TCL INTERNATIONAL HOLDINGS LIMITED

(TCL 國 際 控 股 有 限 公 司)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

FINANCIAL HIGHLIGHTS

	2004	2003	Change
	HK$M	*HK$M*	*(%)*
Turnover	**14,828**	9,979	+49
EBITDA	**567**	441	+29
Net profit attributable to shareholders	**325**	403	–19
Basic earnings per share (HK cents)	**11.90**	15.22	–22

Operational Highlights

TVs

— Commencement of operations of TTE Corporation ("TTE"), the TCL-Thomson joint-venture, in August 2004 bridging the Group to a global platform
— Proudly maintained its first position in the PRC market, with 20% market share
— Significant improvement in the product mix, with high end models taking up 13% of the total revenue
— Synergies of the joint-venture have yet to realize in TTE's initial operation, this together with low seasons in the 3rd quarter resulted in operating loss of HK$4 million in the quarter

PCs

— Recorded an operating profit growth of 72% and revenue growth of 20% year-on-year in the 3rd quarter

— Launched the first LCD TV PC model, setting the highest standards in home PCs

Handsets

— Shares in TCL Communication Technology Holdings Limited have been distributed to shareholders and thereafter successfully listed on the main board of the Hong Kong Stock Exchange on 27 September 2004

The Board of Directors ("Board") 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 2004 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**9 months ended 30 Sept 2004 (unaudited) *HK$'000***	9 months ended 30 Sept 2003 (unaudited) *HK$'000*	**3 months ended 30 Sept 2004 (unaudited) *HK$'000***	3 months ended 30 Sept 2003 (unaudited) *HK$'000*
TURNOVER	2	**14,827,697**	9,979,033	**6,983,083**	3,731,351
Cost of sales		**(12,293,556)**	(8,359,932)	**(5,859,268)**	(3,115,702)
Gross profit		**2,534,141**	1,619,101	**1,123,815**	615,649
Other revenue and gains		**100,449**	80,459	**30,264**	20,826
Selling and distribution costs		**(1,590,162)**	(891,199)	**(807,857)**	(298,813)
Administrative expenses		**(654,891)**	(456,433)	**(338,613)**	(190,114)
Other operating expenses		**(37,253)**	(40,240)	**(11,618)**	(10,065)
Loss on disposal of a subsidiary		**(2,075)**	—	**—**	—
PROFIT FROM OPERATING ACTIVITIES	2	**350,209**	311,688	**(4,009)**	137,483
Finance costs		**(18,705)**	(20,657)	**(10,769)**	(3,258)
Share of profits and losses of jointly-controlled entities	3	**137,899**	239,666	**(3,638)**	44,850
Others		**(65,503)**	(58,824)	**(26,287)**	(19,608)
PROFIT BEFORE TAX		**403,900**	471,873	**(44,703)**	159,467
Tax	5	**(108,951)**	(54,860)	**(40,509)**	(18,283)
PROFIT BEFORE MINORITY INTERESTS		**294,949**	417,013	**(85,212)**	141,184
Minority interests		**29,816**	(14,407)	**26,702**	(3,947)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**324,765**	402,606	**(58,510)**	137,237
DIVIDENDS	6				
Interim		**110,316**	Nil	**Nil**	Nil
EARNINGS PER SHARE	7				
— Basic		**11.90 cents**	15.22 cents		
— Diluted		**9.57 cents**	14.69 cents		

