TCL INTERNATIONAL HOLDINGS LIMITED

TCL 國 際 控 股 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2003

FINANCIAL HIGHLIGHTS

	2003	2002	**change**
	HK$M	*HK$M*	*(%)*
Turnover	**3,477**	2,989	+16
Profit before tax	**187**	205	–9
Net profit attributable to shareholders	**163**	184	–11
Basic earnings per share (HK cents)	**6.18**	7.33	–16

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 three months ended 31 March 2003 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Three months ended 31 March	
		2003	2002
	Notes	***HK$'000***	*HK$'000*
TURNOVER	2	**3,476,941**	2,989,143
Cost of sales		**(2,920,352)**	(2,408,628)
Gross profit		**556,589**	580,515
Other revenue and gains		**19,943**	39,748
Selling and distribution costs		**(323,952)**	(346,741)
Administrative expenses		**(138,768)**	(108,394)
Other operating expenses		**(11,600)**	(14,262)
PROFIT FROM OPERATING ACTIVITIES	2	**102,212**	150,866

Finance costs		**(8,242)**	(4,226)
Share of profits and losses of:			
Jointly-controlled entities	3	**112,407**	64,280
Associate		**—**	(55)
Amortization of goodwill on acquisition of a jointly-controlled entity		**(19,608)**	(6,117)
PROFIT BEFORE TAX		**186,769**	204,748
Tax	5	**(16,697)**	(26,216)
PROFIT BEFORE MINORITY INTERESTS		**170,072**	178,532
Minority interests		**(7,136)**	5,596
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**162,936**	184,128
DIVIDEND	6	**Nil**	Nil
EARNINGS PER SHARE	7		
— Basic		**6.18 cents**	7.33 cents
— Diluted		**5.94 cents**	7.20 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited 31 March 2003 *HK$'000*	Audited 31 December 2002 *HK$'000*
NON-CURRENT ASSETS		
Fixed assets	**721,410**	734,262
Trademarks	**26,089**	25,910
Goodwill	**269,596**	277,949
Interests in jointly-controlled entities	**1,633,510**	1,543,143
Long term investments	**1,682**	1,682
	2,652,287	2,582,946
CURRENT ASSETS		
Inventories	**2,330,765**	2,579,118
Trade and bills receivable	**1,509,726**	1,029,005
Other receivables	**473,798**	408,413
Pledged bank deposits	**74,793**	89,340
Cash and bank balances	**758,545**	1,093,187
	5,147,627	5,199,063
CURRENT LIABILITIES		
Trade and bills payable	**2,473,731**	2,769,271
Tax payable	**30,935**	23,056

Other payables and accruals	**738,397**	612,751
Bank borrowings	**59,229**	23,845
	3,302,292	3,428,923
NET CURRENT ASSETS	**1,845,335**	1,770,140
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,497,622**	4,353,086
NON-CURRENT LIABILITIES		
Bank borrowings	**352,941**	382,785
Convertible notes	**350,000**	350,000
Deferred tax	**1,915**	1,915
	704,856	734,700
MINORITY INTERESTS	**63,389**	60,378
	3,729,377	3,558,008
CAPITAL AND RESERVES		
Issued capital	**263,701**	263,100
Reserves	**3,281,121**	3,110,353
Proposed final dividend	**184,555**	184,555
	3,729,377	3,558,008

Notes:

1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited quarterly 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 three months ended 31 March 2003 is as follows:

	Turnover		**Profit from operating activities**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:				
Television	**2,960,652**	2,567,769	**126,496**	230,969
Computers	**366,508**	154,111	**3,206**	(3,792)
Other audio-visual products	**80,261**	55,641	**(4,106)**	(8,740)
Others	**69,520**	61,762	**(6,130)**	(9,183)
	3,476,941	2,839,283	**119,466**	209,254

Discontinued operations:				
White goods	**—**	149,860	**—**	(43,830)
	3,476,941	2,989,143	**119,466**	165,424
Less: Amortisation of goodwill			**(8,353)**	(8,284)
Corporate expenses			**(8,901)**	(6,274)
			102,212	150,866

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, a group mainly engaged in the manufacturing and selling of mobile phones. The condensed summary of certain additional financial information of TCL Mobile is as follows:

Results for the three months ended 31 March 2003

	Unaudited Three months ended 31 March	
	2003	2002
	HK$'000	*HK$'000*
TURNOVER	**2,663,692**	1,551,519
Cost of sales	**(2,158,881)**	(1,105,315)
Gross profit	**504,811**	446,204
Other revenue and gains	**7,329**	2,707
Selling and distribution costs	**(179,216)**	(152,289)
Administrative and other operating expenses	**(57,488)**	(74,073)
PROFIT FROM OPERATING ACTIVITIES	**275,436**	222,549
Finance costs	**(2,322)**	(1,328)
PROFIT BEFORE TAX	**273,114**	221,221
Tax	**(5,728)**	(18,080)
NET PROFIT	**267,386**	203,141

Financial position:

	Unaudited	Audited
	31 March	31 December
	2003	2002
	HK$'000	*HK$'000*
NON-CURRENT ASSETS	**185,409**	194,020

CURRENT ASSETS		
Inventories*	**1,383,105**	1,409,987
Trade receivables	**186,723**	76,058
Bills receivable	**2,201,330**	1,272,208
Cash and bank balances	**868,546**	629,003
Other current assets	**481,436**	840,584
	5,121,140	4,227,840
CURRENT LIABILITIES		
Bank borrowings	**79,324**	67,643
Trade and bills payable	**1,747,562**	1,409,207
Other payables and accruals	**1,590,543**	1,260,498
Other current liabilities	**14,799**	73,944
	3,432,228	2,811,292
NET CURRENT ASSETS	**1,688,912**	1,416,548
NON-CURRENT LIABILITIES	**—**	2,456
	1,874,321	1,608,112
CAPITAL AND RESERVES		
Paid-up capital	**232,215**	232,215
Reserves	**1,642,106**	1,375,897
	1,874,321	1,608,112

* Included in the inventories are raw materials of HK$515,904,000 (31 December 2002: HK$847,466,000), work in progress of HK$343,538,000 (31 December 2002: HK$120,616,000) and finished goods of HK$523,663,000 (31 December 2002: HK$441,905,000).

4. Depreciation and Amortization

During the period, depreciation of HK$31,984,000 (2002: HK$38,583,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortization of HK$28,647,000 (2002: HK$14,401,000) 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% (2002: 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:

	Unaudited Three months ended 31 March	
	2003	2002
	HK$'000	*HK$'000*
Group:		
Hong Kong	**1,367**	1,574
Elsewhere	**12,898**	19,168
	14,265	20,742
Share of tax attributable to:		
Jointly-controlled entities	**2,432**	5,474
	16,697	26,216

6. Dividend

The directors of the Company do not recommend the payment of any interim dividend for the three months ended 31 March 2003 (2002: Nil).

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$162,936,000 (2002: HK$184,128,000) and the weighted average of 2,634,495,395 (2002: 2,512,825,278) shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK$162,936,000 (2002: HK$184,128,000), adjusted by the reduction of interest expenses of HK$2,625,000 (2002: Nil) relating to the convertible notes. The weighted average number of shares used in the calculation is 2,634,495,395 (2002: 2,512,825,278) shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 14,586,695 (2002: 44,180,339) 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 136,932,707 (2002: Nil) shares on the deemed conversion of all convertible notes during the period.

BUSINESS REVIEW AND OUTLOOK

Operational Highlights

Unaudited figures for the three months ended 31 March 2003

	Sales volume		
	2003	2002	**Change**
	(thousand)	*(thousand)*	*(%)*
TVs — PRC market	**2,022**	1,944	+4%
— Overseas	**552**	196	+181%
Mobile Handsets	**2,604**	1,043	+150%
PCs	**102**	38	+168%

- The driving circuitry and control technology in PDP TVs developed by TCL were recognized by the State as the most advanced in the PRC.
- Market share in projection TV has grown rapidly to 6%.
- TCL is the second best selling handset brand in China with a market share of 15% (Report of CCID for February 2003).
- TCL is one of the leading TV brands in Vietnam and the Philippines.

TV Business

Sales of TVs amounted to 2.02 million sets in the first quarter of 2003, representing a year-on-year growth of 4%. According to the statistics for January and February 2003 from the Ministry of Information Industry, TCL's market share in the domestic market was 18%, a slight decline as compared to last year. During the period under review, TCL strengthened the development of high-end models, increased the pace of product rollout and increased efforts in enhancing distribution channels, which led to a surge in sales volume. Nevertheless, average selling prices declined due to keen competition. The gross margin, therefore, decreased from 22% to 18%. Inventory was maintained at a healthy level.

The market consolidated further with competition concentrated on major brand names in China during the first quarter of 2003. Having undergone relatively significant changes in the overall operating environment, the market saw ferocious competition in high-end products.

