

The directors of TCL International Holdings Limited (the "Company") are pleased to present the Interim Report and the condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001. The consolidated profit and loss account, consolidated cash flow statement, and consolidated statement of recognized gains and losses for the six months ended 30 June 2001, and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 3 to 14 of this report.

Condensed Consolidated Profit and Loss Account

Six months ended 30 June 2001

	Notes	Unaudited	
		Six months ended 30 June	
		2001	2000
		HK\$'000	HK\$'000
Turnover	2	4,529,129	4,358,918
Cost of sales		(3,780,949)	(3,512,503)
Gross profit		748,180	846,415
Other revenue		35,688	28,639
Selling and distribution costs		(456,984)	(505,211)
Administrative expenses		(149,180)	(90,664)
Other operating expenses		(240)	(3,148)
Profit from operating activities	2	177,464	276,031
Finance costs		(9,096)	(17,290)
Share of result of an associate		670	(3,181)
Share of results of jointly controlled entities		3,758	(4,902)
Profit before tax		172,796	250,658
Tax	4	(6,995)	(18,081)
Profit before minority interests		165,801	232,577
Minority interests		(4,953)	—
Net profit from ordinary activities attributable to shareholders		160,848	232,577
Dividends	5	Nil	Nil
Earnings per share:	6		
— Basic		6.49 cents	9.68 cents
— Diluted		6.47 cents	9.58 cents

Condensed Consolidated Statement of Recognised Gains and Losses*Six months ended 30 June 2001*

		Unaudited	
		Six months ended 30 June	
		2001	2000
	Notes	HK\$'000	HK\$'000
Exchange differences on translation of the financial statements of foreign entities	11	(409)	(35)
Net losses not recognized in the profit and loss account		(409)	(35)
Net profit for the period attributable to shareholders	11	160,848	232,577
Total recognized gains		160,439	232,542
Goodwill eliminated directly against reserves		—	(764)
		160,439	231,778

Condensed Consolidated Balance Sheet

30 June 2001

		Unaudited 30 June 2001 HK\$'000	Audited and restated 31 December 2000 HK\$'000
	Notes		
Non-current assets			
Fixed assets		663,094	646,303
Intangible assets		260,850	—
Interest in an associate		1,454	784
Interests in jointly-controlled entities		181,763	116,088
Long term investment		1,682	1,682
		1,108,843	764,857
Current assets			
Inventories		2,127,712	2,547,337
Trade and bills receivable	7	1,045,164	897,903
Other receivables		153,953	98,506
Pledged time deposits		89,429	101,790
Cash and bank balances		849,299	1,000,928
		4,265,557	4,646,464
Current liabilities			
Trade and bills payable	8	2,040,647	2,287,406
Tax payable		32,511	68,495
Other payables and accruals		230,402	200,942
Bank loans	9	210,305	122,822
Loan from ultimate holding company		—	139,131
		2,513,865	2,818,796
Net current assets			
		1,751,692	1,827,668
Total assets less current liabilities			
		2,860,535	2,592,525
Non-current liabilities			
Bank loans	9	6,571	7,006
Deferred tax		1,915	1,915
		8,486	8,921
Minority interests		24,890	16,993
		33,376	25,914
		2,827,159	2,566,611
Capital and reserves			
Issued capital	10	251,122	240,560
Reserves	11	2,576,037	2,326,051
		2,827,159	2,566,611

Condensed Consolidated Cash Flow Statement*Six months ended 30 June 2001*

	Unaudited HK\$'000
Net cash inflow from operating activities	284,521
Net cash outflow from returns on investments and servicing of finance	(83,486)
Tax paid	(42,083)
Net cash outflow from investing activities	<u>(195,790)</u>
Net cash outflow before financing activities	(36,838)
Net cash outflow from financing activities	<u>(114,503)</u>
Decrease in cash and cash equivalents	(151,341)
Cash and cash equivalents at beginning of period	1,000,928
Effect of foreign exchange rate changes, net	<u>(288)</u>
Cash and cash equivalents at end of period	<u><u>849,299</u></u>
Analysis of balances of cash and cash equivalents	
Cash and bank balances	<u><u>849,299</u></u>

Notes to the Condensed Financial Statements

Six months ended 30 June 2001

1. Principal Accounting Policies

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed consolidated cash flow statement, which is the first cash flow statement to be included in the interim financial statements relating to the accounting period ended on or after 1 July 2000. Such departure from the SSAP 25 is permitted under the Listing Rules.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following its adoption of the SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001.

The major changes to the Group's accounting policies are set out below:

(a) *SSAP 9 (revised) — Events after the balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognized dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

(b) *SSAP 30 — Business combinations*

In February 2001, the Group acquired the entire equity capital of TCL Computer Technology Co., Ltd from its controlling shareholders and goodwill on acquisition in the amount of HK\$270 million was resulted. Prior to 2001, goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities was eliminated against reserves in the year of acquisition. During the period, the Group has adopted the new SSAP 30 "Business Combinations" whereby goodwill on acquisition of the subsidiary was regarded as an asset and amortised on a straight line basis over its estimated useful life.