CONDENSED CONSOLIDATED BALANCE SHEET

	30 September 2004 (unaudited) HK$'000	31 December 2003 (audited) HK$'000
NON-CURRENT ASSETS		
Fixed assets	**2,289,120**	868,919
Trademarks	**25,076**	27,744
Goodwill	**223,008**	244,539
Negative goodwill	**(401,413)**	—
Interests in jointly-controlled entities	**146,559**	1,653,375
Long term investments	**7,529**	1,682
Prepayment for the acquisition of a subsidiary	**—**	47,815
Deferred tax assets	**14,884**	8,855
	2,304,763	2,852,929
CURRENT ASSETS		
Inventories	**5,284,952**	2,441,500
Trade and bills receivable	**4,603,034**	1,941,137
Other receivables	**1,652,512**	359,569
Short term investments	**55,509**	—
Pledged bank deposits	**—**	5,199
Cash and bank balances	**1,452,236**	1,069,562
	13,048,243	5,816,967
CURRENT LIABILITIES		
Trade and bills payable	**6,742,734**	2,966,659
Tax payable	**95,157**	53,543
Other payables and accruals	**1,930,734**	684,235
Bank borrowings, unsecured	**948,527**	113,929
Other borrowings, secured	**959,750**	—
	10,676,902	3,818,366
NET CURRENT ASSETS	**2,371,341**	1,998,601
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,676,104**	4,851,530
NON-CURRENT LIABILITIES		
Bank borrowings, unsecured	**211,765**	282,353
Convertible notes	**256,000**	347,000
Deferred tax liabilities	**58,389**	1,847
	526,154	631,200
MINORITY INTERESTS	**1,329,026**	100,079
	2,820,924	4,120,251
CAPITAL AND RESERVES		
Issued capital	**275,789**	268,133
Reserves	**2,545,135**	3,852,118
	2,820,924	4,120,251

Notes:

1. Principal Accounting Policies

The quarterly financial statements are unaudited, but have been reviewed by the Audit Committee.

The accounting policies used in the preparation of the 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 nine months ended 30 September 2004 is as follows:

	Turnover		**Profit from operating activities**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Televisions	**12,079,835**	8,274,863	**352,565**	358,813
Computers	**1,482,315**	1,160,024	**37,824**	20,576
Other audio-visual products	**912,723**	232,359	**15,923**	(11,844)
Others	**352,824**	311,787	**(5,785)**	(17,818)
	14,827,697	9,979,033	**400,527**	349,727
Interest income			**5,089**	8,100
Negative goodwill recognised			**13,842**	—
Corporate expenses			**(41,575)**	(21,082)
Amortization of goodwill			**(25,599)**	(25,057)
Loss on disposal of a subsidiary			**(2,075)**	—
			350,209	311,688

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 TCL Communication Technology Holdings Limited ("TCL Communication") and its subsidiaries (together "TCL Communication Group"), a group mainly engaged in the design, development, manufacturing and marketing of mobile handsets.

The Company distributed a special dividend satisfied by distribution in specie of shares in TCL Communication ("Communication Shares") held by the Company on the basis of 40 Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company (the "Distribution") to shareholders whose names appeared in the register of members of the Company on 23 September 2004. Pursuant thereto a total of 1,103,157,000 Communication shares were distributed or sold (in case where the shareholders were entitled to but not qualified for the Distribution) and a total of 50,463,000 Communication Shares retained by the Company as short term investments. The Company has undertaken to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") that it will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Rules Governing the Listing of Securities of the Stock Exchange, within six months from the date on which dealings in the Communication Shares commence on the Stock Exchange, dispose of any of such Communication Shares save for transfer to the Company's holding companies.

On 27 September 2004, TCL Communication Shares were listed on the main board of the Stock Exchange by way of introduction.

Pursuant to the approval by the shareholders dated 9 September 2004, the share premium and capital reserve of the Company were reduced by HK$1,389,347,000 and HK$235,234,000 respectively to fund the Distribution.

The result of TCL Communication was shared by the Group up to 23 September 2004 before the Distribution. For further details of the results and financial position of TCL Communication Group, please refer to a separate results announcement dated 28 October 2004.

4. Depreciation and Amortization

During the period, depreciation of HK$202,473,000 (2003: HK$102,076,000) in respect of the Group's property, plant and equipment, and amortization of HK$85,271,000 (2003: HK$86,054,000) in respect of the Group's intangible assets and goodwill arising on consolidation were charged to the profit and loss account. Negative goodwill of HK$13,842,000 was recognized in the profit and loss account.

