

# Interim Results

Interim Report 2002 • TCL International Holdings Limited

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 six months ended 30 June 2002 with comparative figures for the previous year as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
TURNOVER	2	<b>5,385,234</b>	4,529,129
Cost of sales		<b>(4,375,472)</b>	(3,780,949)
Gross profit		<b>1,009,762</b>	748,180
Other revenue and gains		<b>62,923</b>	35,688
Selling and distribution costs		<b>(601,007)</b>	(456,984)
Administrative expenses		<b>(247,490)</b>	(135,913)
Other operating expenses		<b>(33,626)</b>	(13,507)
PROFIT FROM OPERATING ACTIVITIES	2	<b>190,562</b>	177,464
Finance costs		<b>(8,002)</b>	(9,096)
Share of profits and losses of:			
Jointly-controlled entities	4	<b>122,669</b>	3,758
Associate		<b>(66)</b>	670
Amortization of goodwill on acquisition of interest in a jointly-controlled entity	4	<b>(10,923)</b>	—
Loss on deemed disposal of interest in a jointly-controlled entity	4	<b>(15,667)</b>	—

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		Unaudited Six months ended 30 June	
	Notes	2002 HK\$'000	2001 HK\$'000
PROFIT BEFORE TAX		278,573	172,796
Tax	6	(33,595)	(6,995)
PROFIT BEFORE MINORITY INTERESTS		244,978	165,801
Minority interests		8,015	(4,953)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		252,993	160,848
DIVIDEND	7	Nil	Nil
EARNINGS PER SHARE	8		
— Basic		10.03 cents	6.49 cents
— Diluted		9.77 cents	6.47 cents

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## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
	Notes		
<b>NON CURRENT ASSETS</b>			
Fixed assets		<b>814,069</b>	853,364
Goodwill		<b>289,478</b>	306,046
Interest in an associate		<b>15,028</b>	14,953
Interests in jointly-controlled entities		<b>605,003</b>	237,048
Long term investment		<b>1,682</b>	1,682
		<b>1,725,260</b>	1,413,093
<b>CURRENT ASSETS</b>			
Inventories		<b>1,877,835</b>	2,039,045
Trade and bills receivable	9	<b>934,004</b>	937,463
Other receivables		<b>377,019</b>	301,563
Pledged bank deposits		<b>72,814</b>	63,112
Cash and bank balances		<b>738,216</b>	1,021,009
		<b>3,999,888</b>	4,362,192
<b>CURRENT LIABILITIES</b>			
Trade and bills payable	10	<b>1,998,361</b>	2,151,096
Tax payable		<b>11,674</b>	20,895
Other payables and accruals		<b>530,790</b>	600,638
Interest-bearing bank borrowings	11	<b>311</b>	23,667
		<b>2,541,136</b>	2,796,296

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		<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
	Notes		
<b>NET CURRENT ASSETS</b>		<b>1,458,752</b>	1,565,896
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,184,012</b>	2,978,989
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	11	<b>6,471</b>	6,628
Deferred tax		<b>1,915</b>	1,915
		<b>8,386</b>	8,543
<b>MINORITY INTERESTS</b>		<b>28,720</b>	36,508
		<b>3,146,906</b>	2,933,938
<b>CAPITAL AND RESERVES</b>			
Issued capital	12	<b>253,551</b>	251,122
Reserves	13	<b>2,893,355</b>	2,682,816
		<b>3,146,906</b>	2,933,938

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Total equity at 1 January	2,933,938	2,566,611
Currency translation differences	13,298	(409)
Net gains not recognised in the profit and loss account	13,298	(409)
Net profit for the period	252,993	160,848
Dividend	(75,869)	(87,893)
Issue of shares	22,546	188,002
<b>Total equity at 30 June</b>	<b>3,146,906</b>	<b>2,827,159</b>

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Net cash inflow from operating activities	191,028	246,766
Net cash outflow from investing activities	(400,730)	(195,790)
Net cash outflow from financing activities	(76,836)	(202,317)
<b>Net decrease in cash and cash equivalents</b>	<b>(286,538)</b>	<b>(151,341)</b>
Cash and cash equivalents at beginning of period	1,021,009	1,000,928
Effect of foreign exchange rate changes, net	3,745	(288)
<b>Cash and cash equivalents at end of period</b>	<b>738,216</b>	<b>849,299</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	738,216	849,299

