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 NINE MONTHS ENDED 30 SEPTEMBER 2003

FINANCIAL HIGHLIGHTS

	2003	2002	
	HK$M	*HK$M*	*change (%)*
Turnover	**9,979**	8,533	17
Profit before tax	**472**	447	6
Net profit attributable to shareholders	**403**	411	(2)
Basic earnings per share (HK cents)	**15.22**	16.19	(6)

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 nine months ended 30 September 2003 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Nine months ended 30 September		**Three months ended 30 September**	
		2003	2002	**2003**	2002
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
			(Restated)		
TURNOVER	2	**9,979,033**	8,532,864	**3,731,351**	3,147,630
Cost of sales		**(8,359,932)**	(7,033,154)	**(3,115,702)**	(2,657,682)
Gross profit		**1,619,101**	1,499,710	**615,649**	489,948
Other revenue and gains		**80,459**	77,600	**20,826**	14,677
Selling and distribution costs		**(891,199)**	(874,024)	**(298,813)**	(273,017)
Administrative expenses		**(456,433)**	(394,904)	**(190,114)**	(147,414)
Other operating expenses		**(40,240)**	(73,739)	**(10,065)**	(40,113)

	Note				
PROFIT FROM OPERATING ACTIVITIES	2	**311,688**	234,643	**137,483**	44,081
Finance costs		**(20,657)**	(8,031)	**(3,258)**	(29)
Share of profits and losses of:					
Jointly-controlled entities	3	**239,666**	253,018	**44,850**	130,349
Associate		**—**	(75)	**—**	(9)
Others		**(58,824)**	(32,548)	**(19,608)**	(5,958)
PROFIT BEFORE TAX		**471,873**	447,007	**159,467**	168,434
Tax	5	**(54,860)**	(46,211)	**(18,283)**	(12,014)
PROFIT BEFORE MINORITY INTERESTS		**417,013**	400,796	**141,184**	156,420
Minority interests		**(14,407)**	9,930	**(3,947)**	1,915
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**402,606**	410,726	**137,237**	158,335
DIVIDEND	6	**Nil**	Nil		
EARNINGS PER SHARE	7				
— Basic		**15.22 cents**	16.19 cents		
— Diluted		**14.69 cents**	15.80 cents		

CONDENSED CONSOLIDATED BALANCE SHEET

	30 September 2003 (unaudited) ***HK$'000***	31 December 2002 (audited) *HK$'000* *(Restated)*
NON CURRENT ASSETS		
Fixed assets	**794,509**	734,262
Trademarks	**26,070**	25,910
Goodwill	**252,892**	277,949
Interests in jointly-controlled entities	**1,563,451**	1,543,143
Long term investments	**5,786**	1,682
Deferred tax assets	**4,685**	10,147
	2,647,393	2,593,093

CURRENT ASSETS		
Inventories	**2,465,457**	2,579,118
Trade and bills receivable	**1,926,192**	1,029,005
Other receivables	**539,151**	408,413
Pledged bank deposits	**20,058**	89,340
Cash and bank balances	**816,532**	1,093,187
	5,767,390	5,199,063
CURRENT LIABILITIES		
Trade and bills payable	**2,992,360**	2,769,271
Tax payable	**30,290**	23,056
Other payables and accruals	**688,525**	612,751
Bank borrowings	**113,929**	23,845
	3,825,104	3,428,923
NET CURRENT ASSETS	**1,942,286**	1,770,140
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,589,679**	4,363,233
NON-CURRENT LIABILITIES		
Bank borrowings	**305,882**	382,785
Convertible notes	**350,000**	350,000
Deferred tax	**1,915**	1,915
	657,797	734,700
MINORITY INTERESTS	**105,511**	60,378
	3,826,371	3,568,155

	30 September 2003 (unaudited) *HK$'000*	31 December 2002 (audited) *HK$'000* *(Restated)*
CAPITAL AND RESERVES		
Issued capital	**266,133**	263,100
Reserves	**3,560,238**	3,120,500
Proposed final dividend	**—**	184,555
	3,826,371	3,568,155

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.