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:

	Nine months ended 30 September	
	2004	2003
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Group:		
Current — Hong Kong	**29,795**	10,225
— Elsewhere	**65,115**	31,897
Deferred	**(600)**	5,462
	94,310	47,584
Share of tax attributable to:		
Jointly controlled entities	**14,641**	7,276
Total tax charge for the period	**108,951**	54,860

6. Dividends

An interim dividend of 4.00 HK cents per share (2003: Nil) was paid to shareholders on the register of members on 22 September 2004.

In addition, as set out in more detail in note 3, a special dividend in the form of distribution in specie of the Communication Shares held by the Company on the basis of 40 Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company was made to the shareholders on the register of members on 23 September 2004.

7. Earnings per Share

The calculations of basic and diluted earnings per share are based on:

	Nine months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
Earnings		
Net profit attributable to shareholders, used in the basic earnings per share calculation	**324,765**	402,606
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**5,602**	7,875
Adjustment to minority interest upon exercise of the Exchange Option@	**(32,014)**	—
Earnings for the purposes of diluted earnings per share	**298,353**	410,481

	Number of shares Nine months ended 30 September	
	2004	2003
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	**2,729,646,318**	2,644,837,396
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	**15,994,184**	12,946,957
Assumed issued at no consideration on deemed conversion of all convertible notes outstanding during the period	**108,388,837**	136,932,707
Assumed issued at no consideration on deemed exercise of the Exchange Option@ outstanding during the period	**264,218,507**	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	**3,118,247,846**	2,794,717,060

[@] Pursuant to an exchange option agreement, the Company granted an option ("Exchange Option") to Thomson S.A., the minority shareholder of TTE Corporation, to exchange all of Thomson S.A.'s interest in TTE Corporation for new shares to be issued by the Company. Details of the Exchange Options have been set out in a circular of the Company dated 31 May 2004.

BUSINESS REVIEW

The Group completed three major projects in the third quarter of 2004. TTE Corporation ("TTE"), the new global giant in the TV industry, jointly formed by TCL and Thomson S.A. ("Thomson"), commenced operations in August 2004. TCL & Alcatel Mobile Phones Limited ("TAMP"), the TCL-Alcatel joint venture, also started running in September 2004. Shares in TCL Communication Technology Holdings Limited ("TCL Communication"), the mobile handset arm of the Group, were distributed to our shareholders and thereafter successfully listed on the Hong Kong Stock Exchange ("Stock Exchange") on 27 September 2004. Not only were these initiatives driven towards more clear business focus of different entities, but they also laid down solid global platforms for future expansion of the Group's TV and mobile handset businesses.

The third quarter of 2004 has been a tough period for TCL, two joint ventures with Thomson and Alcatel have just been formed and synergies have yet to be realized. This combined with a typical low season for the third quarter that further hit the financial performance of the Group, leading to a loss of HK$59 million in the quarter. The Group is implementing different measures to ride on the economies of scale created from procurement, research and development ("R&D"), manufacturing and other aspects. Synergies are expected to realize down the road. The Board is optimistic of the Group's business in the medium and long run.

TV Business

After TTE's formation, the Group set up five profit centres by geographical regions and business nature, namely the PRC, Europe, North America, Emerging Markets as well as the Strategic OEM business. The Group is pleased to report that the total unit sales of TVs for the three months and nine months ended 30 September 2004 were 4.59 million sets and 10.56 million sets respectively, representing a growth of 56% and 38% respectively from the same periods in 2003. Revenue for the three months and nine months ended 30 September 2004 amounted to HK$5,964 million and HK$12,080 million respectively, representing a growth of 93% and 46% respectively from the same periods in 2003. This was particularly respectable given the rapidly changing and highly competitive environment in the global consumer electronics market.

However, notwithstanding that performance of the PRC and emerging markets, selling primarily TCL branded TVs, was particularly impressive, the profitability of the TV business in the third quarter was adversely affected by the operations in North America and Europe, although sales performance was basically in line with the Group's expectations. Given TTE commenced its operations only two months ago, synergies have yet to be realized. This together with the typical low seasons in the third quarter of the year, the Group's TV business resulted in a loss position in the third quarter. Gross margin and operating margin for the three months ended 30 September 2004 were 17.6% and -0.1%, which declined from 18.0% and 4.7% in the same period in 2003.

