TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

TCL 多媒體科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2005

FINANCIAL HIGHLIGHTS

	2005	2004	**change**
	(HK$'M)	*(HK$'M)*	*(%)*
Turnover	**7,926**	4,026	+97%
EBITDA	**64**	279	–77%
Profit/(Loss) before tax	**(46)**	288	N/A
Net profit/(loss) attributable to equity holders of the parent	**(48)**	253	N/A
Basic earnings/(loss) per share (HK cents)	**(1.74)**	9.34	N/A

OPERATIONAL HIGHLIGHTS

TVs

— PRC market continued to deliver solid sales growth and stable margins

— Operating environment in the European & North American markets remained tough

— Emerging market & strategic OEM divisions reported strong volume growth but lower margins

Other businesses

— Both PC & AV divisions reported satisfactory results

The Board of Directors of TCL Multimedia Technology 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 2005 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Three months ended 31 March	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
TURNOVER	2	**7,926,296**	4,025,575
Cost of sales		**(6,574,318)**	(3,240,745)
Gross profit		**1,351,978**	784,830
Other revenue and gains		**44,513**	23,135
Selling and distribution costs		**(1,052,430)**	(412,779)
Administrative expenses		**(259,432)**	(140,720)
Research and development costs		**(102,254)**	(18,327)
Other operating expenses		**(7,441)**	(9,720)
Impairment of short term investments		**(2,523)**	—
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2	**(27,589)**	226,419
Finance costs		**(19,442)**	(3,335)
Share of profits and losses of jointly-controlled entities		**1,071**	84,361
Amortization of goodwill on acquisition of jointly-controlled entities		**—**	(19,608)
PROFIT/(LOSS) BEFORE TAX		**(45,960)**	287,837
Tax	4	**(40,462)**	(30,353)
PROFIT/(LOSS) FOR THE PERIOD		**(86,422)**	257,484
ATTRIBUTABLE TO:			
Equity holders of the parent (i.e. the Company)		**(48,013)**	252,978
Minority interests		**(38,409)**	4,506
		(86,422)	257,484
DIVIDEND	5	**Nil**	Nil
EARNINGS/(LOSS) PER SHARE	6		
— Basic		**(1.74 cents)**	9.34 cents
— Diluted		**(1.84 cents)**	8.94 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31 March 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
NON CURRENT ASSETS			
Fixed assets		**2,493,245**	2,448,404
Trademarks	3	**25,453**	26,506
Goodwill	3	**206,639**	206,639
Negative goodwill	3	**—**	(548,016)
Interests in jointly-controlled entities		**147,622**	146,375
Long term investments		**42,187**	42,301
Long term receivables		**274,489**	283,814
Prepaid royalty		**608,030**	620,368
Deferred tax assets		**18,259**	18,583
		3,815,924	3,244,974
CURRENT ASSETS			
Inventories		**4,106,077**	4,565,500
Trade and bills receivable		**4,887,789**	5,812,543
Other receivables		**1,557,728**	1,318,452
Tax recoverable		**24,501**	11,266
Short term investments		**30,278**	116,894
Cash and bank balances		**1,706,144**	1,833,272
		12,312,517	13,657,927
CURRENT LIABILITIES			
Trade and bills payables		**5,760,880**	6,649,213
Tax payable		**113,988**	110,838
Other payables and accruals		**1,461,556**	1,656,962
Provisions		**216,939**	239,877
Bank borrowings, unsecured		**711,086**	570,119
Due to a minority shareholder		**490,081**	430,748
Due to the ultimate holding company		**408,124**	246,965
Convertible notes		**256,000**	256,000
		9,418,654	10,160,722
NET CURRENT ASSETS		**2,893,863**	3,497,205

	Unaudited 31 March 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,709,787**	6,742,179
NON-CURRENT LIABILITIES		
Bank borrowings, unsecured	**1,420,439**	1,622,134
Due to a minority shareholder	**336,843**	603,048
Deferred tax liabilities	**32,691**	33,989
Pensions and other post-employment benefits	**129,447**	130,050
	1,919,420	2,389,221
	4,790,367	4,352,958
CAPITAL AND RESERVES		
Issued capital	**275,865**	275,796
Reserves	**3,028,930**	2,544,734
Proposed final dividend	**110,346**	110,346
	3,415,141	2,930,876
Minority interests	**1,375,226**	1,422,082
	4,790,367	4,352,958

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 Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounting policies used in the preparation of these financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2004, except those mentioned below.