The Group achieved a major breakthrough in the development and application of driving circuitry and control technology of PDP TV in China. The pioneering technologies were recognized by the State as the most advanced in China. The Group is honoured to be the first player in China to acquire these cutting edge technologies which are core technologies for the production of PDP TVs.

A dozen of new models of PDP, LCD, projection and HiD TVs were launched during the first quarter. These products, in particular projection TVs, were well received by customers. Statistics from China Economy Consultancy indicated that TCL's market share in projection TVs increased to 6%, which is an obvious improvement from less than 1% in the previous year. Furthermore, the operation efficiency of the sales arm of the TV business division is improving, through continual reform and innovation, as well as enhancement of channel management.

Handset Business

The handset business grew rapidly in the first quarter of 2003 when compared with the same period last year. Sales increased by 150% to 2.6 million handsets during the period under review. According to CCID, TCL enjoyed a 15% market share in February 2003, ranking it as the second best selling brand in the PRC.

Foreign handset manufacturers, however, with their market shares shrinking continuously, made rapid adjustments. They responded to this challenge by strengthening their sales networks and speeding up new product rollouts. As for the Group, to sharpen our competitive edge in product offering and to pave way for the rapid launch of new models, the principal strategy in the first quarter was to focus on the clearance of inventories of old models. As a consequence, the average selling price and gross margin decreased compared with those of last year.

The Group launched 6 new handset models in the first quarter of 2003. All these new models were welcomed by customers. Inheriting the distinguished gem stone culture, the Group will introduce trendy handset models with colour display and camera feature, offering individuality to cater to the needs of different customers. The new models to be launched are expected to stabilise the overall average selling price and expand sales volume, and hence maintain earnings growth.

PC Business

The PC industry in China recovered gradually in the first quarter of 2003, but major improvement has yet to be seen. The Group's PC business, despite this, showed a stable growth trend. Unit sales surged by 168% to 102,000 sets. Even though the average selling price declined due to changes in the product mix, tighter cost control enabled us to maintain the gross margin at 9%, a similar level as that of last year.

The Group intends to launch LCD TV/PC, a grand new high-end model combining the functions of LCD TVs and PCs. We will devote more efforts to developing the commercial sector so as to reduce the impact of the seasonal fluctuation in demand of the consumer sector. By strengthening our market development capability, penetrating into deeper channels and increasing operational efficiency, the Group is determined to achieve its sales target for the year.

Overseas Business

Overseas sales remained strong in the first quarter of 2003. TV exports amounted to 552,000 sets, up by 181%. Among our overseas businesses, OEM business recorded particularly impressive performance. However, as the profit margin of OEM business is lower, the gross margin of the Overseas Business as a whole saw a mild decline.

TCL branded TV's performance in Vietnam and the Philippines was highly satisfactory. It was one of the leading TV brands in both countries. The Group also made further inroads in Russia, South Africa and the United States. In respect of the European market, during the period under review, the Group is still in the process of clearing Schneider's inventories and the re-establishing client relationship. Full operation of the business is anticipated in the second half of this year. As the Schneider project is still within the initial investment stage, the Group does not expect profit contribution from this operation arm this year.

AV Business

Competition in the AV industry remained keen in the first quarter of 2003. Turnover amounted to HK$80 million, representing an increase of over 40%. Although the gross margin was as low as 9%, the performance of the division improved and the loss incurred decreased substantially.

The Group introduced only one new model of DVD player in the first quarter. Nevertheless, the new model boasted a major breakthrough in design which combined the concepts of blue light and round screen display. It was well received by consumers.

IT Business

The Group is pleased to see smooth progress of the distance learning education business during the first quarter of 2003.

The operation of "China Central Radio & Television Long Distance Education Technology Limited (電大在綫)" was smooth during the transition from the original network education service provider for the China Central Radio & Television University ("CCRTU") to a self-developed open distance-learning educational platform that supports the educational pursuit of the community. Distance learning, as an emerging market, is still immature, but is already on the road to gaining wider market acceptance and better public understanding. The Group believes that it will soon become a focal point for consumer spending.

To further boost our business development and earnings capabilities, the Group will further consolidate its resources, raise the competitiveness of related business, and actively explore new growth drivers.