	Unit Sales Unaudited results for the NINE months ended 30 September		
	2004	2003	**Change**
	('000 sets)	*('000 sets)*	*(%)*
TVs			
— PRC	**6,039**	5,093	18.6
— Europe	**565**	33	1,612.1
— North America	**479**	—	N/A
— Emerging Markets	**2,280**	1,411	61.6
— Strategic OEM	**1,194**	1,127	5.9

	Unaudited results for the THREE months ended 30 September		
	2004	2003	**Change**
	('000 sets)	*('000 sets)*	*(%)*
TVs			
— PRC	**2,292**	1,842	24.4
— Europe	**460**	14	3,185.7
— North America	**479**	—	N/A
— Emerging Markets	**881**	628	40.3
— Strategic OEM	**478**	458	4.4

The PRC Market

The Group is pleased to report the sales of TCL TVs in the PRC were highly encouraging in the third quarter of this year. Despite fierce market competition characterized by continual price reduction, the Group posted a 24.4% growth in total unit sales for the quarter under review. Sales revenue reached HK$2,616 million, accounting for 44% of turnover of its overall TV business.

The Group adopted a dual brand strategy in the PRC, targeting different market segments. TCL, known for its innovative and superior product design, targets the higher market segment with a full range of TVs from mid to high-end models, while Rowa offers core value TVs, targeting the second-tier market. For the first eight months this year, TCL TVs captured a market share of 20% in the PRC and stayed at the industry forefront, according to Ministry of Information Industry of the PRC ("MII") statistics.

More encouragingly, the Group achieved robust growth in sales of high-end TV models via continual product mix enhancement. Rear Projection, LCD, and Plasma TV altogether accounted for 13% of the sales, as compared to 10% in the corresponding period last year. In the segment of Rear Projection TV in particular TCL was ranked first with a market share of 16% in the first eight months of the year, according to MII.

The Group rolled out a total of 24 new TV models in the third quarter of this year, among which 18 were CRT models, mostly high definition TVs. The Group made a breakthrough with the launch of a Slim DLP TV, the world's thinnest 61" DLP model with 17.4 cm in width, only a third of the width of a conventional DLP rear projection TV.

On the R&D front, the Group joined hands with Genesis, a US based global leader in IC chips manufacturing, to co-develop the first world-class DDHD IC chip for digital high definition TVs. DDHD IC chip is embedded in all TCL digital high definition TVs, offering an unparalleled visual enjoyment. The Group also placed strong emphasis on the new generation digital TVs, which offer 3C convergence features for online interactive infotainment.

North American Market

In North America, the Group mainly sells products under RCA brand. According to Synovate, the RCA brand is among the top three in the North American market in the first half of 2004, with a market share of 9%.

During the third quarter of this year, following the establishment of TTE in August, sales of TVs in North America reached 479,000 sets. Sales revenue amounted to HK$1,236 million, accounting for 21% of the total TV sale of the Group.

Competition remained keen in the third quarter. Digital categories exhibited strong growth at the expense of most analog categories. Amid this, the Group not only focused on maximizing sales of value TV products, but also successfully introduced DIGITAL CABLE READY models (integrated rear-projection televisions with HD tuners built-in), and launched a series of DLP products.

During the third quarter, 18 new products were introduced into the North American market, including 6 DLP televisions and 8 digital rear projection models. The highlight amongst the new DLP models, as in the PRC market, was a 61" RCA Scenium rear projection TV.

The R&D laboratories located in Indianapolis continued to focus on developing Micro display technologies targeted towards the mass market and establishing global leadership in the category. Current projects in the pipeline include new low cost design concepts that encompass leading edge technology for applications in 2005.

European Market

In Europe, the Group mainly sells products under Thomson and Schneider brands. Thomson has been a well renowned brand in Europe for decades, known amongst families for generations, whereas Schneider has a relatively stronger foothold in its homeland Germany. Schneider is still a relatively small player in Europe while more importantly, Thomson was ranked number 5 with 7% market share in the "Europe 5" (UK, Germany, France, Italy and Spain) according to GFK June–July 2004 report.

