TCL International Holdings Limited

Interim Report 2004

FAST FORWARD TO THE GLOBE

FAST FORWARD
TO THE GLOBE

Contents

Corporate Information

BOARD OF DIRECTORS

Chairman
Mr. Li Dong Sheng, Tomson

Executive Directors
Ms. Lu Zhong Li
Mr. Hu Qiu Sheng
Mr. Zhao Zhong Yao
Mr. Yan Yong
Mr. Suen Hay Wai

Independent Non-Executive Directors
Mr. Hon Fong Ming
Mr. Albert Thomas da Rosa, Junior

COMPANY SECRETARY

Ms. Pang Siu Yin, Solicitor, Hong Kong

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PRINCIPAL REGISTRAR

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Interim Results

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 2004 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**6 months ended 30 June 2004 (unaudited) HK$'000**	6 months ended 30 June 2003 (unaudited) HK$'000	**3 months ended 30 June 2004 (unaudited) HK$'000**	3 months ended 30 June 2003 (unaudited) HK$'000
TURNOVER	2	**7,844,614**	6,247,682	**3,819,039**	2,770,741
Cost of sales		**(6,434,288)**	(5,244,230)	**(3,193,543)**	(2,323,878)
Gross profit		**1,410,326**	1,003,452	**625,496**	446,863
Other revenue and gains		**70,185**	59,633	**47,050**	39,690
Selling and distribution costs		**(782,305)**	(592,386)	**(369,526)**	(268,434)
Administrative expenses		**(316,278)**	(266,319)	**(157,231)**	(127,551)
Other operating expenses		**(25,635)**	(30,175)	**(15,915)**	(18,575)
Loss on disposal of a subsidiary		**(2,075)**	—	**(2,075)**	—
PROFIT FROM OPERATING ACTIVITIES	2	**354,218**	174,205	**127,799**	71,993
Finance costs		**(7,936)**	(17,399)	**(4,601)**	(9,157)
Share of profits and losses of jointly-controlled entities	3	**141,537**	194,816	**48,270**	82,409
Amortisation of goodwill on acquisition of jointly-controlled entities		**(39,216)**	(39,216)	**(19,608)**	(19,608)
PROFIT BEFORE TAX		**448,603**	312,406	**151,860**	125,637
Tax	5	**(68,442)**	(36,577)	**(29,183)**	(19,880)
PROFIT BEFORE MINORITY INTERESTS		**380,161**	275,829	**122,677**	105,757
Minority interests		**3,114**	(10,460)	**7,620**	(3,324)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**383,275**	265,369	**130,297**	102,433
DIVIDENDS	6				
Interim		**109,511**	Nil		
EARNINGS PER SHARE	7				
— Basic		**14.08 cents**	10.05 cents		
— Diluted		**13.56 cents**	9.70 cents		

Interim Results

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		**895,147**	868,919
Trademarks		**25,320**	27,744
Goodwill		**231,511**	244,539
Interests in jointly-controlled entities		**1,632,202**	1,653,375
Long term investments		**1,682**	1,682
Prepayment for the acquisition of a subsidiary		**—**	47,815
Deferred tax assets		**10,278**	8,855
		2,796,140	2,852,929
CURRENT ASSETS			
Inventories		**3,114,811**	2,441,500
Trade and bills receivables	8	**1,783,434**	1,941,137
Other receivables		**664,225**	359,569
Pledged bank deposits		**—**	5,199
Cash and bank balances		**667,390**	1,069,562
		6,229,860	5,816,967
CURRENT LIABILITIES			
Trade and bills payables	9	**3,098,189**	2,966,659
Tax payable		**66,715**	53,543
Other payables and accruals		**709,310**	684,235
Bank borrowings	10	**190,957**	113,929
		4,065,171	3,818,366
NET CURRENT ASSETS		**2,164,689**	1,998,601
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,960,829**	4,851,530
NON-CURRENT LIABILITIES			
Bank borrowings	10	**235,294**	282,353
Convertible notes		**256,000**	347,000
Deferred tax liabilities		**1,847**	1,847
		493,141	631,200
MINORITY INTERESTS		**122,982**	100,079
		4,344,706	4,120,251
CAPITAL AND RESERVES			
Issued capital	11	**273,773**	268,133
Reserves	12	**4,070,933**	3,852,118
		4,344,706	4,120,251

Interim Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2004	2003
	(unaudited)	(unaudited)
	HK$'000	HK$'000
1 January — Total equity	**4,120,251**	3,558,008
Net gains not recognised in the profit and loss account:		
Exchange differences on translation of the financial statements of foreign entities	**(6,509)**	4,261
Net profit for the period	**383,275**	265,369
Dividend	**(273,544)**	(185,483)
Issue of shares, including share premium	**121,233**	19,550
Write off of exchange reserve	**—**	145
30 June — Total equity	**4,344,706**	3,661,850

Interim Results

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash outflow from operating activities	**(199,848)**	(393,725)
Net cash inflow from investing activities	**15,008**	145,192
Net cash outflow from financing activities	**(213,341)**	(163,600)
Decrease in cash and cash equivalents	**(398,181)**	(412,133)
Cash and cash equivalents at beginning of period	**1,069,562**	1,093,187
Effect of foreign exchange rate changes, net	**(3,991)**	686
Cash and cash equivalents at end of period	**667,390**	681,740
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**667,390**	681,740

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Principal Accounting Policies

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

The accounting policies used in the preparation of the interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2003.

