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 2002

FINANCIAL HIGHLIGHTS			
	2002	2001	change
	HK$M	*HK$M*	*(%)*
Turnover	**2,989**	2,471	+21%
Profit before tax	**205**	115	+78%
EBITDA	**198**	140	+41%
Net profit attributable to shareholders	**184**	112	+64%
Basic earnings per share (HK cents)	**7.33**	4.58	+60%

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 2002 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Three months ended 31 March	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
TURNOVER	2	**2,989,143**	2,470,769
Cost of sales		**(2,408,628)**	(2,022,431)
Gross profit		**580,515**	448,338
Other revenue and gains		**39,748**	15,219
Selling and distribution costs		**(346,741)**	(282,293)
Administrative expenses		**(108,394)**	(59,814)
Other operating expenses		**(20,379)**	(2,489)
PROFIT FROM OPERATING ACTIVITIES	2	**144,749**	118,961
Finance costs		**(4,226)**	(4,040)
Share of profits and losses of:			
Jointly-controlled entities	4	**64,280**	306
Associate		**(55)**	164
PROFIT BEFORE TAX		**204,748**	115,391

Tax	6	**(26,216)**	(4,969)
PROFIT BEFORE MINORITY INTERESTS		**178,532**	110,422
Minority interests		**5,596**	1,360
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**184,128**	111,782
DIVIDEND	7	**Nil**	Nil
EARNINGS PER SHARE	8		
— Basic		**7.33 cents**	4.58 cents
— Diluted		**7.20 cents**	4.58 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31 March 2002	Audited 31 December 2001
	Notes	***HK$'000***	*HK$'000*
NON CURRENT ASSETS			
Fixed assets		**828,662**	853,364
Goodwill		**536,334**	306,046
Interest in an associate		**14,899**	14,953
Interests in jointly-controlled entities		**332,865**	237,048
Long term investment		**1,682**	1,682
		1,714,442	1,413,093

CURRENT ASSETS			
Inventories		**1,588,565**	2,039,045
Trade and bills receivable	9	**1,327,142**	937,463
Other receivables		**391,737**	301,563
Pledged bank deposits		**63,977**	63,112
Cash and bank balances		**1,033,000**	1,021,009
		4,404,421	4,362,192
CURRENT LIABILITIES			
Trade and bills payable	10	**2,376,048**	2,151,096
Tax payable		**28,162**	20,895
Other payables and accruals		**552,306**	600,638
Interest-bearing bank borrowings	11	**308**	23,667
		2,956,824	2,796,296
NET CURRENT ASSETS		**1,447,597**	1,565,896
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,162,039**	2,978,989
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	11	**6,548**	6,628
Deferred tax		**1,915**	1,915
		8,463	8,543
MINORITY INTERESTS		**30,912**	36,508
		3,122,664	2,933,938
CAPITAL AND RESERVES			
Issued capital		**251,638**	251,122

Reserves	**2,795,571**	2,607,361
Proposed final dividend	**75,455**	75,455
	3,122,664	2,933,938

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 2002 is as follows:

	Turnover		**Profit from operating activities**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By activity:				
Continuing operations				
Colour television sets	**2,567,769**	2,162,132	**230,969**	131,624
Computers related products	**188,268**	70,705	**(6,197)**	(5,861)

Other audio visual products	**55,641**	59,829	**(8,740)**	(1,166)
Others	**27,605**	3,206	**(6,778)**	(6,225)
	2,839,283	2,295,872	**209,254**	118,372
Discontinuing operations				
White goods & air-conditioners	**149,860**	174,897	**(43,830)**	8,737
	2,989,143	2,470,769	**165,424**	127,109
Less:Amortisation of goodwill			**(14,401)**	(2,249)
Corporate expenses			**(6,274)**	(5,899)
			144,749	118,961

More than 90% of the Group's turnover and contribution to trading results was derived from activities in the People's Republic of China Mainland.

3. Discontinuation of white Goods Business

On 9 May 2002, the Company entered into an agreement with Guangdong TCL Group Co., Ltd., the Company's ultimate controlling shareholder, for the disposal of certain interest in the white goods business. The total consideration for the disposal is approximately HK$54 million, calculated based on the net asset value of the respective interest as at 31 March 2002. It is expected that completion will take place on or before 31 December 2002. The Directors do not expect any material gain or loss arising from the transaction. Details of the connected transaction have been included in an announcement of the Company dated 9 May 2002.

It is the intention of the Company to terminate the remaining white goods business other than those under disposal, in due course.