The third quarter of this year brought challenges and opportunities. The Olympic Games in Greece boosted market demand during August 2004. Manufacturers triggered a price war capitalizing on increased sales. However, advance purchases led to a sharp decline in demand in the following months. Unit sales in European market were 460,000 sets, generating a revenue of HK$1,309 million for the Group and accounting for 22% of the total TV sales of the Group.

Although sales growth in Italy, Germany and Switzerland were relatively low during the period under review, France, Spain and Scandinavia posted satisfactory volume growth of 18%, 25% and 25% respectively.

Facing fierce price competition, the Group chose not to plunge into the price war triggered by competition in most segments, for maintaining profitability at a reasonable level. In addition, the continual enhancement of product mix also contributed to a stable average selling price. During the period under review, LCD and Plasma TVs accounted for 20% and 7% of the total TV sales in the European markets respectively. To further strengthen its position in the high-end market, the Group launched a new DLP 50” Classic model during the period under review. The Group will continue to sharpen its competitive edge in the high-end product market, anticipating increased contribution from these new products.

Since its initial stage of operation, Schneider has developed its own sales and marketing team, encompassing a broad customer network including professional electrical appliances chain stores, wholesalers and department stores. However, due to rapid market change, demand for LCD TVs turned out to be not as strong as expected and resulted in unsatisfactory financial performance of Schneider during the quarter under review. Despite this, the Board is optimistic that following the establishment of TTE, synergies in terms of procurement, R&D and economies of scale will be created in the European markets benefiting Schneider’s future growth.

Emerging Markets

Emerging markets were a key growth driver for the TV business as the Group continued to penetrate into markets such as Vietnam, Philippines, Indonesia and Singapore.

For the three months ended 30 September 2004, unit sales in emerging markets reached 881,000 sets, representing a year-on-year growth of 40%. Sales revenue amounted to HK$532 million, accounting for 8% of the total TV sales of the Group.

TCL TVs gradually developed leadership in different markets. In most Asian countries, market shares of TCL TVs reached double digits. The Group strategically catered to the needs of different geographical markets with different product offerings in the third quarter. High-end models such as LCD, Plasma and Rear Projection TVs were introduced to relatively developed regions, while promotional items and conventional CRT products were offered in developing markets.

With respect to new market development, the Group entered India and Thailand and is currently in the preparatory process of tapping into the Mexican market. While conducting OEM business in Africa, Middle East, Latin America, Far East and Australia, the Group plans to launch branded products within these markets.

Strategic OEM Business

For the three months ended 30 September 2004, the Group's Strategic OEM business recorded unit sales of 478,000 TVs, representing an increase of 4.4% as compared to the same period of previous year. Revenues generated in the three months amounted to HK$271 million, representing 5% of the total revenue of the Group's TV business.

In the third quarter of this year, following the formation of TTE, the group has further consolidated the business relationship with its key customers. Most of the OEM customers expressed their positive outlook and welcomed the strategic move of the Group. This resulted in a continuing growth in both unit sales and revenue in the quarter.

The Group is optimistic on its outlook of the Strategic OEM business. Following the formation of TTE, the Group is well positioned to benefit from enhanced economies of scale and R & D capabilities, to emerge as the global leader in the TV manufacturing industry. Riding on its cost competitiveness and efficiency, the Group's OEM business is highly competitive in the international marketplace.

PC Business

The Group's PC business continued to focus on three areas, home PCs, commercial PCs and notebook computers. The PC business reported satisfactory progress in the third quarter of this year. During the third quarter, the Group shipped 152,000 units of PCs, representing 6% year-on-year increase. Desktop PCs and notebook computers accounted for 96% and 4% of the total unit sales respectively.