Future Outlook

We anticipate downward pressure on product pricing and tough competition in the TV market in China in 2003. TV manufacturers are likely to reduce the selling prices of high-end TV such as projection TVs and LCD TVs to boost sales. In spite of this, the Group believes that having gone through industry consolidation, market players will not resort to cut-throat pricing that are simply irrational and the vicious price wars we witnessed before is unlikely to repeat. As competition moves towards high-end products, the Group, commanding industry-leading product research and development capability, and cost advantage from economies of scale, will enjoy unique competitive edges over other players. The Group will continue to enhance its brand profile this year. Incorporating innovative technological elements in high-end products and strengthening the functional features of lower priced products, the Group will be able to reach all segments in the market with a diverse range of quality products, and in turn, acquire an even larger share of the market. Given the dedicated effort in continuous improvement of product mix, the group expects the gross margin of TVs to widen in the second half of this year.

The burgeoning mobile handset market in China has attracted players from all corners. Overseas players who used to enjoy competitive advantages over their domestic rivals are losing their edge as domestic players are quickly catching up. As a result of keen market competition, selling prices are decreasing. Gross margins will also be narrowed. To effect growth, TCL will continue to launch new models at a quick pace riding on its leading R&D strengths, its superior product design caliber and its unique market positioning. As the high-end models including those with colour screens assume a higher percentage in the sales mix, the Group expects the overall average selling price of its products to go up in the second half of the year, raising its overall gross margin.

Facing a PC market with weak demand, the Group will continue to expand its market coverage to home, education & SMEs sectors to gauge new room for business development.

Committed to expanding overseas, the Group will continue to deploy resources in this area. We will strive to boost our market shares in countries where TCL branded products have already gained a solid presence. With plans to step up cooperation with international consumer electronic product players, we have full confidence in achieving our sales targets this year.

FINANCIAL REVIEW

Results

The Group achieved a turnover of approximately HK$3,477 million for the first quarter of 2003, representing an increase of 16% compared to the same period last year. Profit attributable to shareholders was HK$163 million, compared to the corresponding period of last year of HK$184 million. Television and mobile handset businesses continued to be the Group's major profit contributors. Turnover and gross margin of televisions was HK$2,961 million and 17% respectively, an increase of 15% and a decrease of 4% as compared to the same period last year. Mobile handsets continued to maintain its leading position in the PRC. Turnover increased by more than 70% to HK$2,664 million. As expected, as a result of severe competition and the Group's strategy to broaden its product mix to mid-end product lines, overall gross margin of handsets reduced by 10% to 19%.

Significant Investments and Acquisitions

Apart from certain additions to the Group's plant and equipment, and the increase in equity interest in a subsidiary, which was previously joint ventured with Great Wall Cybertech Limited and is now a wholly-owned subsidiary of the Group, by the amount of HK$3 million, there was no major investment during the period. Total capital expenditure amounted to HK$22 million.

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 its financial expenses, if any. The cash and bank balances as at 31 March 2003 amounted to HK$833 million, of which 23% was maintained in Hong Kong Dollars, 33% in US Dollars, 42% in Renminbi and 2% was held in other currencies for the overseas operations. During the period, all the secured bank loans were fully repaid. At the period end, all the bank loans were clean loans without any charges or securities required. All of them were subject to floating interest rates. The Group's gearing ratio at the period end was 0.2 which is calculated based on the Group's total interest-bearing borrowings at approximately HK$762 million and shareholders' funds of approximately HK$3,729 million.

There was no material change in available credit facilities when compared with the year ended 31 December 2002 and there was no asset held under finance lease at the period end. Convertible notes were subject to fixed interest rate at 3% per annum. No convertible notes were converted or redeemed during the period.

Capital Commitments and Contingent Liabilities

At 31 March 2003, bills receivable endorsed to suppliers and bills discounted with recourse amounted to HK$109 million (31 December 2002: HK$139 million) and HK$375 million (31 December 2002: HK$1,087 million) respectively. In addition, the Group's share of the jointly-controlled entities' own contingent liabilities, i.e. bills discounted with recourse, at the balance sheet date was HK$277 million (31 December 2002: HK$341 million). Other than the foregoing, the Group did not have any significant contingent liabilities.

There was no significant change in capital commitments of the Group compared to the position outlined in the annual report for 2002.

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, no use of financial instruments for hedging purposes is considered necessary.

Employees and Remuneration Policy

The Group had a total of 19,000 dynamic and talented employees, of which approximately 4% was management level, 20% was technical staff, 9% was clerical staff, 24% was sales & marketing staff and 43% was workers. They were all dedicated to advancing the quality and reliability of our operations. Total staff costs for the period was HK$112 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. Share options granted to directors and employees and remained outstanding at the period end totaled 119,017,937 units.

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 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, 28 April 2003

Please also refer to the published version of this announcement in the ***(SouthChina morning Post)***