The Group's white goods business was derived from activities in the PRC. As at 31 March 2002, the carrying amount of net assets of the white goods business was approximately HK$58 million. During the three months ended 31 March 2002, the white goods business secured revenue of approximately HK$150 million, incurred expenses of approximately HK$67 million and incurred a pre-tax loss of approximately HK$48 million.

4. Share of Results of Jointly-controlled Entities

More than 90% of the Group's share of results of its jointly-controlled entities was derived from enterprises which were mainly engaged in the manufacturing and selling of mobile handsets. Details of the results of this mobile handset business are as follows:

	Unaudited Three months ended 31 March	
	2002	2001
	HK$'000	*HK$'000*
Turnover of mobile handsets	**1,551,519**	143,746
Net profit attributable to shareholders	**203,141**	2,394
Share of net profit attributable to the Group	**58,150**	479
Amortization of goodwill charged to other operating expenses	**6,117**	—

5. Depreciation and Amortization

During the period, depreciation of HK$38,583,000 (2001: HK$18,567,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK$14,401,000 (2001: HK$2,249,000) was charged to the profit and loss account in respect of the Group's goodwill arising on consolidation.

6. Tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 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	
	2002	2001
	HK$'000	*HK$'000*
Group:		
Hong Kong	**1,574**	—
Elsewhere	**19,168**	4,284
	20,742	4,284
Share of tax attributable to:		
Jointly-controlled entities	**5,474**	685
	26,216	4,969

7. Dividend

The directors of the Company do not recommend the payment of any interim dividend for the three months ended 31 March 2002 (2001: Nil).

8. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK$184,128,000 (2001: HK$111,782,000) and the weighted average of 2,512,825,278 (2001: 2,443,153,525) shares in issue during the period.

The calculation of diluted earnings per share is also based on the net profit from ordinary activities attributable to shareholders for the period of HK$184,128,000 (2001: HK$111,782,000). The weighted average number of shares used in the calculation is 2,512,825,278 (2001: 2,443,153,525) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 44,180,339 (2001: Nil) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

9. Trade and Bills Receivable

The Group generally grants a credit period of 60-120 days to its trade debtors. The aging analysis of the period end trade and bills receivable is as follows:

	Unaudited 31 March 2002	Audited 31 December 2001
	HK$'000	*HK$'000*
Current to 90 days	**835,847**	744,785
91 days to 180 days	**447,576**	152,559
181 days to 365 days	**24,436**	14,619
Over 365 days	**19,283**	25,500
	1,327,142	937,463

10. Trade and Bills Payable

The aging analysis of the period end trade and bills payable is as follows:

	Unaudited 31 March 2002	Audited 31 December 2001
	HK$'000	*HK$'000*
Current to 90 days	**1,896,076**	1,925,597
91 days to 180 days	**444,367**	199,948
181 days to 365 days	**12,256**	10,545
Over 365 days	**23,349**	15,006
	2,376,048	2,151,096

11. Interest-bearing Bank Borrowings

	Unaudited 31 March 2002	Audited 31 December 2001
	HK$'000	*HK$'000*
Secured	**6,856**	6,931
Unsecured	—	23,364
	6,856	30,295
Bank loans repayable:		
Within one year	**308**	23,667
In the second year	**318**	312
In the third to fifth year, inclusive	**1,013**	998
Beyond five years	**5,217**	5,318

	6,856	30,295
Portion classified as current liabilities	**(308)**	(23,667)
	6,548	6,628

(a) Certain of the bank loans were secured by the Group's land and building with the total net book value of HK$10,473,000 (31 December 2001: HK$10,529,000)

(b) As of 31 December 2001, unsecured bank loans amounting to HK$4,673,000 were guaranteed by the Company's ultimate holding company.

BUSINESS REVIEW AND OUTLOOK

The Group was committed to enhancing its overall competitiveness on an established base in the first quarter of 2002. For the three months ended 31 March 2002, the Group recorded a turnover of HK$2,989 million, an increase of 21%% as compared to the corresponding period last year, while net profit increased by 64% to HK$184 million. Basic earnings per share stood at HK$7.33 cents. The Group is pleased to see healthy developments in its core businesses, among which the Television Business and the Mobile Handset Business performed satisfactorily with considerable growth. The Overseas Business also progressed better than expected. These developments have formed solid revenue streams and enhanced the Group's earning capabilities. In the second quarter, the Group will fully leverage the buying spree associated with the May 1st holidays and the World Cup fever so as to further consolidate its market position.