2. Segmental Information

An analysis of the Group's turnover and profit from operating activities by principal activities for the six months ended 30 June 2001 is as follows:

	Turnover		Profit from operating activities	
	Six months ended 30 June			
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Colour television sets	3,503,755	3,392,784	187,872	229,602
White goods & air-conditioners	465,732	668,803	48,278	57,675
Computers related products	285,960	—	(14,705)	—
Other audio visual products	104,452	183,675	(7,936)	7,655
Raw material & components	139,013	113,196	5,233	281
Others	30,217	460	(24,069)	(4,044)
	<u>4,529,129</u>	<u>4,358,918</u>	<u>194,673</u>	291,169
Less: Corporate expenses			<u>(17,209)</u>	(15,138)
			<u>177,464</u>	<u>276,031</u>

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. Depreciation and Amortisation

During the period, depreciation of HK\$41,393,000 (2000: HK\$29,630,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment.

On 28 February 2001, the Group acquired a 100% interest in TCL Computer Technology Co., Ltd at a consideration of HK\$341.8 million. In accordance with the Statement of Standard Accounting Practice No. 30, goodwill arising on the acquisition was amortized and charged to the profit and loss account in the amount of HK\$8,995,000 (2000: Nil).

4. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 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	
	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Group:		
Hong Kong	900	3,189
Elsewhere	5,199	14,892
	6,099	18,081
Share of tax attributable to:		
Jointly controlled entities	896	—
	6,995	18,081

5. Dividends

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

6. 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\$160,848,000 (2000: HK\$232,577,000) and the weighted average of 2,477,374,434 (2000: 2,402,497,802) 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\$160,848,000 (2000: HK\$232,577,000). The weighted average number of shares used in the calculation is 2,477,374,434 (2000: 2,402,497,802) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 7,817,303 (2000: 25,288,819) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

7. Trade and Bills Receivable

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

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Current to 90 days	711,479	649,479
91 days to 180 days	287,509	235,295
181 days to 365 days	33,201	10,188
Over 365 days	12,975	2,941
	1,045,164	897,903

8. Trade and Bills Payable

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

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000
Current to 90 days	1,679,938	1,891,100
91 days to 180 days	334,703	382,090
181 days to 365 days	13,456	6,807
Over 365 days	12,550	7,409
	<u>2,040,647</u>	<u>2,287,406</u>

9. Bank Loans

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000
Secured	104,727	85,903
Unsecured	112,149	43,925
	<u>216,876</u>	<u>129,828</u>
Bank loans repayable:		
Within one year	210,305	122,822
In the second year	504	158
In the third to fifth year, inclusive	1,595	580
Beyond five years	4,472	6,268
	<u>216,876</u>	<u>129,828</u>
Portion classified as current liabilities	<u>(210,305)</u>	<u>(122,822)</u>
Long term portion	<u>6,571</u>	<u>7,006</u>

(a) Certain of the bank loans were secured by:

- Certain of the Group's land and building and plant and machinery with total net book value of HK\$118,150,000 (31 December 2000: 131,777,000).
- The Group's inventories in the amount of HK\$21,448,000 (31 December 2000: Nil)
- The Group's bank deposits in the amount of HK\$50,000,000 (31 December 2000: HK\$40,000,000)

(b) The unsecured bank loans were guaranteed by the Company's ultimate holding company.

10. Issued Capital

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
5,000,000,000 shares of HK\$0.10 each	500,000	500,000
Issued and fully paid:		
2,511,219,289 (31 December 2000: 2,405,600,000) shares of HK\$0.10 each	251,122	240,560

During the period, 105,619,289 shares of HK\$0.10 each were issued at a price of HK\$1.78 per share as consideration for the acquisition of TCL Computer Technology Co., Ltd from the Group's immediate holding company, T.C.L. Industries (H.K.) Ltd.

During the six months ended 30 June 2001, share options for a total of 78,756,000 shares were granted under the share option scheme to certain directors and employees of the Group. Details of movements of the share options are set out below:

Exercise price	Outstanding at	Number of share options			Outstanding at
	31 December 2000	Granted	Lapsed	Exercised	30 June 2001
HK\$2.236	34,000,000	—	—	—	34,000,000
HK\$2.508	68,480,000	—	—	—	68,480,000
HK\$2.816	660,000	—	—	—	660,000
HK\$1.676	42,000,000	—	—	—	42,000,000
HK\$0.928	—	58,756,000	—	—	58,756,000
HK\$1.042	—	20,000,000	—	—	20,000,000
	145,140,000	78,756,000	—	—	223,896,000

The above share options entitle the holders to subscribe for shares of the Company at any time up to the expiry of the share option scheme on 14 May 2003.

