked among the top five best selling handset brands in the PRC and the No. 1 best selling domestic handset brand in the PRC.

This remarkable performance was attributable to the strong sales of the “8-series” which exceeded the Group’s expectations. Its efficient costs and quality control measures also bore fruit. During the first half of the year, the Group launched 9 new models, mostly under the “8 series” and the “6 series”. Owing to the downward price adjustment of existing handset models, and as new models had not yet reached economies of scale, a slight decline in the gross profit margin was seen.

With respect to market competition, a number of handset brands, especially domestic brands, had speeded up the launch of new products and strengthened the marketing of mid- to high-end products. In response to market changes, the Group will also speed up the launch of new products and introduce 15 trendy and user-oriented new models in the second half of the year.

The Group anticipates that domestic handset manufacturers will take up more market shares from foreign brands. Domestic handset brands will therefore perform even better in the second half of the year. The Group will seek new distribution channels in addition to its own sales and distribution network to maintain its competitive edge, and its handset business is expected to post even better performances in the second half of the year.

### The PC Business

The Group is pleased to see continued improvement in the operating environment in the PC market. However, market demand was far from strong, and the overall PC pricing showed a slight downward trend. The Group sold 88,000 PCs in the first half of the year, an increase of 4% over the same period of last year. The gross profit margin remained at a level similar to that in the previous year.

TCL maintained its position in the market. It was ranked the 3rd best selling consumer desktop PC brand and the 4th best selling domestic brand in the overall PC market, enjoying a market share of 5% and 3% respectively.

Under the lukewarm market conditions TCL implemented a series of operational reforms to straighten out the chain from the supply of raw materials and manufacturing to sales and distribution. These efforts improved overall capital efficiency and operational effectiveness considerably, accelerating inventory turnover, accounts receivable cycles as well as capital and cash flows, paving the way for the Group to capture opportunities in the peak season in the third quarter.

In addition, as the Group has considerable experience in the education and government information services sectors, it is well positioned to tap opportunities in the commercial PC market. Entering the peak summer vacation season in July, the Group has seen substantial sales improvements. The PC business is expected to perform better in the second half of the year.

### The AV Business

The overall sales of AV equipments fell slightly in the first half of 2002. Among the various AV products, DVDs performed comparatively better. Following the launch of two new models in the first half of the year, the sale of DVDs continued to increase significantly. Nevertheless, the sale of VCD and SVCD products were affected by market adjustments and experienced different levels of declines. The sale of home theatres basically remained the same as last year.

Owing to keen competition, product prices continued to fall. Despite this, the rise in DVD sales volumes offset the impact. The overall gross profit margin improved when compared to the first quarter.

For the second half of the year, while consolidating the AV business, the Group will devote more resources to enhance product quality and technology applications aiming to further refine sales structures. It will also enhance the reputation of its AV products, increase its market presence and incorporate value-added functions to raise profitability.

### The Internet Business

In collaboration with leading research institutes and enterprise, such as Huazhong University of Science Technology (華中科技大學) and ACCTON, the Group developed and launched 5 new models of networking equipment products, boosting sales considerably. The market share for network card products, for instance, surged from 4.7% last year to 8.1% this year.

Benefiting from the increasing popularity of distant learning, the Group achieved satisfactory results in offering distant education. The number of students studying on the Digital Campus Virtual Reality Education Platform jointly run by the Group and the China Central Radio and Television University (CCRTU) (中央電大) reached 160,000. The business network covered primary and secondary cities throughout the nation.

In the second half of 2002, the Group will reallocate its resources in the IT business and abandon projects that are not related to its core businesses. As for the network equipment market, the Group will actively promote mid-end products which focus on education, community and government administration. It will also strengthen its channel-based regional sales platform and utilize its existing resources to achieve better investment returns in the Western China region.

### The White Goods Business

The performance of different white goods varied in the first half of 2002. The sale of air-conditioners amounted to 180,000 sets, representing an increase of over 83% when compared to the same period last year. As for refrigerators and washing machines, 97,000 sets and 136,000 sets were sold respectively, representing an increase of 5% and a decline of 19% respectively.

As the air-conditioner business division further refined its sales network during the period, its sales capabilities showed effective improvement. However, as refrigerators and washing machines were not price competitive, sales declines were seen. The gross profit posted a relatively significant decrease due to the provisions made for inventory left over from last year.

In May 2002, the Group announced the disposal of white good business to its parent company. Procedures related to transaction are now in progress and the transaction is expected to be completed by the end of this year.

### Overseas Business

The Group's overseas business took a major step in the first half of 2002. The Group started to explore the potential in new markets such as Russia and the Middle East. It also strengthened its sales in South East Asia, which were all sold under TCL brand. As a result, the sale of televisions overseas reached 512,000 sets, representing a surge of 41% over the same period of last year.

TCL achieved satisfactory results in brand building in Vietnam, the Philippines and Hong Kong. Sales in these areas increased by over 30%. It is now ranked as the 3rd best selling television brand in Vietnam with a market share of 15%.

In the second half of 2002, TCL will fortify its research and development and marketing of high-end products in overseas markets. The Group will adopt different strategies for different markets according to the respective market capacities, brand awareness and entry barriers. The Group's aim is to further strengthen the sales channels speed up market response and increase customer satisfaction. Moving into the conventional peak season in the second half of the year, the Group anticipates stronger demand for televisions as compared to the first half of the year. At the same time, demand for high-end products will also increase gradually.