In the current period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (the "HKFRS") and Hong Kong Accounting Standards (the "HKAS") (collectively the "new HKFRSs") which are effective for the accounting period beginning on or after 1 January 2005.

The new HKFRSs which may have material impact on the Group are as follows:

HKFRS 2 — Share-based Payment
HKFRS 3 — Business Combinations
HKAS 1 — Presentation of Financial Statements
HKAS 36 — Impairment of Assets
HKAS 38 — Intangible Assets

The financial statements for the 3 months ended 31 March 2004 have been restated in accordance with the relevant requirements.

2. Segment Information

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activities for the three months ended 31 March 2005 is as follows:

	Turnover		Profit/(Loss) from operating activities	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Television	**6,957,776**	3,306,939	**(35,494)**	232,608
Computers	**438,188**	435,818	**11,796**	10,707
Other audio-visual products	**370,674**	152,378	**10,647**	4,044
Others	**159,658**	130,440	**(3,550)**	(5,756)
	7,926,296	4,025,575	**(16,601)**	241,603
Interest income			**11,534**	4,546
Amortisation of goodwill *(note 3)*			**—**	(8,571)
Corporate expenses			**(19,999)**	(11,159)
Impairment of short term investments			**(2,523)**	—
			(27,589)	226,419

3. Depreciation, Amortization and Treatment of Intangible Assets including Goodwill and Negative Goodwill

During the period, depreciation of HK$91,230,000 (2004: HK$43,475,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment.

Under the new HKAS 38 — Intangible assets, intangible assets with an indefinite useful life should not be amortised and should be subject to impairment test. During the period, no amortization was made (2004: HK$775,000) in respect of the Group's acquired trademark and no impairment was considered necessary.

Under the new HKFRS 3 — Business Combination, goodwill is no longer amortized and is measured at cost less impairment losses. During the period, no amortization was made (2004: HK$28,179,000) and no impairment was considered necessary. The carrying amount of negative goodwill in the amount of HK$548,016,000 was derecognized at the beginning of the period, with a corresponding adjustment to the opening balance of retained earnings.

4. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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:

	Unaudited Three months ended 31 March	
	2005	2004
	HK$'000	*HK$'000*
Current:		
Hong Kong	**2,795**	10,388
Elsewhere	**38,965**	19,965
Deferred	**(1,298)**	—
	40,462	30,353

5. Dividend

The directors of the Company do not recommend the payment of any interim dividend for the three months ended 31 March 2005 (2004: Nil).

6. Earnings/(Loss) per Share

The calculations of basic earnings/(loss) per share and diluted earnings/(loss) per share are based on:

	Unaudited Three months ended 31 March	
	2005	2004
	HK$'000	*HK$'000*
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent entity used in basic earnings/(loss) per share calculation	**(48,013)**	252,978
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**—**	2,260
Adjustment to minority interest upon exercise of the Exchange Option[@]	**(23,772)**	—
Earnings/(loss) for the purposes of diluted earnings/(loss) per share	**(71,785)**	255,238

	Number of shares Three months ended 31 March	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings/(loss) per share calculation	**2,758,122,999**	2,708,336,512
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	**—**	26,751,618
Assumed issued on deemed conversion of all convertible notes outstanding during the period	**—**	120,917,815
Assumed issued on deemed exercise of the Exchange Option[@] outstanding during the period	**1,149,140,810**	—
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	**3,907,263,809**	2,856,005,945

[@] Pursuant to an exchange option agreement, the Company granted an option (the "Exchange Option") to Thomson S.A., the minority shareholder of TTE Corporation (a subsidiary of the Company), to exchange all of Thomson S.A.'s interest in TTE Corporation for 1,149,140,810 new shares to be issued by the Company. The option is exercisable from 27 September 2004 to 16 July 2005. Details of the Exchange Option have been set out in a circular of the Company dated 31 May 2004.

BUSINESS REVIEW

The Group continued to consolidate its business and conducted restructuring of the newly established TTE Corporation ("TTE") in the first quarter of 2005. Operating environment remained tough. Competition was keener than ever in the European and North American market, driving the selling price of TV products downward. For the three months ended 31 March 2005, the Group recorded a turnover of HK$7,926 million, an increase of 97% over the same period last year. Gross margin declined to 17.1% as the Group had a significant portion of sales in Europe and North America after TTE started operation, and those regions have relatively low gross margin in the period under review.