11. Reserves

	Share premium account HK\$'000	Capital reserve HK\$'000	Reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 December 2000 as previously reported	950,859	64,915	212,891	210	1,009,283	2,238,158
Effect of SSAP 9 (revised) with respect to declaration of 2000 final dividend	—	—	—	—	87,893	87,893
At 31 December 2000 as restated	950,859	64,915	212,891	210	1,097,176	2,326,051
Issue of shares	177,440	—	—	—	—	177,440
Exchange realignments	—	—	—	(409)	—	(409)
Retained profit for the period	—	—	—	—	160,848	160,848
Dividend paid	—	—	—	—	(87,893)	(87,893)
At 30 June 2001	<u>1,128,299</u>	<u>64,915</u>	<u>212,891</u>	<u>(199)</u>	<u>1,170,131</u>	<u>2,576,037</u>

12. Capital Commitments

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000
Authorized but not contracted for:		
— acquisition of fixed assets	<u>29,093</u>	—
Contracted but not provided for:		
— acquisition of fixed assets	20,023	25,946
— capital contribution to a jointly controlled entity	<u>35,010</u>	<u>35,010</u>
	<u>55,033</u>	<u>60,956</u>

In addition, the Group's share of capital commitments of jointly controlled entities not included in the above was as follows:

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000
Contracted but not provided for	<u>12,551</u>	—

13. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000
Bills receivable endorsed to suppliers	254,892	226,082	—	—
Bills discounted with recourse	5,896	22,983	—	—
Guarantee given to banks in connection with facilities granted to subsidiaries	—	—	423,740	423,740
	260,788	249,065	423,740	423,740

As at 30 June 2001, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilized to the extent of approximately HK\$39 million (31 December 2000: HK\$47 million).

In addition, the Group's share of contingent liabilities of jointly controlled entities not included in the above was as follows:

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 HK\$'000
Bills receivable endorsed to suppliers	16,492	8,096

14. Post Balance Sheet Event

On 20 August 2001, the Group entered into an agreement with its controlling shareholder, TCL Holdings Corporation Ltd, for the acquisition of 65% equity interest in Shenzhen TCL Industrial Institute Limited ("TCL Industrial") for a cash consideration of RMB32.5 million. The principal activity of TCL Industrial is the research and development of electronic consumer products.

Further details of the transaction are set out in the Company's newspaper announcement on 21 August 2001.

15. Related Party Transactions

The Group had the following transactions with related parties during the period:

- (a) Continuing transactions with:

	Unaudited	
	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Jointly-controlled entity:		
— Sales of raw materials	131,783	96,914
— Interest income	811	556
Ultimate holding company		
— Interest income	2,344	1,379
— Interest expenses	2,200	11,791
Companies controlled by the ultimate holding company:		
— Purchases of raw materials	138,558	106,201
— Cash discounts	8,019	20,907
— Sales commission	377,527	399,257
— Subcontracting fees	28,919	14,485
Companies controlled by a jointly-controlled entity		
— Purchases of raw materials	39,227	35,039

- (b) On 28 February 2001, the Group acquired the entire register capital of TCL Computer Technology Co., Ltd. ("TCL Computer") from TCL Holdings Corporation Ltd ("TCL Holdings") and T.C.L. Industries Holding (H.K.) Ltd ("TCL Industries") for an aggregate consideration of HK\$341.8 million. The aggregate consideration was satisfied by cash for a sum of HK\$153.8 million to TCL Holdings and by the issue of 105,619,289 new shares of HK\$0.10 each in the capital of the Company at a price of HK\$1.78 per share to TCL Industries. Before the completion of the transaction, TCL Holdings, through TCL Industries, beneficially owned an aggregate of approximately 51.82% of the issued capital of the Company.

The principal activity of TCL Computer is the manufacture and sale of computer products. Further details of the transaction are set out in the Company's circular dated 9 January 2001.

- (c) On 29 June 2001, the Group entered into the following agreements with two associates of TCL Holdings Corporation Ltd, the controlling shareholder of the Group:
- agreement for contracted operation of TCL Digital Science & Technology (Wuxi) Co., Ltd. ("Digital Wuxi") which has a manufacturing plant for manufacturing of colour television sets in Wuxi, the PRC.
 - agreement for contracted operation of Inner-Mongolia TCL Electrical Appliance Company Ltd. ("TCL Inner-Mongolia") which has a manufacturing plant for manufacturing of colour television sets in Inner-Mongolia, the PRC.

Under the agreements, the Group is required to pay Digital Wuxi and TCL Inner-Mongolia, as the case may be, an annual contract fee subject to a cap of RMB23 million and RMB16 million respectively.

Further details of the transaction are set out in the Company's newspaper announcement on 19 July 2001.