## DIRECTORS' INTERESTS IN SHARES

At 30 June 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

*Interests in the Company:*

Name of director	Nature of interest	Shares of the Company
		Number of shares held
Li Dong Sheng, Tomson	Personal	20,006,000
Lu Zhong Li	Personal	500,000
Hu Qiu Sheng	Personal	500,000

*Interests in associated corporation:*

Name of associated corporation	Name of director	Nature of interest	Percentage of interest in associated corporation
TCL Corporation (formerly Guangdong TCL Group Co., Ltd and formerly TCL Holdings Corporation Ltd.)	Li Dong Sheng, Tomson	Personal	9.08%
	Yuan Xin Cheng	Personal	1.56%
	Lu Zhong Li	Personal	1.48%
	Hu Qiu Sheng	Personal	1.19%
	Wu Shi Hong	Personal	0.63%

*Note:* TCL Corporation held 1,424,605,289 shares in the Company through its wholly-owned subsidiary, T.C.L. Industries Holdings (H.K.) Ltd. TCL Corporation is an associated corporation by virtue of its being a controlling shareholder of the Company.



## Other Information

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### DIRECTORS' INTERESTS IN SHARES (continued)

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporation, as defined in the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share option schemes" below, at no time during the period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were such rights exercised by them; or was the Company, its subsidiaries, its holding companies or its fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEMES

Details of the outstanding share options granted by the Company are as follows:

Name or category of participant	Number of share options				At 30 June 2002	Date of grant	Exercise price HK\$	Exercise period	Price of Company's shares at date of exercise# HK\$
	At 1 January 2002	Exercised during the period	Lapsed during the period	At 30 June 2002					
<b>Directors</b>									
Li Dong Sheng,	12,000,000	—	—	12,000,000	3 December 1999	2.236	Note 1		
Tomson	1,500,000	(150,000)	—	1,350,000	2 May 2001	0.928	Note 2	1.470	
	13,500,000	(150,000)	—	13,350,000					
Yuan Xin	6,000,000	—	—	6,000,000	3 December 1999	2.236	Note 1		
Cheng	1,200,000	(600,000)	—	600,000	2 May 2001	0.928	Note 2	1.440	
	7,200,000	(600,000)	—	6,600,000					
Lu Zhong Li	5,000,000	—	—	5,000,000	3 December 1999	2.236	Note 1		
	1,000,000	(500,000)	—	500,000	2 May 2001	0.928	Note 2	1.470	
	10,000,000	—	—	10,000,000	28 May 2001	1.042	Note 3		
	16,000,000	(500,000)	—	15,500,000					
Hu Qiu Sheng	5,000,000	—	—	5,000,000	3 December 1999	2.236	Note 1		
	1,000,000	(500,000)	—	500,000	2 May 2001	0.928	Note 2	2.350	
	6,000,000	(500,000)	—	5,500,000					
Wu Shi Hong	3,000,000	—	—	3,000,000	3 December 1999	2.236	Note 1		
	1,000,000	(500,000)	—	500,000	2 May 2001	0.928	Note 2	2.325	
	4,000,000	(500,000)	—	3,500,000					

Name or category of participant	Number of share options				At 30 June 2002	Date of grant	Exercise price HK\$	Exercise period	Price of Company's shares at date of exercise <sup>#</sup> HK\$
	At 1 January 2002	Exercised during the period	Lapsed during the period	At 30 June 2002					
<b>Directors</b>									
<b>(continued)</b>									
Yan Yong	300,000	—	—	300,000	1 June 2000	2.508	Note 4		
	400,000	(200,000)	—	200,000	2 May 2001	0.928	Note 2	2.300	
	700,000	(200,000)	—	500,000					
Wong Toe Yeung	3,000,000	—	—	3,000,000	3 December 1999	2.236	Note 1		
	300,000	(150,000)	—	150,000	2 May 2001	0.928	Note 2	2.025	
	3,300,000	(150,000)	—	3,150,000					
<b>Other employees</b>	30,000	—	—	30,000	1 June 2000	2.508	Note 4		
	51,924,000	(21,695,000)	(56,000)	30,173,000	2 May 2001	0.928	Note 2	1.873	
	10,000,000	—	—	10,000,000	28 May 2001	1.042	Note 3		
	21,000,000	—	—	21,000,000	30 August 2001	0.794	Note 3		
	53,235,000	—	(25,000)	53,210,000	29 October 2001	0.994	Note 5		
	136,189,000	(21,695,000)	(81,000)	114,413,000					
	186,889,000	(24,295,000)	(81,000)	162,513,000					

Note 1 The exercise period for such share options commences from the expiry of three years from the respective commencement date of services of each grantee with the Group, such dates range from 3 December 1999 to 1 December 2002, and ends on 14 May 2003.

Note 2 Half of such share options are exercisable after the expiry of 9 months from the date of grant, and the remaining half exercisable after the expiry of 18 months from the date of grant, up to 14 May 2003.

Note 3 Such options are exercisable at any time from the date of grant to 14 May 2003

Note 4 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third exercisable after the expiry of 18 months from the date of grant, and the remaining one-third exercisable after the expiry of 27 months from the date of grant, up to 14 May 2003.

Note 5 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third exercisable after the expiry of 18 months from the date of grant, and the remaining one-third exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

# The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

**SUBSTANTIAL SHAREHOLDERS**

At 30 June 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage</b>
T.C.L. Industries Holdings (H.K.) Ltd.	1,424,605,289	56.19
TCL Corporation	1,424,605,289	56.19

*Note:* T.C.L. Industries Holdings (H.K.) Ltd. is a wholly-owned subsidiary of TCL Corporation. Therefore, the shares in which T.C.L. Industries Holdings (H.K.) Ltd. is shown to be interested are also the shares in which TCL Corporation are interested.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

**CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited during the period.

On behalf of the Board  
**LI Dong Sheng, Tomson**  
*Chairman*

Hong Kong, 21 August 2002