In the first nine months of this year, unit sales of PCs reached 462,000 sets, of which desktop PCs accounted for 94% and notebook computers 6%. Sales revenue from the PC business for the first nine months of the year amounted to HK$1,482 million, representing a growth of 28%. The gross margin remained at a stable level of 9.1%. To the Group's satisfaction, effective cost control measures as well as economies of scale resulted in an improvement in operating margin.

The PC market underwent radical changes in the third quarter. The drastic price reduction of desktop PCs with LCD monitors initiated by domestic manufacturers, triggered a wave of fierce competition. Competition in the notebook computers sector also remained keen, with over 70 manufacturers currently present in the market.

In the arena of home PCs, the Group launched three series of new products, desktop PCs with wide LCD monitors, E-PCs offering full entertainment features, and wide screen LCD TVs. Riding on TCL's core strength of TV manufacturing, the Group launched the first LCD TV PC model combining wide viewing LCD display with multimedia 3C features, setting the highest standard for home PC.

The Group also launched five new commercial PC models, further enriching the list of products offered. The newly launched "精鼎 C 系列" is specifically designed for SMEs, offering multi-layered security functions and personalized applications to maximize work efficiency.

A new notebook computer model B10 was launched during the period under review. The new product received a positive response from the market, for its superior functionality and stable quality.

AV Business

The AV business is an integral part of the Group's multimedia consumer electronics business. Core products include DVD players, VCD players and other audio products. For the nine months ended 30 September 2004, the Group achieved sales of HK$90 million and HK$823 million in the PRC and overseas markets, respectively.

The Group achieved an increase in overall gross margin from 8.7% to 9.2%, despite the keen market competition and a fall in the average selling price in the PRC market. This attested to the Group's efficient supply chain management and effective cost control. Moreover, the implementation of cash-on-delivery policy for certain customers enabled the Group to have control over its working capital risks.

The Group launched a total of 8 new products during the third quarter, including high definition DVD players and mobile DVD players. Competitively priced, these new products laid solid ground for capturing future growth.

In overseas markets, the Group mainly manufactured products for OEM customers. During the third quarter, to keep up with market changes, the Group developed two new products for its export market, namely DVD recorders, and DVD PMPs embedded with a USB connector and hard disk. These new products were received well by customers and are expected to form revenue streams in the upcoming quarters.

Handset Business

Shares in TCL Communication, the handset business arm owned 40.8% by the Group, were distributed to our shareholders and thereafter successfully listed on the mainboard of the Stock Exchange on 27 September 2004. The Group has divested its stake in TCL Communication in the form of distribution in species. This strategic move enabled the Group and TCL Communication to focus on the development of their respective businesses.

During the period under review, the Group experienced a tough period as keen competition continued in the PRC market. TAMP, the TCL-Alcatel joint venture 55%-owned by TCL Communication and commencing its operations in September 2004 was yet to be profitable. As a result, the handsets business only contributed approximately HK$51 million in profits for the nine months ended 30 September 2004 to the Company, accounting for 16% of total net profit. For performance details of the handset business, please refer to the announcement of TCL Communication dated 28 October 2004.

With the divesture of TCL Communication stake in late September 2004, the results of the handset business will no longer make any contribution to the Group's earnings going forward.

FUTURE PLANS

While it is expected that the global consumer electronics market will continue to be challenging, the Board is optimistic on the outlook for the fourth quarter, conventionally the high season of the year.

Following TTE's commencement of operations, the Group expects synergies to gradually be realized from economies of scale arising from procurement and manufacturing. The combined R&D strengths of TCL and Thomson will also place the Group at the forefront of the industry. The Group has confidence in fully realizing synergies within 18 months and hopes to turn its loss-making operations in Europe and North America to profitable ones.

Operating on a global platform, the Group will leverage on its international network to strengthen its presence in the PRC and other existing markets. On the other hand, the Group will further expand its presence in the emerging markets that offer growth potentials.

The TV market is believed to be driven by super large, ultra-thin, high definition and intelligent TVs with digital 3C functional products in the future. TCL will continue to stay ahead of its peers with new breakthroughs in three aspects — distinguished high definition, outstanding 3C functions and prominent audio systems.

