

Interim Results

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 2003 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		6 months ended 30 June 2003 (unaudited)	6 months ended 30 June 2002 (unaudited)	3 months ended 30 June 2003 (unaudited)	3 months ended 30 June 2002 (unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	2	6,247,682	5,385,234	2,770,741	2,396,091
Cost of sales		(5,244,230)	(4,375,472)	(2,323,878)	(1,966,844)
Gross profit		1,003,452	1,009,762	446,863	429,247
Other revenue and gains		59,633	62,923	39,690	23,175
Selling and distribution costs		(592,386)	(601,007)	(268,434)	(254,266)
Administrative expenses		(266,319)	(247,490)	(127,551)	(139,096)
Other operating expenses		(30,175)	(33,626)	(18,575)	(19,364)
PROFIT FROM OPERATING ACTIVITIES	2	174,205	190,562	71,993	39,696
Finance costs		(17,399)	(8,002)	(9,157)	(3,776)
Share of profits and losses of:					
Jointly-controlled entities	3	194,816	122,669	82,409	58,389
Associate		—	(66)	—	(11)
Others		(39,216)	(26,590)	(19,608)	(20,473)
PROFIT BEFORE TAX		312,406	278,573	125,637	73,825
Tax	5	(36,577)	(33,595)	(19,880)	(7,379)
PROFIT BEFORE MINORITY INTERESTS		275,829	244,978	105,757	66,446
Minority interests		(10,460)	8,015	(3,324)	2,419
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		265,369	252,993	102,433	68,865
DIVIDEND	6	Nil	Nil		
EARNINGS PER SHARE	7				
— Basic		10.05 cents	10.03 cents		
— Diluted		9.70 cents	9.77 cents		

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CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		814,732	734,262
Trademarks		26,794	25,910
Goodwill		261,244	277,949
Interests in jointly-controlled entities		1,537,452	1,543,143
Long term investments		2,298	1,682
		2,642,520	2,582,946
CURRENT ASSETS			
Inventories		2,159,463	2,579,118
Trade and bills receivable	8	1,037,361	1,029,005
Other receivables		396,740	408,413
Pledged bank deposits		47,506	89,340
Cash and bank balances		681,740	1,093,187
		4,322,810	5,199,063
CURRENT LIABILITIES			
Trade and bills payable	9	1,812,736	2,769,271
Tax payable		26,934	23,056
Other payables and accruals		634,859	612,751
Bank borrowings	10	80,022	23,845
		2,554,551	3,428,923
NET CURRENT ASSETS		1,768,259	1,770,140
TOTAL ASSETS LESS CURRENT LIABILITIES		4,410,779	4,353,086

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	Notes	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
NON-CURRENT LIABILITIES			
Bank borrowings	10	329,412	382,785
Convertible notes		350,000	350,000
Deferred tax		1,915	1,915
		681,327	734,700
MINORITY INTERESTS			
		67,602	60,378
		3,661,850	3,558,008
CAPITAL AND RESERVES			
Issued capital	11	265,002	263,100
Reserves	12	3,396,848	3,110,353
Proposed final dividend		—	184,555
		3,661,850	3,558,008

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
1 January — Total equity	3,558,008	2,933,938
Net gains not recognised in the profit and loss account:		
Exchange differences on translation of the financial statements of foreign entities	4,261	13,298
Net profit for the period	265,369	252,993
Dividend	(185,483)	(75,869)
Issue of shares, including share premium	19,550	22,546
Write off of exchange reserve	145	—
30 June — Total equity	3,661,850	3,146,906

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(393,725)	191,028
Net cash inflow/(outflow) from investing activities	145,192	(400,730)
Net cash outflow from financing activities	(163,600)	(76,836)
Decrease in cash and cash equivalents	(412,133)	(286,538)
Cash and cash equivalents at beginning of period	1,093,187	1,021,009
Effect of foreign exchange rate changes, net	686	3,745
Cash and cash equivalents at end of period	681,740	738,216
Analysis of balances of cash and cash equivalents		
Cash and bank balances	681,740	738,216

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Accounting Policies

The directors of the Company ("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, the 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 2003 is as follows:

	Turnover		Profit from operating activities	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Continuing operations:				
Television	5,179,358	4,259,989	218,593	291,261
Computers	728,320	391,368	12,864	(3,915)
Other audio-visual products	159,354	95,500	(7,791)	(15,473)
Others	180,650	125,883	(16,364)	(14,911)
	6,247,682	4,872,740	207,302	256,962
Discontinued operations:				
White goods	—	512,494	—	(29,740)
	6,247,682	5,385,234	207,302	227,222
Less: Amortisation of goodwill			(16,705)	(16,568)
Corporate expenses			(16,392)	(20,092)
			174,205	190,562

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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 Huizhou TCL Mobile Communication Co., Ltd and its subsidiaries (together "TCL Mobile Group"), which are engaged in the manufacture and sale of mobile phones. The condensed summary of certain additional financial information of TCL Mobile Group is as follows:

Results for the six months ended 30 June 2003:

	6 months ended 30 June 2003 (unaudited) HK\$'000	6 months ended 30 June 2002 (unaudited) HK\$'000	3 months ended 30 June 2003 (unaudited) HK\$'000	3 months ended 30 June 2002 (unaudited) HK\$'000
TURNOVER	4,879,799	3,064,271	2,216,107	1,512,752
Cost of sales	(3,904,409)	(2,268,118)	(1,745,528)	(1,162,803)
Gross profit	975,390	796,153	470,579	349,949
Other revenue and gains	8,202	19,441	873	16,734
Selling and distribution costs	(419,168)	(240,090)	(239,952)	(87,801)
Administrative and other operating expenses	(87,766)	(121,634)	(30,278)	(47,561)
PROFIT FROM OPERATING ACTIVITIES	476,658	453,870	201,222	231,321
Finance costs	(9,258)	(1,456)	(6,936)	(128)
PROFIT BEFORE TAX	467,400	452,414	194,286	231,193
Tax	(19,255)	(31,546)	(13,527)	(13,466)
NET PROFIT	448,145	420,868	180,759	217,727

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3. Share of Profits and Losses of Jointly-controlled Entities (Continued)

Financial position:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
NON CURRENT ASSETS	240,627	194,020
CURRENT ASSETS		
Inventories*	1,363,420	1,409,987
Trade receivables	123,100	76,058
Bills receivable	1,877,630	1,272,208
Cash and bank balances	702,948	629,003
Other current assets	698,604	840,584
	4,765,702	4,227,840
CURRENT LIABILITIES		
Bank borrowings	81,062	67,643
Trade and bills payable	1,666,626	1,409,207
Other payables and accruals	1,523,901	1,260,498
Other current liabilities	53,432	73,944
	3,325,021	2,811,292
NET CURRENT ASSETS	1,440,681	1,416,548
NON-CURRENT LIABILITIES	684	2,456
	1,680,624	1,608,112
CAPITAL AND RESERVES		
Paid-up capital	232,215	232,215
Reserves	1,448,409	1,375,897
	1,680,624	1,608,112

* Included in the inventories are raw materials of HK\$493,182,000 (31 December 2002: HK\$847,466,000), work in progress of HK\$167,689,000 (31 December 2002: HK\$120,616,000) and finished goods of HK\$702,549,000 (31 December 2002: HK\$441,905,000).

4. Depreciation and Amortization

During the period, depreciation of HK\$69,577,000 (2002: HK\$68,250,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortization of HK\$57,369,000 (2002: HK\$27,491,000) was charged to the profit and loss account in respect of the Group's intangible assets and goodwill arising on consolidation.

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5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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:

	Six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Group:		
Hong Kong	7,270	2,614
Elsewhere	21,274	21,740
	28,544	24,354
Share of tax attributable to:		
Jointly-controlled entities	8,033	9,241
	36,577	33,595

6. Dividend

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2003 (2002: Nil).

7. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$265,369,000 (2002: HK\$252,993,000) and the weighted average of 2,640,504,430 (2002: 2,521,147,479) shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$265,369,000 (2002: HK\$252,993,000), adjusted by the reduction of interest expenses of HK\$5,250,000 (2002: Nil) relating to the convertible notes. The weighted average number of shares used in the calculation is 2,640,504,430 (2002: 2,521,147,479) shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 12,673,692 (2002: 67,436,463) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period; and the weighted average of 136,932,707 (2002: Nil) shares on the deemed conversion of all convertible notes during the period.