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 2004 is as follows:

	Turnover		Profit from operating activities	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Television	**6,116,098**	5,179,358	**356,558**	211,418
Computers	**966,242**	728,320	**24,567**	12,864
Other audio-visual products	**530,682**	159,354	**14,404**	(7,791)
Others	**231,592**	180,650	**(3,800)**	(16,364)
	7,844,614	6,247,682	**391,729**	200,127
Interest Income			**4,773**	7,175
Amortisation of goodwill			**(17,096)**	(16,705)
Corporate expenses			**(23,113)**	(16,392)
Loss on disposal of a subsidiary			**(2,075)**	—
			354,218	174,205

3. Share of Profits and Losses of 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") and its subsidiaries (together "TCL Mobile Group"), which are engaged in the manufacture and sale of mobile phones.

3. Share of Profits and Losses of Jointly-controlled Entities (Continued)

On 6 April 2004, TCL Communication Technology Holdings Limited ("TCL Communication"), the holding company of TCL Mobile, has applied for an advance booking to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the listing of its shares on the main board of the Stock Exchange. It is currently intended that the listing will be effected by way of an introduction. Further details of the proposed listing are set out in the Company's announcement dated 6 April 2004 and 2 August 2004.

The condensed summary of certain additional financial information of TCL Mobile Group is as follows:

Results for the six months ended 30 June 2004:

	6 months ended 30 June 2004 (unaudited) HK$'000	6 months ended 30 June 2003 (unaudited) HK$'000 *(note iii)*	**3 months ended 30 June 2004 (unaudited) HK$'000**	3 months ended 30 June 2003 (unaudited) HK$'000 *(note iii)*
TURNOVER	**3,488,020**	4,928,913	**1,531,639**	2,309,453
Cost of sales	**(2,702,952)**	(3,891,507)	**(1,235,914)**	(1,772,097)
Gross profit	**785,068**	1,037,406	**295,725**	537,356
Other revenue and gains	**32,786**	11,523	**22,388**	4,989
Selling and distribution costs	**(329,402)**	(439,087)	**(127,935)**	(244,274)
Research and development costs	**(76,320)**	(50,606)	**(46,099)**	(27,351)
Administrative and other operating expenses	**(79,967)**	(70,850)	**(40,654)**	(31,602)
PROFIT FROM OPERATING ACTIVITIES	**332,165**	488,386	**103,425**	239,118
Finance costs	**(2,877)**	(9,258)	**(1,766)**	(4,566)
PROFIT BEFORE TAX	**329,288**	479,128	**101,659**	234,552
Tax	**(26,962)**	(17,926)	**(5,465)**	(9,438)
NET PROFIT	**302,326**	461,202	**96,194**	225,114

3. Share of Profits and Losses of Jointly-controlled Entities (Continued)

Financial position:

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
NON-CURRENT ASSETS	**285,891**	259,598
CURRENT ASSETS		
Inventories *(note i)*	**946,907**	760,965
Trade receivables	**63,628**	392,021
Bills receivable	**1,717,049**	1,356,571
Cash and bank balances	**669,431**	858,454
Other current assets	**414,485**	610,280
	3,811,500	3,978,291
CURRENT LIABILITIES		
Trust receipt loans	**—**	13,851
Trade and bills payable	**1,061,434**	1,340,978
Other payables and accruals	**496,291**	776,223
Other current liabilities *(note ii)*	**1,869,760**	92,610
	3,427,485	2,223,662
NET CURRENT ASSETS	**384,015**	1,754,629
	669,906	2,014,227
CAPITAL AND RESERVES		
Paid-up capital	**232,215**	232,215
Reserves	**437,691**	1,782,012
	669,906	2,014,227

Note i: Included in the inventories are raw materials of HK$609,905,000 (31 December 2003: HK$557,109,000), work in progress of HK$99,337,000 (31 December 2003: HK$78,868,000) and finished goods of HK$237,665,000 (31 December 2003: HK$124,988,000).

Note ii: Included in other current liabilities is HK$1,376,132,000 (31 December 2003: Nil) dividend payable due to existing shareholders of TCL Mobile. It is currently the intention of all the shareholders of TCL Mobile that these dividend will be directly or indirectly re-invested in TCL Communication prior to its listing on the Stock Exchange.

Note iii: Certain comparative figures have been reclassified to conform to the current year's presentation.

4. **Depreciation and Amortization**

During the period, depreciation of HK$81,744,000 (2003: HK$69,577,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK$57,847,000 (2003: HK$57,369,000) was charged to the profit and loss account in respect of the Group's intangible assets and goodwill arising on consolidation.

5. **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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:

	Six months ended 30 June	
	2004	2003
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Group:		
Current — Hong Kong	**20,815**	7,270
— Elsewhere	**37,469**	21,274
Deferred	**(1,423)**	—
	56,861	28,544
Share of tax attributable to:		
Jointly-controlled entities	**11,581**	8,033
Total tax charge for the period	**68,442**	36,577

6. **Dividends**

The directors of the Company ("Directors") recommend the payment of an interim dividend of 4.0 HK cents per share (2003: Nil) to shareholders on the register of members on 22 September 2004.