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited interim 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 six months ended 30 June 2002 is as follows:

	Turnover		Profit from operating activities	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Continuing operations:				
Televisions	4,259,989	3,642,768	291,261	193,105
Computers related products	458,291	285,960	(7,841)	(5,710)
Other audio visual products	95,500	104,452	(15,473)	(7,936)
Others	58,960	30,217	(10,985)	(24,069)
	<b>4,872,740</b>	4,063,397	<b>256,962</b>	155,390
Discontinuing operations: (Note 3)				
White goods	512,494	465,732	(29,740)	48,278
	<b>5,385,234</b>	4,529,129	<b>227,222</b>	203,668
Less: Amortisation of goodwill			(16,568)	(8,995)
Corporate expenses			(20,092)	(17,209)
			<b>190,562</b>	177,464

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 Manufacturing Business

In view of the highly competitive nature of the white goods business, and the fact that the business does not fit into the Company's existing 3C strategy (convergence of consumer electronics, communication and computers) 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 manufacturing business.

On 9 May 2002, the Company entered into an agreement with TCL Corporation (formerly Guangdong TCL Group Co., Ltd), the Company's ultimate controlling shareholder, for the disposal of its interest in a number of companies engaging in the white goods manufacturing 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 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 manufacturing business other than those under disposal, in due course.

The results of the white goods division for the six months ended 30 June 2002 are as follows:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
TURNOVER	512,494	465,732
Cost of sales	(433,296)	(348,684)
Gross profit	79,198	117,048
Other revenue and gains	161	683
Selling and distribution costs	(77,139)	(61,029)
Administrative expenses	(30,559)	(8,213)
Other operating expenses	(1,401)	(211)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(29,740)	48,278
Finance costs	(6,470)	(4,221)
Share of loss of an associate	(66)	—
Share of profits and losses of jointly-controlled entities	(4,653)	(193)
PROFIT/(LOSS) BEFORE TAX	(40,929)	43,864
Tax	2,895	(657)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(38,034)	43,207
Minority interests	7,131	(5,558)
NET PROFIT/(LOSS)	(30,903)	37,649



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## 4. Jointly-controlled Entities

More than 90% of the Group's share of results of its jointly-controlled entities was derived from Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a company mainly engaged in the manufacturing and selling of mobile phones. Details of the consolidated results of TCL Mobile are as follows:

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Turnover of mobile phones	3,064,271	436,713
Net profit attributable to shareholders	420,868	51,987
Share of net profit attributable to the Group	115,116	10,397
Amortization of goodwill	(10,923)	—
Loss on deemed disposal	(15,667)	—

On 21 January 2002, the Group's interest in TCL Mobile was increased from 20% to 30% by an acquisition of an additional 10% equity interest in TCL Mobile at a consideration of approximately HK\$282.7 million. Goodwill on acquisition in the amount of HK\$238,324,000 was resulted.

On 29 May 2002, the registered capital of TCL Mobile was increased from US\$10 million to US\$29.8 million, of which US\$2.98 million was contributed by Cheerful Asset Investment Limited ("Cheerful Asset") in return for a 10% equity interest in TCL Mobile. Cheerful Asset is a company controlled by the management of TCL Mobile. The remaining amount was contributed by the existing shareholders of TCL Mobile through a capitalization of dividend from TCL Mobile. As a result of the transaction, interest in TCL Mobile held by the Group was diluted from 30% to 27% and loss on deemed disposal in the amount of HK\$15.7 million was charged to the profit and loss account.

## 5. Depreciation and Amortization

During the period, depreciation of HK\$68,250,000 (2001: HK\$41,393,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK\$27,491,000 (2001: HK\$8,995,000) was charged to the profit and loss account in respect of the Group's goodwill arising on consolidation.

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## 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.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 7.5% to 33%.