The Group is implementing different measures to capture the maximum benefits in procurement, R&D and manufacturing brought by the economies of scale. More synergies are expected to be realized in 2005 and 2006. The Board of Directors expects short-term pressure on the Group's overall profitability but remains optimistic of the Group's long-term competitiveness.

In April 2005, TCL Multimedia and Thomson S.A. ("Thomson") signed Memoranda of Understanding (the "MOUs"), which demonstrated attempts to let TTE to have more control in sales and marketing activities overseas and also to simplify the production arrangement with the factory in Angers, France. Following the MOUs, both parties would exercise reasonable efforts to reach definitive agreements by mid-May.

TV Business

The Group's TV business are run along five profit centres, namely the PRC, Europe, North America, Emerging Markets and Strategic OEM business. For the three months ended 31 March 2005, total unit sales of TVs reached 5.05 million sets while TV revenue amounted to HK$6,958 million, representing a growth of 60% and 110% respectively over the same period last year.

The PRC, Emerging Markets and Strategic OEM business continued to generate profit for the Group while operations in European and the North American markets required further improvement. Despite the Group assumed stringent cost control measures and brought down costs across the board, operating margin in the period under review was negative due to the relatively higher operating cost in Europe and the North America.

	TV Unit Sales Unaudited results for the THREE months ended 31 March		
	2005 ***('000 sets)***	2004 *('000 sets)*	**Change**
PRC	**2,598**	2,155	21%
Europe	**606**	53	Not comparable
North America	**653**	N/A	Not comparable
Emerging Markets	**677**	606	12%
Strategic OEM	**517**	344	50%
Total TV	**5,051**	3,158	60%

The PRC Market

The Group maintained its momentum and sold 2.6 million units of TV in the first quarter, representing a 21% year-on-year growth. The total sales revenue in the PRC market amounted to HK$2,973 million, accounting for 43% of the total TV turnover of the Group.

With its successful dual brand strategy in the PRC market — TCL brand targeting mid to high-end market segment and Rowa targeting the mainstream market, the Group believed it continued to maintain its position as the best-selling TV company in the PRC with higher market share. Reckoning the shift of market demand towards the higher end with the improving living standards in the PRC, the Group has implemented market strategies to raise its position in the high-end segment of the industry. As a result, the Group successfully strengthened its position in high-end CRT TV and LCD TV, with 19% and 8% share in the respective segments, according to China Economy Consultancy, January – February 2005 data. High-end TVs (comprising projection TV, plasma and LCD TVs) accounted for 12% of the region's total TV revenue. Gross margin slightly increased to 23.9%.

Among the 33 new TV models launched in the first quarter of this year, two-third of the new models was the high-end TVs such as LCD, rear projection TV, DLP, plasma and CRT high-end TVs. It also saw a breakthrough in the DLP technology by creating a 70-inch DLP model, bringing TV viewers a step forward to home movie experience.

European Market

The European market was highly competitive with new entrants coming to the flat TV segment and dominant global players trying to recoup their lost market shares. Against this competitive backdrop, the Group with the brands of Thomson and Schneider recorded 0.6 million units of sales in the region in the period under review, which is slightly below internal target. The sales revenue in Europe amounted to HK$1,709 million, accounting for 24% of the total TV turnover of the Group.

The Group estimated that there was no significant change in its market position. With the market trend of the rising importance of high-end TV, the Group also paid more attention in the product development of that category. In the period under review, the high-end TV category accounted for 45% of the total sales revenue of the Group in Europe.

On the operation side, the Group kept on executing plans to realize synergies and cost was reduced in the period under review. Impact of cost control was particularly impressive on logistics front. However, market competition is keener than ever, particularly in high-end TV market which triggered a faster price drop for the high-end TVs, especially LCD TV. Gross margin in the European market was reported at 12.8%.

Restructuring work went on at Schneider and sales were negatively affected. As the business is still below the expected scale and there was a lack of new product rollout, an operating loss of HK$18 million was incurred.

North American Market

In the first quarter of 2005, market competition was no less than before and pressure continued to be in the area of price. Despite this, the Group still maintained its market position and recorded 0.65 million units of sales in the period under review. Revenue amounted to HK$1,441 million, accounting for 21% of the Group's TV turnover.