In addition, subject to, among others, the approval by the shareholders at the extraordinary general meeting to be held on 9 September 2004, the Directors proposed the payment of a special dividend in the form of distribution in specie of shares of TCL Communication (the "Distribution"). For indicative purpose only, on the basis of a total of 2,737,768,993 outstanding issued shares as at 11 August 2004, the latest practicable date for the purpose of approving the Distribution, the Directors expect that 42 shares of TCL Communication be distributed for every 100 shares held by the shareholders. The Company will in due course inform the shareholders of the date for ascertaining the entitlement of shareholders to the Distribution.

7. **Earnings per Share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$383,275,000 (2003: HK$265,369,000) and the weighted average of 2,721,745,496 (2003: 2,640,504,430) shares in issue during the period.

7. Earnings per Share (Continued)

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK$383,275,000 (2003: HK$265,369,000), adjusted by the reduction of interest expenses of HK$3,757,000 (2003: HK$5,250,000) relating to the convertible notes. The weighted average number of shares used in the calculation is 2,721,745,496 (2003: 2,640,504,430) shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 20,243,451 (2003: 12,673,692) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period; and the weighted average of 111,622,728 (2003: 136,932,707) shares on the deemed conversion of all convertible notes during the period.

8. Trade and Bills Receivables

The majority of the Group's sales in China 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. Sales to certain long term strategic customers were also made on open-account basis with credit term of no more than 90 days. An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Current to 90 days	**1,330,229**	1,779,018
91 days to 180 days	**429,721**	130,542
181 days to 365 days	**23,190**	22,606
Over 365 days	**294**	8,971
	1,783,434	1,941,137

9. Trade and Bills Payables

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

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Current to 90 days	**2,884,624**	2,211,432
91 days to 180 days	**103,688**	701,627
181 days to 365 days	**101,850**	47,095
Over 365 days	**8,027**	6,505
	3,098,189	2,966,659

10. Bank Borrowings

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Bank loans:		
Secured	**—**	943
Unsecured	**426,251**	395,339
	426,251	396,282
Bank loans repayable:		
Within one year	**190,957**	113,929
In the second year	**94,118**	94,118
In the third to fifth year, inclusive	**141,176**	188,235
	426,251	396,282
Portion classified as current liabilities	**(190,957)**	(113,929)
Long term portion	**235,294**	282,353

At 31 December 2003, certain bank loans were secured by the Group's bank deposits with a net book value of HK$472,000.

11. Share Capital

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,737,734,993 (31 December 2003: 2,681,328,559) shares of HK$ 0.10 each	**273,773**	268,133

11. Share Capital (Continued)

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

	Number of shares issued	Paid-up nominal value HK$'000
Issued capital at 1 January 2004	2,681,328,559	268,133
Share options exercised	20,803,938	2,080
Conversion of convertible notes	35,602,496	3,560
Issued capital at 30 June 2004	2,737,734,993	273,773

Details of the movements in respect of the share option during the period are set out under the "Share option schemes" section on page 29.

12. 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 2004	1,273,754	66,204	492,205	39,550	1,980,405	3,852,118
Issue of shares upon exercise of share options	28,153	—	—	—	—	28,153
Issue of shares upon conversion of convertible notes	87,440	—	—	—	—	87,440
Exchange realignments	—	—	—	(6,509)	—	(6,509)
Released on disposal	—	—	(199)	—	199	—
Net profit for the period	—	—	—	—	383,275	383,275
Final 2003 dividend	—	—	—	—	(273,544)	(273,544)
At 30 June 2004	1,389,347	66,204	492,006	33,041	2,090,335	4,070,933

13. Capital Commitments

The Group had the following commitments at the balance sheet date:

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Contracted, but not provided for	**146,634**	187,436

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

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Contracted, but not provided for	**7**	4,418

14. Contingent Liabilities

At the balance sheet date, the Group had contingent liabilities not provided for in the financial statements in respect of:

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Bills discounted with recourse	**562,605**	64,882

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

	30 June 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
Bills discounted with recourse	**277,132**	—

15. Related Party Transactions

The Group had the following material transactions with related parties during the period:

	Notes	Six months ended 30 June **2004 (unaudited) HK$'000**	2003 (unaudited) HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**672,881**	605,663
Purchase of finished goods	(ii)	**641,692**	610,350
Sales commission income	(iii)	**—**	522
Minority shareholder of a subsidiary:			
Sales of finished goods	(iv)	**27,318**	12,201
Companies controlled by the ultimate holding company:			
Sales of raw materials	(i)	**11,208**	8,274
Purchase of raw materials	(ii)	**279,808**	180,356
Purchase of finished goods	(ii)	**37,776**	21,279
Sales handling fee income	(v)	**667**	4,381
Subcontracting fee expense	(vi)	**8,216**	—
Contract fee expense	(vii)	**15,684**	15,004
Company controlled by a jointly-controlled entity:			
Purchase of raw materials	(ii)	**—**	34,237

Notes:

(i) The sales of raw materials were made at cost.