The accounting policies and method of computation used in the preparation of these financial statements are consistent with those used in annual financial statements for the year ended 31 December 2002 except that the Group has changed its accounting policy to comply with the SSAP12 (revised) "Income Tax" issued by the HKSA, which is effective for accounting period commencing on or after 1 January 2003.

SSAP12 (revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt. SSAP12 (revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirement in SSAP12 (revised), the new accounting policy has been applied retrospectively. The principal impacts of the revision of this SSAP are that the opening retained profits at 1 January 2003 and 1 January 2002 have been increased by HK$10 million and HK$11 million respectively and the tax charge for the current period and prior period increased by HK$5 million and HK$1 million respectively.

2. Segment Information

An analysis of the Group's turnover and profit from operating activities by principal activities for the nine months ended 30 September 2003 is as follows:

	Turnover		**Profit from operating activities**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations:				
Televisions	**8,274,863**	6,444,364	**366,913**	403,871
Computers	**1,160,024**	902,225	**20,576**	14,194
Other audio-visual products	**232,359**	153,144	**(11,844)**	(26,716)
Others	**311,787**	262,805	**(17,818)**	(33,585)
	9,979,033	7,762,538	**357,827**	357,764
Discontinued operations:				
White goods	**—**	770,326	**—**	(69,067)
	9,979,033	8,532,864	**357,827**	288,697
Less: Amortisation of goodwill			**(25,057)**	(24,852)
Corporate expenses			**(21,082)**	(29,202)
			311,688	234,643

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 and its subsidiaries (together "TCL Mobile Group"), a group mainly engaged in the manufacturing and selling of mobile phones. The condensed summary of certain additional financial information of TCL Mobile Group is as follows:

Results for the nine months ended 30 September 2003:

	Nine months ended 30 September		**Three months ended 30 September**	
	2003	2002	**2003**	2002
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	**6,810,817**	5,389,747	**1,931,018**	2,325,476
Cost of sales	**(5,499,023)**	(3,874,390)	**(1,594,614)**	(1,606,272)
Gross profit	**1,311,794**	1,515,357	**336,404**	719,204
Other revenue and gains	**18,428**	21,959	**10,226**	2,518
Selling and distribution costs	**(628,557)**	(456,329)	**(209,389)**	(216,239)
Administrative and other operating expenses	**(119,516)**	(168,100)	**(31,750)**	(46,466)
PROFIT FROM OPERATING ACTIVITIES	**582,149**	912,887	**105,491**	459,017
Finance costs	**(9,456)**	(3,453)	**(198)**	(1,997)
PROFIT BEFORE TAX	**572,693**	909,434	**105,293**	457,020
Tax	**(17,035)**	(43,191)	**2,220**	(11,645)
NET PROFIT	**555,658**	866,243	**107,513**	445,375

Financial position:

	30 September 2003	31 December 2002
	(unaudited)	(audited)
	HK$'000	*HK$'000*
NON CURRENT ASSETS	**241,844**	194,020
CURRENT ASSETS		
Inventories*	**1,146,496**	1,409,987
Trade receivables	**116,028**	76,058
Bills receivable	**2,222,153**	1,272,208
Cash and bank balances	**608,637**	629,003
Other current assets	**410,655**	840,584
	4,503,969	4,227,840
CURRENT LIABILITIES		
Bank borrowings	**5,359**	67,643
Trade and bills payable	**1,471,643**	1,409,207
Other payables and accruals	**1,450,837**	1,260,498
Other current liabilities	**29,836**	73,944
	2,957,675	2,811,292

	30 September 2003 (unaudited) *HK$'000*	31 December 2002 (audited) *HK$'000*
NET CURRENT ASSETS	**1,546,294**	1,416,548
NON-CURRENT LIABILITIES	**2**	2,456
	1,788,136	1,608,112
CAPITAL AND RESERVES		
Paid-up capital	**232,215**	232,215
Reserves	**1,555,921**	1,375,897
	1,788,136	1,608,112

* Included in the inventories are raw materials of HK$612,366,000 (31 December 2002: HK$847,466,000), work in progress of HK$177,372,000 (31 December 2002: HK$120,616,000) and finished goods of HK$356,758,000 (31 December 2002: HK$441,905,000).

