

### 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.