(ii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.

(iii) The sales commission was calculated at 10% of the retail price of the products distributed.

(iv) The sales of finished goods are carried out by reference to the prevailing market price for comparable transactions.

(v) The sales handling fee income was calculated at 1.7% of the invoiced sales of products distributed.

(vi) The subcontracting fees were determined by reference to subcontracting fees charged by third party companies offering similar services.

(vii) The contract fee was the sum of the followings:

(1) A fee equivalent to 8% of net asset value of the contracted operation as at the end of preceding financial year; and

(2) Depreciation costs of the contracted operation for this financial period.

Management Discussion and Analysis

BUSINESS REVIEW

Operational Highlights

Unaudited unit sales for the six months ended 30 June

	2004 ('000 sets)	2003 ('000 sets)	Change (%)
TV — PRC market	**3,747**	3,251	+15
TV — Overseas market	**2,219**	1,472	+51
Mobile Handset	**4,401**	4,725	–7
PC	**309**	209	+48

— *TV Business*

- TV sales posted strong growth, with total sales volume reaching about 6 million sets. Unit sales in the PRC and overseas markets surged by 15% and 51% respectively

- High-end TV products maintained rapid growth. Effort to constantly enhance product mix boosted gross profit margin by 2.9% to 20.2%

- TCL leads the PRC domestic TV market with a dominant 19% share. In the rear-projection TV segment, TCL is also ranked the premier player with a solid 17% share

- TTE Corporation, the TCL-Thomson joint venture, commenced operations in early August 2004, establishing a solid foundation for the development of TCL's overseas business

— *Handset Business*

- Amidst fierce market competition, sales of handsets declined in the first half of the year. Despite this, the implementation of effective cost control measures resulted in a higher gross profit margin, up 1.5% to 22.5%

- TCL is ranked No. 3 in the PRC domestic handset market with an 8% share

— *PC Business*

- Unit sales of PC continued to grow significantly, posting a strong growth of 48%

- Gross margin increased to 9.3% due to the surge in sales of high-end products

TV Business

— *The PRC Market*

Competition in the PRC TV market was primarily in the realm of high-end models and digital high definition TV products. The market share of such high-end products increased along with the continual growth in sales. Manufacturers of different brands joined the battle, lowering prices and escalating market competition.

In response to the competitive industry landscape, the Group pioneered in capturing market opportunities by lowering the prices of PDPs and LCD TVs. Meanwhile, as the 3C convergence trend of digital TVs became increasingly apparent, TCL made corresponding strategic moves and equipped itself with abundant product reserves in the first half of 2004. The Group is pleased to see that these efforts were rewarded by fruitful results. During the period under review, sales of TVs increased 15% to 3.75 million units. High-end products such as rear-projection, LCD, PDP, pure flat, progressive scanning and digital high definition TVs maintained rapid growth, enhancing the product mix and thereby increasing the gross profit margin by 3.1% to 22.3%.

According to statistics provided by the Ministry of Information Industry ("MII") for the period from January to May 2004, TCL was ranked number one in the domestic TV market and enjoyed a share of 19%, representing a year-on-year increase of 1%. In addition, TCL's rear-projection TVs were also ranked No.1 with a share of 17%.

During the period under review, TCL strengthened its portfolio of high-end products (especially rear-projection TVs), while continuing to enhance the quality of its digital high-definition TVs. A total of 36 new models were rolled out during the first half of 2004. The Group's R&D efforts were driven towards higher definition and more powerful features as well as enhanced digital audio systems. TCL TVs are now equipped with prominent "3C convergence" functions while the exclusive "digital and high-definition 2 in 1" technology has been employed to upgrade display qualities. A unique digital audio system has been utilized to improve sound qualities. These combined initiatives attributed to the perfect fusion of display and audio effects that complement each other.

— *Overseas Markets*

Competition in the global TV market place was fierce during the first half of 2004. Overall, retail prices continued to decline. Under this backdrop, the Group has been put under the spotlight and attracted the attention of its peers in the market, in particular in new markets that TCL enters, ever since the announcement of establishing a joint venture with Thomson was made.

Leveraging its eminent competitiveness, TCL's overseas business maintained rapid growth amidst the intense competition. During the first half of the year, overseas TV exports reached 2.22 million units, representing a significant surge of 51%. The gross profit margin also recorded a year-on-year increase of 4.4% to 14.1%. During the period under review, the Group continued to strengthen its control in account receivables management, resulting in enhanced operating efficiencies and demonstrating a healthy trend.

In addition to promoting a handful of selected models in certain regional markets, the Group also fortified its product advertising and marketing capabilities to boost sales, leading to a strong growth in regional sales. As compared with the previous year, the Group's market share and ranking continued to soar. Conscientious efforts have been dedicated to developing the entrepot trade business in Singapore and Vietnam, enriching the product portfolio in other Southeast Asian markets and enhancing the overall business operation efficiencies of the Group.

The development of the Group's OEM business in regional markets such as Africa, the Middle East, North America, Latin America and Russia showed impressive progress. The Group continued to foster good relationships with its business partners via regular contacts and communications. Satisfactory progress was seen in all regional markets across the board. However, as the European markets remained sluggish while Schneider had yet to introduce a full product line, the Group recorded a widened loss in its European operation in the second quarter of 2004.