4. Depreciation and Amortization

During the period, depreciation of HK$102,076,000 (2002: HK$126,951,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK$86,054,000 (2002: HK$41,733,000) 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:

	Nine months ended 30 September	
	2003 (unaudited) ***HK$'000***	2002 (unaudited) *HK$'000*
Group:		
Hong Kong profits tax	**10,225**	4,933
PRC corporate income tax	**31,897**	27,900
Deferred taxation relating to the origination and reversal of temporary differences	**5,462**	602
	47,584	33,435
Jointly-controlled entities:		
PRC corporate income tax	**7,276**	12,776
Total taxation charge	**54,860**	46,211

6. Dividend

The directors of the Company do not recommend the payment of any interim dividend for the nine months ended 30 September 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$402,606,000 (2002: HK$410,726,000) and the weighted average of 2,644,837,396 (2002: 2,536,408,417) 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$402,606,000 (2002: HK$410,726,000), adjusted by the reduction of interest expenses of HK$7,875,000 (2002: Nil) relating to the convertible notes. The weighted average number of shares used in the calculation is 2,644,837,396 (2002: 2,536,408,417) shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 12,946,957 (2002: 62,717,460) 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.

REVIEW AND OUTLOOK

Operational Highlights
For the three months ended 30 September 2003

	2003	2002	
	Unit Sales ('000)	*Unit Sales ('000)*	*Change (%)*
TVs — PRC	**1,842**	1,535	20%
— Overseas	**1,099**	323	240%
Mobile Handsets	**2,291**	1,864	23%
PCs	**144**	170	(15%)

- Market share in the PRC TV market increased marginally to 19%, maintaining its leading position as the No. 1 TV brand in China.
- Overseas TV sales saw remarkable performance with a surge of 240% to an export of 1.1 million sets.
- Mobile handset business was affected by the decline in average selling price due to the clearance of inventory after SARS. Sales revenue was down 17%. Market share was 12%, ranking as the 2nd best selling handset brands in China.
- TCL PCs were ranked as the 3rd best selling consumer desktop PC brand in China, with a 6% market share, and the 4th best selling PC brand in China.

BUSINESS REVIEW

During the third quarter this year, despite the gradual recovery of the China consumer market after SARS, competition remained keen with all sorts of product promotional activities in the market. The average selling prices of consumer electronic products saw a declining trend and the overall gross margin was under pressure. As in previous years, the Group continued to grow under intense market competition. It continued to stay at forefront with high economies of scale, effective supply chain management, an extensive distribution network in addition to effective marketing strategies, allowing the Group to successfully maintain its competitive edge and profitability.

TV Business

The market in general returned to normal after SARS during the third quarter this year. Market competition, especially for rear projection TVs, however, also returned to an intense level. The Group launched a series of highly effective marketing and promotional programmes after the SARS epidemic in accordance with the respective market environment in different geographical areas. Sales of TVs in the third quarter under review amounted to 1.84 million sets, representing an increase of 20% as compared to the same period in the previous year. According to statistics compiled by the Ministry of Information Industry (Jan-Jul 2003), TCL's market share in the domestic TV market increased marginally to 19% and continued to be the top leader in the industry.

Stepping up the sales of high-end products, the Group launched a total of 36 new models, comprising PDPs, LCD, rear projection and CRT TVs. This attested to the Group's strengthened R&D expertise and product development capability. The increased proportion of sales of high-end models within the total sales improved the product mix and compensated part of the negative impact of price reduction. Gross margin in the third quarter this year, as a result, only slightly decreased from 21% to 20%.