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	2,614	900
Elsewhere	21,740	5,199
	24,354	6,099
Share of tax attributable to:		
Jointly-controlled entities	9,241	896
	33,595	6,995

## 7. Dividend

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 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\$252,993,000 (2001: HK\$160,848,000) and the weighted average of 2,521,147,479 (2001: 2,477,374,434) 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\$252,993,000 (2001: HK\$160,848,000). The weighted average number of shares used in the calculation is 2,521,147,479 (2001: 2,477,374,434) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 67,436,463 (2001: 7,817,303) 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 majority of the Group's sales in the PRC were made on cash-on-delivery basis and on commercial bills guaranteed by banks with credit period ranging from 30 days to 90 days. For overseas sales, the Group usually requires settlement by letter of credit with tenure ranging from 90 days to 180 days. An aged analysis of the trade and bills receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Current to 90 days	660,855	744,785
91 days to 180 days	236,001	152,559
181 days to 365 days	18,458	14,619
Over 365 days	18,690	25,500
	<b>934,004</b>	<b>937,463</b>

#### 10. Trade and Bills Payable

The aged analysis of the trade and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Current to 90 days	1,622,323	1,925,597
91 days to 180 days	309,902	199,948
181 days to 365 days	48,795	10,545
Over 365 days	17,341	15,006
	<b>1,998,361</b>	<b>2,151,096</b>

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## 11. Interest-bearing Bank Borrowings

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Secured	6,782	6,931
Unsecured	—	23,364
	<b>6,782</b>	30,295
Bank loans repayable:		
Within one year	311	23,667
In the second year	320	312
In the third to fifth year, inclusive	1,021	998
Beyond five years	5,130	5,318
	<b>6,782</b>	30,295
Portion classified as current liabilities	<b>(311)</b>	(23,667)
Long term portion	<b>6,471</b>	6,628

- (a) Certain of the bank loans were secured by the Group's land and buildings with a total net book value of HK\$10,419,000 (31 December 2001: HK\$10,529,000).
- (b) As at 31 December 2001, unsecured bank loans amounting to HK\$4,673,000 were guaranteed by the Company's ultimate holding company.

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## 12. Share Capital

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Authorised:		
5,000,000,000 shares of HK\$0.10 each	<b>500,000</b>	500,000
Issued and fully paid:		
2,535,514,289 (2001: 2,511,219,289) shares of HK\$0.10 each	<b>253,551</b>	251,122

A summary of the movements in the Company's share capital is as follows:

	<b>Number of shares issued</b>	<b>Paid-up nominal value HK\$'000</b>
Issued capital at 1 January 2002	2,511,219,289	251,122
Share options exercised	24,295,000	2,429
Issued capital at 30 June 2002	<b>2,535,514,289</b>	<b>253,551</b>

Details of the movements in respect of the share option schemes during the period are set out under the "Share option schemes" section on page 26.

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## 13. 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 1 January 2002	1,105,063	64,915	309,243	(1,166)	1,204,761	2,682,816
Currency translation differences	—	—	—	13,298	—	13,298
Net profit for the period	—	—	—	—	252,993	252,993
Dividend	—	—	—	—	(75,869)	(75,869)
Transfer from retained profits	—	—	39,321	—	(39,321)	—
Issue of shares upon exercise of share options	20,117	—	—	—	—	20,117
<b>At 30 June 2002</b>	<b>1,125,180</b>	<b>64,915</b>	<b>348,564</b>	<b>12,132</b>	<b>1,342,564</b>	<b>2,893,355</b>

## 14. Capital Commitments

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Contracted, but not provided for	190,084	22,720
Authorised, but not contracted for	—	229,725
	<b>190,084</b>	<b>252,445</b>

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## 14. Capital Commitments (continued)

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

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Contracted, but not provided for	<b>9,138</b>	16,279

## 15. Contingent Liabilities

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Bills receivable endorsed to suppliers	<b>105,534</b>	120,769
Bills discounted with recourse	<b>386,786</b>	4,673
	<b>492,320</b>	125,442

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

	<b>Unaudited 30 June 2002 HK\$'000</b>	Audited 31 December 2001 HK\$'000
Bills receivable endorsed to suppliers	<b>1,737</b>	49,444

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## 16. Related Party Transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Jointly-controlled entities:		
Sales of raw materials	203,977	131,783
Purchase of raw materials and finished goods	32,637	—
Sales commission income	20,416	—
Minority shareholder of a subsidiary:		
Sales of finished goods	23,983	—
Companies controlled by the ultimate holding company:		
Purchase of raw materials	160,780	138,558
Cash discounts	—	8,019
Sales commission	—	377,527
Subcontracting fees	—	28,919
Company controlled by a jointly-controlled entity:		
Purchase of raw materials	28,699	39,227