— *TTE Corporation*

TTE Corporation ("TTE"), the TCL-Thomson joint venture, achieved significant progress during the period under review. The establishment of TTE was approved by shareholders on July 2 2004 and the joint venture has been put into operation since early August 2004. It is expected to be running in full gear in the second half of 2004.

Handset Business

Market competition in the domestic handsets market further intensified in the first half of 2004. First tier international brands have managed to capture an overwhelmingly large share in the high-end product market with the competitive advantages of their products and brands, while most of the manufacturers of the mid to low end products compete mainly in terms of pricing, which put the profitability of the industry under pressure.

The increasing inventory level in the market had exacerbated further price reductions during the period under review. As the sale of TCL new products had yet to attain economies of scale, the Group's business was affected to a certain extent. For the first half of 2004, the sale of handsets recorded a year-on-year decline of 7%, amounting to 4.4 million units. According to the statistics from the MII for the period from January to May 2004, TCL was ranked the third place in the domestic market, with an 8% share.

Along with the flattening growth in the number of new mobile phone subscribers, the sale of mobile handsets is gradually driven by replacement demand. The continual rollout of new models with enhanced features means that technology will play an increasingly important role in the handset industry. The functionalities and practicality of handsets have become the key selection criteria for consumers.

During the first half of 2004, the Group underwent a period of transition from monochrome to colour display camera phones. These, together with strengthened cost control measures, led to an increase in gross profit margin, rising from 21.0% in the same period last year to 22.5% this year. The sale of colour display handsets accounted for 65% of the total sales volume, and the proportion of camera phones also increased to 8% of the total sale. A total of 15 new handset models were launched in the first half of the year.

In addition, TCL Communication Technology Holdings Limited ("TCL Communication"), the holding company of Huizhou TCL Mobile Communication Company Limited ("TCL Mobile") and Alcatel SA ("Alcatel") jointly announced the signing of a "Subscription Agreement" during the period under review. Under the agreement, the two parties will jointly establish a joint venture specializing in the research and development, manufacture as well as sales and distribution of mobile handsets and related equipment. The signing of the agreement marked a major milestone between the two companies. The joint venture is expected to commence operation in the third quarter of 2004.

During the period under review, TCL announced plans to restructure its business portfolio to focus on multi-media consumer electronics products as its core specialty. The Group also announced its intention to divest its mobile phone business via a separate listing of TCL Communication by way of introduction. The distribution of its stakes in the mobile handset business in the form of dividend in specie also saw good progress.

PC Business

The sales of desktop PCs posted stable growth in China in the first half of 2004. Home and personal PC sales continued to rise while the computerization of education sector and government administration remained in the limelight, fuelling industry growth. Sales of notebook computers in the domestic market as a whole swelled by approximately 40% as compared to the same period in 2003. Notebook computers, as an important alternative for desktop PCs, have promptly become a preferred choice for individual, home and commercial users.

During the first half of the year, unit sales of PCs reached about 310,000 sets, in which desktop PCs and notebook computers accounted for 290,000 sets and 20,000 sets respectively. The sales of PCs for personal and educational usage were higher than expected, with an overall year-on-year increase of 48%. According to CCID's statistics for the first half of the year, TCL was ranked the fifth place in the desktop PC market, enjoying a market share of 4%.

TCL further enhanced its product mix in the first half of 2004. By introducing products with high gross profit margins and switching from the mid- to low-end product segment to high-end products, the Group effectively improved its profitability. The Group also strengthened regional sales operations and management with product-driven strategies, which successfully increased sales volume and profit contribution.

In targeting the consumer segment, TCL launched a series of new "Ruixiang K" (銳翔 K) products that are trendy in design, offer digital expansion functions and are good value for money. Meanwhile, the Group continued to penetrate into segmental markets, launching PCs specifically for computer games. As for the commercial PC market, TCL launched the "Jingding E" (精鼎 E) series products that are customized for the education industry. Leveraging on the strengths of TCL's online education platform, TCL differentiated its commercial PCs from other peers by catering to specific industry needs.

The sales of TCL's desktop PCs saw robust growth during the first half of the year. In the arena of notebook computers, the Group launched 5 new models. The Group's 12 inches display products, leveraging on its state-of-the-art technology and distinguished functions, stayed at the industry forefront.

AV Business

Competition in the PRC AV industry in the first half of 2004 was even keener than that in the previous year. A vast number of market entrants, comprising small enterprises and assembly factories, kicked off waves of price wars. Overseas manufacturers also joined the price competition, exerting additional pressure on major players in the PRC. The narrowing profit margin led to an increasingly competitive operating environment.

Against this backdrop of keen competition, TCL's AV division still recorded strong growth due to its remarkable performance in the overseas markets. TCL recorded a total sale of 1.54 million sets of AV products in the first half of 2004, representing a year-on-year increase of more than 400%. The reforms initiated in the first half of the year started reaping its fruits. The inventory mix was brought to a reasonable level, terminal sales saw gradual improvement, while gross profit margin and inventory turnover were significantly enhanced. Moreover, the implementation of the cash-on-delivery policy on certain customers enabled the Group to reduce payment collection risks.