Television Business

TCL continued to maintain a leading position in the domestic television industry in the first quarter of 2002. Sales of televisions in the PRC during the period under review amounted to 1.9 million sets, representing an increase of 18% as compared to the same period last year. Enjoying a 20% share in the domestic market, TCL far outpaced other manufacturers. A total of 16 new models, mostly of

HiD and *Xin Rui (芯銳) series, were launched during the first quarter, all of which were well received by the market.*

In terms of operating environment, competition eased in the first quarter. This is largely attributable to the reduced output of various manufacturers since 2001, which lowered the pressure on inventory levels. In addition, competition in the domestic market further relieved as certain manufacturers increased their proportion of overseas exports significantly. The market is moving towards high-end products such as televisions with progressive scanning, rear projection televisions, etc, while competition in medium to low-end products was alleviated.

The Group is pleased to see that product prices stabilized as the operating environment improved. Coupled with the reduction in component prices last year, which is reflected in this year's financial statements, the Group's gross profit margin surged by 2.8%, as compared with the corresponding period last year.

Aiming to maintain growth momentum in the second quarter, which is conventionally the non-peak season for the television industry, TCL has seized opportunities arising out of the May 1st Holidays and World Cup Fever to organize a series of marketing activities. A variety of new models including rear projection television and HiD will be launched.

Mobile Handset Business

The mobile handset business saw tremendous development in the first quarter. Sales of handsets during the first three months of 2002 exceeded 1 million sets, representing a strong increase of 8 times over the same period last year. With this remarkable growth, the share of TCL handsets in the domestic market has increased considerably.

A major reason for the strong growth in sales is that the overall market performed better than expected in the first quarter. Our committed efforts to increase TCL's brand name awareness and to enhance product quality contributed to boosting the sales of the key product “8-series” handsets, sales of which outperformed the Group's expectations. Five new handset models launched during the first quarter recorded satisfactory sales and accounted for approximately 9% of total sales of handsets.

As the Chinese New Year was a high season for sales, handset manufacturers either adjusted their product price downwards to various extents, or launched new products to capture market interests, resulting in an intensified level of competition. In response to this market change, TCL made modest adjustments to the retail prices of old handset models. However the overall gross margin has not declined, but soared by 5% in the first quarter due to the higher proportion of high-end product in the sales mix.

Looking ahead to the second quarter, we are riding on the opportunities arising out of World Cup Fever to further enhance brand awareness of TCL handsets to create a further wave of strong sales. The Group will launch at least three new handset models to capitalize on strong sales demand in May 2002. The Group is fully confident that its sales in the second quarter will keep going up.

White Goods Business

Affected by the seasonal factors, the overall sales performance of the white goods in the first quarter had yet to reach a level that could generate economies of scale. Additionally, due to provisions made on inventory, gross profit margins narrowed substantially in the first quarter this year.

With regard to individual sales of the various white goods, refrigerators recorded satisfactory sales of 35,000 sets, representing a growth of 19%. The growth is largely attributed to our strategy to launch new models ahead of other manufacturers before the peak season starts. However, the sales of washing machines slipped by 32% to 79,000 sets as the potential of the new sales channels has not yet been fully exploited . With regard to the air-conditioners, ever since 2002, manufacturers strived to capture market share by competing in terms of product models, quality as well as pricing, ferocious competition was seen. As TCL air-conditioners do not have sustainable competitive advantages, first quarter performance was not satisfactory, with sales declined by 20% to 29,000 sets.

Discontinuation of White Good Business

The white goods business in the PRC at the moment is highly competitive as there is an increased market supply of white goods in the PRC and hence creates a lot of pricing pressure.

In order to turn around the white goods business into profit, the Group needs to inject huge capital and resources which the Group would like to save for other business units to generate higher return, e.g. TV and mobile handset businesses. In addition, in view of the fact that the white goods business does not fit into the Company's existing 3C convergent strategy and its long-term goal of becoming a leader of infotainment/multi-media device provider, the Directors consider that it is in the interest of the Company to terminate its white goods business.

PC Business

Benefiting from improvements in the industry environment together with the Group's efforts to adjust channel policies and corporate strategies, TCL computers experienced gradual pick-ups in the first quarter. Sales of home PCs and commercial PCs amounted to 29,000 sets and 9,000 sets respectively. Despite reduced sales volumes as compared to the same period last year, the Group is pleased to see the decrease has slowed down. Gross profit margin was maintained at a level of last year.