TCL is well positioned for growth and expansion. The Group has a business focus on consumer electronics and is committed to long-term growth. With the core competencies in product development, supply chain management, sales and marketing, the Group will create greater values and share the fruits of success with its shareholders in the years ahead.

FINANCIAL REVIEW

Significant Acquisitions and Disposals

In July 2004, the Company acquired from TCL Corporation a 100% and 70% interest in Inner-Mongolia TCL Electrical Appliance Company Limited and TCL Digital Science and Technology (Wuxi) Company Limited, respectively ("Wuxi and Inner Mongolia Assets") at a total consideration of RMB231.5 million. The Wuxi and Inner Mongolia Assets were used as part of the Group's contribution into TTE, the Group's 67% held joint venture established for the combination of the respective TV businesses and assets of the Group and Thomson.

TTE started operations in August. The initial net asset value of TTE was approximately HK$3,627 million. Subject to the final confirmation by the auditors at year end and based on the estimated value of the TV businesses of the two joint venture partners, a negative goodwill of approximately HK$415 million arose and is amortized on a straight line basis over the average remaining useful life of the acquired depreciable/amortizable assets.

As set out in note 3 to the financial statements, a distribution in specie of shares of the company's 40.8% jointly controlled entity, TCL Communication was made to shareholders in September. Share premium and capital reserve of the Company in the amounts of HK$1,389 million and HK$235 million respectively were utilized to fund the distribution. TCL Communication was listed on the main board of the Stock Exchange on 27 September 2004.

Liquidity and Financial Resources

The Group consistently maintained a stable 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 30 September 2004 amounted to HK$1,452 million, of which 22% was maintained in Hong Kong Dollars, 33% in US Dollars, 15% in Renminbi, 24% in Euro and 6% was held in other currencies for the overseas operations.

On 3 August 2004, the Company as a borrower entered into a facility agreement (the "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 purpose of the Facility is to fund the operation of TTE. During the period, a total of US$55 million and Euro 23 million had been drawn from the Facility.

The Company is negotiating with various banks in respect of a medium term syndicated loan ("Syndicated Loan Facility") to refinance the Facility. It is expected that the Syndicated Loan Facility will be finalized and signed before year end.

Pursuant to a receivable purchase and sales agreement, to ensure the smooth running of TTE, Thomson agreed to purchase, on a rolling basis, up to a maximum outstanding amount of Euro100 million (about HK$960 million) of the trade account receivables of TTE and its relevant subsidiaries. Such outstanding amount shall, from the first anniversary of commencement of operation of TTE , be reduced by 1/12 at the end of each month. The facility has been fully utilized and the balance at the period end amounted to approximately HK$960 million.

Save as disclosed above, there was no material change in available credit facilities when compared with the year ended 31 December 2003 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. As the distribution in specie of shares of TCL Communication was defined as a capital distribution, in accordance with the terms of the convertible notes, the conversion price of the convertible notes was adjusted from HK$2.556 per share to HK$2.06 per share. At the period end, a total of HK$256 million of convertible notes remained outstanding which entitle the holders to convert into 124,271,844 shares at the new conversion price of HK$2.06 per share.

At the period end, the Group's gearing ratio was 0.33 which is calculated based on the Group's net borrowings at approximately HK$924 million (calculated as total interest-bearing borrowings less cash and bank balances) and the shareholders' funds of approximately HK$2,821 million.

Foreign Exchange Exposure

The Group manages foreign exchange exposure globally including netting of exposures, centralization of bank operations, global reporting, etc. Exceptions will be made only when local regulations prevent such transactions. Borrowings are made in the functional currency to minimize foreign exchange exposure.

Employees and Remuneration Policy

The Group had a total of 33,000 dynamic and talented employees, of which approximately 3% was management staff, 22% technical staff, 4% clerical staff, 20% sales & marketing staff, and 51% workers. They were all dedicated to advancing the quality and reliability of our operations. Total staff costs for the period was HK$631 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 32,384,861 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 during the period.

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

On behalf of the Board
LI Dong Sheng
Chairman

Hong Kong, 28 October 2004

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