During the first half of 2004, the Group launched a total of 4 new DVD player models and a new VCD player model. Enjoying cost advantage over its peers, the Group's products were highly competitive in terms of pricing.

Distance Learning Education Business

The distance learning education market remained competitive in the first half of 2004. Different enterprises recruited new students via the public service organizations and the market response to recruitment was generally unsatisfactory.

It has started making small profit contribution to the Group. The business scope is mainly in the provision of value-added services via China Central Radio & Television University, services via the public services regimes and the unified examination system. The "ETAS Internet Examination System" and the "OEMS Distance Education Management System" developed by TCL were both accredited by the State Educational Technology Development Centre and have attained the Certificate of Scientific and Technological Achievement (科技成果鑒定證書).

FUTURE OUTLOOK

TV Business

TTE commenced operations in early August 2004. The Group is confident that it will achieve synergies by integrating the resources from Thomson into its own ones, and eventually generate enormous shareholder value. TTE, with a worldwide manufacturing platform, will benefit from a highly competitive cost structure. Possessing a number of reputable brands and a diversified product portfolio, TTE will adopt a multi-brand strategy to tap the potential of different markets. It will promote the TCL brand mainly in Asia and the emerging markets, the Thomson brand in the European market, and the RCA brand in North America. It will also promote other brands possessed by TCL and Thomson according to the needs of different markets.

In terms of synergies, it is expected that TTE will achieve tremendous synergies in procurement by leveraging on greater economies of scale and standardization of components. It will also achieve manufacturing synergies via the optimization of its global manufacturing facilities. Furthermore, through combining the strengths of TCL and Thomson, TTE possess a global sales network and has a complete product offering from OEM to class A branded products, which is poised to drive revenue growth.

In addition, TTE will have five profit centers, based on geographical region and business nature — (1) Europe; (2) North America; (3) PRC; (4) Emerging Markets; and (5) OEM/ Private Label. In the US and European markets, TTE is committed to enhancing its operational efficiencies and tightening cost control to enhance its competitive edge. Major initiatives included: (a) Sourcing suitable components and reducing cost of chassis to boost the profit margin of Thomson and RCA; (b) introducing low cost products for B branded market in the US and Europe; (c) leveraging on the strengths of all R&D resources; (d) negotiating with suppliers to acquire beneficial terms. In the PRC, TTE will introduce high-end products such as LCD, Plasma as well as DLP rear projection TVs, with the aim of increasing its market share in the high-end market. Moreover, strategic regional expansion and further review of the pricing strategy are also on top of TTE's management task list. The Group believes that via the implementation of the aforesaid initiatives, TTE targets to turn the North America and Europe operations profitable within 18 months.

Looking into the second half of the year, the Group will ride on the establishment of TTE to step up overseas promotion and expansion. It will also tap the opportunities in India, Thailand, Mexico, Australia, South Africa, etc. to strengthen its brand presence in overseas markets. As for the Schneider business, the Group expects to see improvements, along with the launch of new product lines that cater to market needs. In the second half of 2004, it plans to launch a total of 30 new TV models for the overseas markets, strengthening the promotion of its diversified product offerings. The Group will also promote functionally advanced and reasonably priced chassis to further enhance its product mix and cost structure.

For the domestic TV market, it is expected that the digital & high-definition TVs market will continue to grow rapidly. Super large, ultra-thin, high definition and intelligent TVs will remain the focus of the market. 3C convergence is also expected to speed up. Looking into the second half of the year, the Group will roll out even more new digital high-definition TVs and continue to develop a complete range of high-definition products. High-end products scheduled to be launched include DLP rear-projection and flat TVs. TCL will continue to outshine its peers with new breakthroughs in three aspects — distinguished high-definition, outstanding 3C functions and prominent audio systems.

Handset Business

TCL expects that competition in the handsets market will further intensify. Different brands and manufacturers will continue to compete in terms of product functions and designs. The Group will therefore deploy resources to strengthen its brand value. Plans to achieve higher sales will be implemented through the rationalization of product offerings, strengthening the execution capability of its sales agents, enhancing its economies of scale and leveraging its cost advantages. TCL will also seize the opportunities brought forth by important holidays to fortify sales and promotion of the Group's products. In the meantime, the TCL Communication Group is committed to integrating the resources of the joint venture formed with Alcatel to lower cost, develop new sales channels and eventually boost sales.

PC Business

TCL will develop the consumer PC business via the introduction of LCD strategies to boost both sales and brand awareness. The Group will take the lead in emerging markets by product differentiation. As for the commercial PC market, the Group will continue to develop different market segments, including the education sector, and explore new markets such as the Government procurement, SMEs, etc. according to the trends in business development. The Group will also strengthen its client-oriented resources allocation and operational management to enhance the customer service skills of its commercial sales team. As for notebook computers, the Group will kick off promotions for new products to increase the competitiveness of its products. Coupled with TCL's edges in sales channels, the PC business is expected to perform even better in the second half of 2004.

FINANCIAL REVIEW

Results

The Group achieved a turnover of approximately HK$7,845 million for the first half of 2004, representing a year-on-year increase of 26%. Profit attributable to shareholders increased by 45% to HK$383 million.