Handset business

Competition in the handset market intensified further in the third quarter. While handset manufacturers speeded up the launch of new handset models, market demand flattened and the average selling price in the market decreased. During the third quarter of the year, sales of TCL handsets amounted to 2.29 million sets, representing an increase of 23%. Sales revenue, nevertheless, saw a decrease as compared to the same period last year due to the decline in average selling price. In addition, since inventory piled up during the SARS period, the Group was under a clearance influence during the third quarter, and the pace of new model rollout was relatively slow. The gross profit margin narrowed to a greater extent, leading to a 76% decrease in net profit year-on-year. According to statistics issued by Ministry of Information Industry for the first seven months of the year, TCL enjoyed a 12% share in the handset market, ranking it as the 2nd in the market.

The Group launched a total of 4 new models in the 3rd quarter. Committed to R&D, the Group employed over 500 staff in the handset R&D team. The development of a number of new projects is underway.

PC Business

The SARS outbreak together with the advancement of high-school examinations led to a change in the peak season for the sale of PCs, from the 3rd quarter to the end of the second quarter as well as July and August. Although the sales of TCL PCs posted a year-on-year decrease in the third quarter, it represented a quarter-to-quarter increase of 34%, reaching a total of 144,000 sets.

In terms of market share, according to statistics by IDC 2003 for the first half of the year, TCL was ranked the 3rd best selling consumer desktop PC brand in China, with a 6% market share, and the 4th best selling PC brand, with a 3% market share in the overall China PC market.

The Group implemented a market-driven sales strategy during the third quarter of the year. Utilizing a highly effective electronic system to process customer demands with respect to manufacturing, transportation and delivery of products, in order to satisfy personalized demands for PC specifications. It launched two product series for consumer and commercial sectors respectively in the third quarter. The products were welcome by customers with good sales response.

Owing to the decrease in average selling price in the PC industry, and the increased sales of student PCs, TCL adjusted product prices which led to a decrease in the average selling price. Gross margin in the third quarter, however, was slightly declined to 8% from 9% of the previous year.

Overseas Business

Following the growth momentum in the first half of the year, the Group's overseas business continued to post strong growth during the 3rd quarter. This is clear evidence that the Group had substantially increased its competitiveness in overseas markets with respect to market development capabilities. TV exports in the third quarter amounted to 1.1 million sets, an increase of 240% as compared to the same period last year. Gross profit margin was improved on better product mix to 12%. The Group planned to increase the proportion of high-end models according to different market situations and demands in order to further improve the gross margin.

Sales of both branded and OEM products witnessed considerable growth. Branded products, mainly for the Southeast Asian market, reaped the fruits of market development efforts of previous years. The TCL brand has already established a leading position in Asian countries such as Vietnam and the Philippines. To drive the sale of TCL brand products further, the Group established a branch office in Russia in the third quarter this year to explore the potential of the Russia market. OEM products, primarily for overseas markets such as the US, South Africa, the Middle East, also reported satisfactory sales.

The Group acquired assets of Schneider in September last year. While the business still recorded a loss of HK$17 million in the third quarter of 2003, the restructure was largely completed. Certain Schneider products including LCD flat TVs were successfully launched at the IFA Fair in Berlin, with high regards from industry peers. The Germany market will be one of the Group's focuses in the fourth quarter and an important point for business expansion in Europe.

IT Business

Distance learning is an emerging concept. Although there is some way to go before it becomes a matured concept, it is rapidly gaining market acceptance. The Group, through a strategic adjustment of its business focus, transformed from the provision of network education services to the China Central Radio Television University (CCRTU) alone, to the offering of a self-developed distance learning support platform open to the community. This strategy is paying off, and the business has already achieved an operational breakeven.

The Group launched an examination software, an online search engine for CCRTU, and a distance learning training management system during the 3rd quarter of the year. In addition, it commenced the development of a university English programme. Looking ahead, the Group will continue to offer academic services to CCRTU to consolidate its position as the sole technical support service provider and distance-learning service operator in order to seize business expansion opportunities and raise its profitability.

AV Business

The negative impact of SARS on AV product sales was basically over. Geographical markets affected by SARS returned to normal operations in the third quarter, while second tier markets in rural areas remained unaffected. Sales of AV products, therefore, increased in the third quarter. Despite this, the growth pace was still lowered than expected. Product range and distribution ability were yet to be enhanced. However, as a result of effective cost control measures, the loss in this business was reduced substantially.