During the first quarter, emphasis was placed on enhancing existing core products to meet market needs, adding new value to product applications with a view to increasing the operations scale and enhancing earnings.

Having experienced market downturns in the international and domestic PC markets in 2001, a number of manufacturers have stepped back from this highly competitive market after suffering severe losses. The PC market appears to be turning around in 2002. As a result of a flattened decrease in prices of PC parts and components, if not a price rebound in certain components, the retail price of PCs was relatively stable. In line with the global operating environment, some relief in market competition is seen.

The Group anticipates continuous market improvements in the next quarter. As the second quarter covers the May 1st Holiday and the summer holidays, both of which are golden opportunities for the sale of PCs, sales are expected to further increase. Catering to the needs of our target markets, in the second quarter, the Group will launch new TCL computer models, expand product lines, ameliorate sales channels and explore the potentials in second and third tier cities in the PRC to further enhance sales.

Other AV Business

Sales of other AV equipments amounted to 130,000 sets in the first quarter of 2002. DVDs recorded the strongest growth among the various AV products, with sales amounting to 22,000 sets, while sales of VCDs and SVCDs contracted mildly despite the varying price reductions. As a result, the overall gross margin decreased substantially in the first quarter this year. The unsatisfactory sales performance is due to the delay in new product launches, shortages of key parts and accessories which led to an insufficient supply of products, incomplete integration of home AV products as well as adjustments in sales network operations.

TCL launched two new DVD models during the period under review, among which the DVD-F60 performed well in the high-end market because of its superior design.

Keener competition in the video player market is seen in 2002. Discussions with regard to the intellectual property rights and royalty fees of DVD players after China's accession into WTO is still underway. It has created uncertainty in the market and the Group is closely monitoring its development and will carry out appropriate measures to cope with the changing market environment.

In the face of this highly competitive environment, the Group plans to undergo a relatively large scale restructure of the video player business in the next quarter to lower distribution channel costs and raise integrated efficiency. The integration of the home theatre business is close to completion. With the implementation of market penetration activities well underway, the Group is well positioned to capture emerging opportunities in the peak season ahead.

Overseas Business

The Group's overseas business showed highly satisfactory performance in the first quarter of 2002. Export reached 196,000 sets of televisions and 27,000 sets of other AV equipment. Total sales amounted to approximately HK$162 million, representing a strong increase of 47% as compared to the same period last year. The satisfactory performance is due to the strong growth in the Middle East and Russian markets.

In addition, TCL's overseas branch offices maintained the strong sales in South East Asia from December 2001, setting strong foundations for brand building and establishing a solid position for the Group to develop TCL into a leading brand name in the South East Asian region.

Looking to the next quarter, TCL will enter a new stage of product promotion and technology enhancement. Leveraging the opportunities brought about by the World Cup to be held in Asia this year, TCL will deploy additional effort and resources to enhance the recognition of the TCL brand and to promote product sales in target markets. Meanwhile, new television technology solutions for the Group's overseas markets will be in place in July 2002. The new solutions will raise product reliability and competitiveness, increase production efficiency considerably and lower purchasing costs to cope with the ever-changing needs of overseas markets. The Group anticipates to maintain similar growth in the second quarter as it did in the first quarter.

Information Technology Business

TCL's information technology business was undergoing a phase of adjustment in the first quarter of 2002. With a streamlined workforce and stringent cost control measures, overall loss for this business has been reduced. Focusing on the development and promotion of the Remote Education Project ("REP"), the Group successfully consolidated its non-REP related businesses.

The distance learning education programmes for the the Central Radio and Television University (CCRTU) has experienced smooth progress during the period under review. The "*Digital Campus Virtual Reality Education Platform"* developed by CCRTU successfully obtained approval from the Ministry of Education and was officially launched with a series of promotions on 26 April 2002. The platform is designed to breach the solitude of students studying off-campus and to assist them in solving problems related to their studies. The "Modern Remote Education IT Testing System", another system developed by the CCRTU, has also passed technical verifications by the China Software Evaluation Centre.

With regard to the network facilities business, the Group is pleased to see encouraging performances in the first quarter with a considerable reduction in losses. The four new switches introduced during the period under review were also welcomed by customers. Seeing that the market potential for these newly launched products is promising, the Group will promote them as core products.

In terms of operating strategy, TCL will adopt a market-driven approach that emphasizes the importance of prompt reactions to market changes, accelerates the pace of distribution channel building, as well as enhances the presence of the TCL brand in the PRC.

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
Chairman

Hong Kong, 9 May 2002

**for identification purpose only*

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