During the period under review, the TV business remained the Group's major profit contributor as sales revenue increased by 18% as compared to that the previous year, accounting for approximately 78% of the total turnover. With the increase in sales of high-end products and the improvement in sales mix, the overall gross profit margin went up 2.9% to 20.2%.

The Group recorded satisfactory sales performance in the overseas markets during the first half of the year. Sales amounted to HK$1,539 million, representing an increase of 52%. To a certain extent, however, the losses incurred by the Schneider business affected the profit margin of the overseas business. Nonetheless, improvements in supply chain management and better cost control contributed to improvement of the gross margin from 9.7% to 14.1%.

The handset business contributed HK$79 million in profits, accounting for 21% of total net profit. With effective cost control initiatives, the overall gross profit margin for the handset business increased 1.5% to 22.5%.

The PC business achieved remarkable progress during the year. Turnover increased by 33% to HK$966 million, while the gross profit margin increased to 9.3%.

Upon TTE's commencement of operations, the Group expected that the synergies generated by the resulting economies of scale will gradually be seen. The combined R&D strengths of TCL and Thomson will also put the Group at the forefront of the industry. The Group has every confidence in fully realizing the synergies within 18 months and turning the loss making operations in Europe and the US profitable, thereby continuing to reward shareholders with good returns.

Significant Investments and Acquisition

During the period under review, TCL achieved significant progress in the establishment of TTE which combines TV businesses of TCL and Thomson. The transaction was completed on 30 July 2004 and TTE, in which TCL holds a majority 67% interest and Thomson holds the remaining 33% interest, formally started operation in early August. Details of the future operation of TTE are set out in the section headed "Future Outlook" above.

On 24 April 2004, TCL Communication, the holding company of TCL Mobile, entered into a Memorandum of Understanding with Alcatel to form a joint venture for the development, manufacture and distribution of mobile handsets and related products. TCL Communication and Alcatel each contributes Euro 55 million and Euro 45 million respectively and in return owns a 55% and 45% interest respectively in the joint venture. It is expected that closing will take place in the third quarter. More details of the transaction are set out in the announcement dated 26 April 2004.

Proposed Listing of TCL Mobile Interest and Special Dividend

As a result of the Company's plan to restructure its portfolio of business to focus primarily on multi-media electronic products, TCL Communication, the holding company of TCL Mobile, has applied for a proposed listing of its shares on the Stock Exchange. It is currently intended that such listing will be effected by way of an introduction. To take advantage of this excellent opportunity to divest its interest in the mobile business, the Company proposes to declare a special dividend to its shareholders which will be satisfied by a distribution in specie of its entire interest in TCL Communication (the "Distribution"). For indicative purpose only, on the basis of a total of 2,737,768,993 shares in issue as at 11 August 2004, the latest practicable date for the purpose of approving the Distribution, the Directors expect that 42 shares of TCL Communication be distributed for every 100 shares held by the shareholders, subject to the terms and conditions described in the Circular dated 18 August 2004.

The Company will in due course inform the shareholders of the timetable relating to the Distribution and/or the Proposed Listing (including the date for ascertaining the entitlement of shareholders to the Distribution, and the dates on which share certificates of TCL Communication will be dispatched and dealings in shares of TCL Communication on the Stock Exchange will commence).

Liquidity and Financial Resources

The Group consistently maintained a strong liquidity position throughout the period. Through its centralized treasury function, the Group was able to make efficient allocation of its financial resources and reduced any unnecessary financial expenses. The cash and bank balances as at the period end amounted to HK$667 million, of which 46% was maintained in Hong Kong Dollars, 10% in US Dollars, 36% in Renminbi and 8% was held in other currencies for the overseas operations. The Group's gearing ratio at the period end was 0.16 which is calculated based on the Group's total interest-bearing borrowings at approximately HK$682 million and the shareholders' funds of approximately HK$4,345 million.

There was no material change in available credit facilities when compared with 2003. Convertible notes were subject to fixed interest rate at 3% per annum. During the period, a total amount of HK$91 million convertible notes were exercised and converted into 35,602,496 shares of the Company at an exercise price of HK$2.556 per share.

Subsequent to the balance sheet date on 3 August 2004, the Company as borrower entered into a facility agreement with two banks in relation to a bridging loan facility of up to US$180 million (the "Facility"), which is unsecured and interest bearing, to be repaid on the date falling 6 months from the date of the facility agreement. The Company is also negotiating with other banks in respect of a medium term syndicated loan to refinance the Facility. The purpose of the Facility is to fund the operation of TTE, the joint venture company established for the combination of the respective TV businesses and assets of the Group and the Thomson Group.

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 now considered unnecessary. In the future, with the draw down of the Facility and the operations of TTE in the European and North America markets in full swing, the Group will make the necessary arrangements so as to minimize its foreign exchange exposure.

Employees and Remuneration Policy

The Group had a total of 23,000 dynamic and talented employees, of which approximately 3% was management staff, 25% technical staff, 5% clerical staff, 26% sales & marketing staff, and 41% workers. They were all dedicated to advancing the quality and reliability of our operations. Total staff costs for the period was HK$316 million. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Total outstanding share options at the period end amounted to 52,542,500 units.