During the period under review, the Group launched three new products, all of which are mid- to high-end products that were ultra thin and unique in industry design, stimulating sales to a certain degree. Market competition was driven towards the provision of the same functions and features under improved industrial designs that offer individuality. TCL's AV products, with ultra-thin models, vertical designs and the gem stone concept, successfully received a well market response.

Future Plans

Looking in the fourth quarter, for the TV business, the Group is committed to increasing its sales and distribution in the first and second tier cities to increase the proportion of high gross margin models within the total sales mix to improve its profitability and strengthen its market leadership. Such models include high resolution digital TVs, progressive scanning TVs, 85 Hz rear projection TVs, etc.

In spite of keen market competition, the Group's handset inventory level had returned to the pre-SARS level. This is beneficial to new product rollouts. The Group planned to launch approximately 6 new colour display and mid- to high-end models in the fourth quarter. Efforts will also be made to strengthen the relationship with distributors and operators to further consolidate the distribution channels. The Group is confident that it will achieve satisfactory performance in the fourth quarter.

With regard to the PC business, the Group will target two major groups of users, namely consumers and commercial users (such as government, SMEs and the education industry). Catering to the specific needs of these customers, two new product series with brand new industrial designs will be launched in the fourth quarter. Moreover, through resources consolidation, the Group will develop Home AV Centres that offer value-added features through connection to external multifunctional parts, thereby differentiating itself from other players.

Overseas business posted strong growth in the first nine months of the year. Along with the completion of the restructure of Schneider, and the rapid pace of Asian market development, the Group's overseas business is expected to see continued growth in the fourth quarter. In addition to the Southeast Asian market and Europe market, the Group is also evaluating different means to tap opportunities in other overseas markets and exploring strategic partnerships to expand its overseas business. Overseas business is expected to be a new growth driver in future.

FINANCIAL RESULTS

During the nine months ended 30 September 2003, the Group posted a turnover of HK$9,979 million, representing an increase of 17%. Gross profit margin was 16.2% (corresponding period in 2002: 17.6%). Profit attributable to shareholders amounted to HK$403 million, a decrease of 2% as compared to the same period last year. Televisions and mobile handsets business continued to be the Group's major profit contributors. Profit from TV and mobile handsets represented 68% and

38%, respectively, of the Group's net profit in the current period. Earnings per share stood at 15.22 HK cents (corresponding period in 2002: 16.19 HK cents). The Board of Directors does not recommend the payment of an interim dividend.

Significant Acquisitions and Disposals

Apart from certain additions to the Group's plant and equipment, there was no major investment or disposals in the third quarter. Total capital expenditure for the nine months ended 30 September 2003 amounted to approximately HK$162 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 reduce any unnecessary financial expenses. The cash and bank balances as at 30 September 2003 amounted to HK$837 million, of which 31% was maintained in Hong Kong Dollars, 17% in US Dollars, 50% in Renminbi and 2% was held in other currencies for the overseas operations. At the period end, all the bank loans were clean loans without any charges or securities required. 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$770 million and the shareholders' funds of approximately HK$3,826 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 30 September 2003, bills receivable endorsed to suppliers and bills discounted with recourse amounted to HK$176 million (31 December 2002: HK$139 million) and HK$464 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 receivable endorsed to suppliers and bills discounted with recourse, at the balance sheet date were Nil (31 December 2002: HK$341 million) and HK$176 million (31 December 2002: Nil) respectively.

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, use of financial instruments for hedging purposes is considered unnecessary.

Employees and Remuneration Policy

The Group had a total of 19,000 dynamic and talented employees, of which approximately 4% was management staff, 17% technical staff, 11% clerical staff, 27% 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$364 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 92,169,838 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the period.

On behalf of the Board
LI Dong Sheng, Tomson
Chairman

Hong Kong, 30 October 2003

Please also refer to the published version of this announcement in the ***(South China Morning Post)***