By leveraging on the Group's low cost structure of core value TV in the PRC, the competitiveness of the product in this category in North American market was greatly enhanced. As a result, core value TV sales were strong while high-end TV sales were weaker than expected in the period under review. Consequently, average selling price was moving downward. High-end TV as a result accounted for 47% of total revenue of the profit centre of North America and overall gross margin of the profit centre was recorded at 14%.

The new models launched in the first quarter were focused on rear-projection TV, DLP TV and TV model tailored made to a particular industry. They all reached their budgeted sales quantities.

Emerging Markets & Strategic OEM Business

Emerging Markets and Strategic OEM business continued to report strong volume growth. The total unit sales in the first quarter grew by 26% year on year. Sales revenue amounted to HK$835 million, accounting for 12% of the total TV sales.

Product mix is still essentially conventional CRT TVs which is related to the specific characteristics of emerging market and the requirement of OEM customers. In cases deemed appropriate, certain high-end models would be promoted on the base of mainstream products. Gross margin declined to 14.8% which is mainly due to relatively higher component cost, particularly for the low-end CRT TV and also the keener competition as more PRC players are speeding up their overseas expansion as well.

PC Business

The Group's PC business continued to bloom in the first quarter of 2005 with sales of PC increased by 13% to reach 151,000 units. PC revenue amounted to HK$438 million, representing 6% of the Group's total revenue.

Gross margin remained stable at 9.3% with average selling price continued to decline. The stability in margins was attributed to the stringent inventory and cost control.

New models launched include one home consumer PC targeting ladies, a commercial PC with LCD screen and a notebook featuring its suitability for playing electronic games.

FUTURE PLANS

The Group expects 2005 to be another year of challenge and difficulties. The Group will endeavour to further grow its domestic business and enhance its profitability in the European and North American markets.

Restructuring plans and cost saving programmes will continue to be pursued and ultimately we expect the synergies in procurement, R&D and manufacturing will be significant enough to turn around the loss-making business units and make TTE not just the largest TV player in the world, but the strongest with reasonable profitability.

Technologically, the Groups will direct its TV business development towards ultra thin, high definition with 3C convergence functions and shift its product mix to the higher end.

Other non-TV businesses (PC and AV products), though on a much smaller scale, are expected to continue to make contribution to the Group's bottom line.

The Board of Directors believes that the Group has the ability to create remarkable value for shareholders in the long run.

FINANCIAL REVIEW

Significant Investment and Acquisitions

There was no significant investment or acquisition during the period.

Subsequent to the balance sheet date on 21 April 2005, two memoranda of understanding were entered into by the Group and Thomson group in respect of: (i) the transfer from Thomson to TTE of the product sales, marketing and management activities currently performed by Thomson for TTE in the U.S., Canada and Europe under two existing agency agreements, namely North America Sales and Marketing Agency Agreement and Europe, Middle East and Africa Sales and Marketing Agency Agreement; and (ii) the engagement of Thomson by TTE as its subcontractor in relation to the production at the Angers Factory. The transactions contemplated under the memoranda will give rise to modifications to or termination of a number of transaction documents entered into between Thomson Group and TTE in relation to the operation of TTE. For further details, please refer to the Company's announcement dated 21 April 2005.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, factorings, convertible notes, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the Group's lowest cost.

The cash and bank balance as at the year end amounted to HK$1,706 million, of which 15% was maintained in Hong Kong dollars, 36% in US Dollars, 17% in Renminbi, 22% in Euro and 10% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2004 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.

At the period end, the Group's gearing ratio was 0.56 which is calculated based on the Group's net borrowing of approximately HK$1,916 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the parent of approximately HK$3,415 million.

Capital Commitments and Contingent Liabilities

There was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2004.

Foreign Exchange Exposure

Due to its international presence and operations, the Group is facing foreign exchange exposure including transactional exposure and translational exposure.

It is the Group's policy to centralize foreign currency management to be able to monitor the company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasizes the importance of trading, investing and borrowing in functional currency to achieve natural hedging.

Employees and Remuneration Policy

The Group had a total of 33,000 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. 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 31,627,861 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 Listing Rules of the Stock Exchange of Hong Kong Limited during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

On behalf of the Board
LI Dong Sheng
Chairman

Hong Kong, 29 April 2005

As at the date of this announcement, the Board comprises 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, Junior as non-executive director and Tang Guliang, Wang Bing and Hon Fong Ming as independent non-executive directors.

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