Other Information

DIRECTORS' INTERESTS

As at 30 June 2004, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(A) Long positions in shares of the Company

Directors	Capacity	No. of shares held	% of issued share capital of the Company
Li Dong Sheng, Tomson	Beneficial owner	28,232,000	1.03
Suen Hay Wai	Beneficial owner	50,000	0.002

(B) Long positions in the underlying shares of the Company

Share Option Schemes

The following share options were outstanding under the share option schemes of the Company during the period:

Name or category of participant	Number of share options: At 1 January 2004	Reclass-ication	Exercised during the period	At 30 June 2004	Date of grant	Exercise price HK$	Exercise period	Price of Company's shares at grant date# HK$	Price of Company's shares at date of exercise* HK$
Directors									
Li Dong Sheng, Tomson	6,950,000	—	(6,950,000)	—	15-5-2003	1.550	Note 4	1.590	3.275
Yan Yong	134,000	—	—	134,000	30-1-2003	2.114	Note 3	2.075	
Suen Hay Wai	700,000	—	(232,000)	468,000	30-1-2003	2.114	Note 3	2.075	3.275
Zhao Zhong Yao@	—	100,000	—	100,000	29-10-2001	0.994	Note 1	0.990	
	—	200,000	—	200,000	30-1-2003	2.114	Note 3	2.075	
	—	300,000	—	300,000					
Other employees	12,997,838	(100,000)	(8,421,138)	4,476,700	29-10-2001	0.994	Note 1	0.990	3.419
	10,000,000	—	—	10,000,000	4-11-2002	2.305	Note 2	2.175	
	41,864,600	(200,000)	(4,500,800)	37,163,800	30-1-2003	2.114	Note 3	2.075	3.323
	700,000	—	(700,000)	—	15-5-2003	1.550	Note 4	1.590	3.275
	65,562,438	(300,000)	(13,621,938)	51,640,500					
	73,346,438	—	(20,803,938)	52,542,500					

Note 1: One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

Note 2: Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 3: One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

Note 4: Such share options are exercisable at any time from the date of grant to 14 November 2006.

@ Zhao Zhong Yao was appointed as a director on 18 May 2004.

The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

* 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 immediately before the exercise dates over all of the exercises of options within the disclosure category.

(C) Long position in shares of associated corporations of the Company

Directors	Name of associated corporation	Capacity	% of interest in associated corporation
Li Dong Sheng, Tomson	TCL Corporation	Beneficial owner	5.59
Lu Zhong Li	TCL Corporation	Beneficial owner	0.91
Hu Qiu Sheng	TCL Corporation	Beneficial owner	0.74
Zhao Zhong Yao (Appointed on 18 May 2004)	TCL Corporation	Beneficial owner	0.25

Save as disclosed above, none of the Directors or chief executive of the Company or their associates had, as at 30 June 2004, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which where recorded in the register required to be kept by the Company under Section 352 of the SFO.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2004, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	% of issued share capital of the Company
T.C.L. Industries Holdings (H.K.) Ltd.	Beneficial owner	1,501,651,289 *(Note 1)*	54.85
TCL Corporation	Interest of controlled corporation	1,501,651,289 *(Note 2)*	54.85
Huizhou Investment Holdings Limited	Interest of controlled corporation	1,501,651,289 *(Note 3)*	54.85
J.P. Morgan Chase & Co.	Beneficial owner	159,406,592	5.82

Note 1: 1,501,651,289 shares of the Company are held by T.C.L. Industries Holdings (H.K.) Ltd. in the capacity of beneficial owner.

Note 2: TCL Corporation is deemed to be interested in 1,501,651,289 shares of the Company through T.C.L. Industries Holdings (H.K.) Ltd., its wholly owned subsidiary. These interests are duplicated in the interests described in Note 1 above.

Note 3: Huizhou Investment Holdings Limited is deemed to be interested in 1,501,651,289 shares of the Company through its 25.22% interest in TCL Corporation. These interests are duplicated in the interests described in Notes 1 and 2 above.

Save as disclosed above, as at 30 June 2004, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

PURCHASES, 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 Rules Governing the Listing of Securities on the Stock Exchange during the period.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed on 22 September 2004, during that day no transfer of shares will be effected. In order to qualify for interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 21 September 2004. The latest date of dealings in the shares of the Company cum-entitlements to the interim dividend is 17 September 2004 and the first day of dealings in the shares of the Company ex-entitlements to the interim dividend is 20 September 2004. The record date for entitlements to the interim dividend is 22 September 2004.

Please note that the aforesaid book closure is in addition to the book closure scheduled from 8 September 2004 to 9 September 2004 for ascertaining the entitlement to voting at the extraordinary general meeting to be held on 9 September 2004 as mentioned in the announcement and circular of the Company dated 18 August 2004.

As at the date of this announcement, the board of directors is composed of Li Dong Sheng, Lu Zhong Li, Hu Qiu Sheng, Zhao Zhong Yao, Yan Yong and Suen Hay Wai as executive directors and Hon Fong Ming and Albert Thomas da Rosa, Junior as independent non-executive directors.

On behalf of the Board
LI Dong Sheng, Tomson
Chairman

Hong Kong, 26 August 2004