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8. Trade and Bills Receivable

The majority of the Group's sales in China 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. Sales to certain long term strategic customers were also made on open-account basis with credit term of no more than 90 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:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Current to 90 days	777,802	543,311
91 days to 180 days	234,044	454,415
181 days to 365 days	17,277	21,690
Over 365 days	8,238	9,589
	1,037,361	1,029,005

9. 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:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Current to 90 days	1,446,918	2,391,738
91 days to 180 days	328,229	344,983
181 days to 365 days	18,632	17,780
Over 365 days	18,957	14,770
	1,812,736	2,769,271

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10. Bank Borrowings

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Bank loans:		
Secured	—	6,630
Unsecured	409,434	400,000
	409,434	406,630
Bank loans repayable:		
Within one year	80,022	23,845
In the second year	94,118	94,443
In the third to fifth year, inclusive	235,294	283,389
Beyond five years	—	4,953
	409,434	406,630
Portion classified as current liabilities	(80,022)	(23,845)
Long term portion	329,412	382,785

At 31 December 2002, certain bank loans were secured by the Group's land and buildings with a total net book value of HK\$10,309,000.

11. Share Capital

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Authorised:		
5,000,000,000 shares of HK\$0.10 each	500,000	500,000
Issued and fully paid:		
2,650,019,451 (2002: 2,630,998,852) shares of HK\$0.10 each	265,002	263,100

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11. Share Capital (Continued)

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

	Number of shares issued	Paid-up nominal value HK\$'000
Issued capital at 1 January 2003	2,630,998,852	263,100
Share options exercised	19,020,599	1,902
Issued capital at 30 June 2003	<u>2,650,019,451</u>	<u>265,002</u>

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 28.

12. 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 2003	1,205,670	66,204	427,321	14,772	1,396,386	3,110,353
Issue of shares upon exercise of share options	17,648	—	—	—	—	17,648
Exchange realignments	—	—	—	4,261	—	4,261
Write off of exchange reserve	—	—	—	145	—	145
Net profit for the period	—	—	—	—	265,369	265,369
Final 2002 dividend	—	—	—	—	(928)	(928)
At 30 June 2003	<u>1,223,318</u>	<u>66,204</u>	<u>427,321</u>	<u>19,178</u>	<u>1,660,827</u>	<u>3,396,848</u>

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13. Capital Commitments

The Group had the following commitments at the balance sheet date:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Contracted, but not provided for	102,080	169,772
Authorised, but not contracted for	3,462	10,854
	105,542	180,626

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

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Contracted, but not provided for	5,257	1,522

14. Contingent Liabilities

At balance sheet date, the Group had contingent liabilities not provided for in the financial statements in respect of:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Bills receivable endorsed to suppliers	77,966	138,623
Bills discounted with recourse	429,059	1,086,659
	507,025	1,225,282

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14. Contingent Liabilities (Continued)

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

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Bills receivable endorsed to suppliers	402,654	—
Bills discounted with recourse	875,731	341,267
	1,278,385	341,267

15. Related Party Transactions

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

		Six months ended 30 June	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
	Notes		
Jointly-controlled entities:			
Sales of raw materials	(i)	605,663	203,977
Purchase of raw materials and finished goods	(ii)	610,350	32,637
Sales commission income	(iii)	522	20,416
Minority shareholder of a subsidiary:			
Sales of finished goods	(iv)	12,201	23,983
Rental expenses	(v)	1,585	—
Companies controlled by the ultimate holding company:			
Sales of raw materials	(i)	8,274	—
Purchase of raw materials	(ii)	180,356	160,780
Purchase of finished goods	(ii)	21,279	—
Sales handling fee income	(vi)	4,381	—
Contract fee	(vii)	15,004	13,535
Company controlled by a jointly-controlled entity:			
Purchase of raw materials	(ii)	34,237	28,699

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15. Related Party Transactions (Continued)

Notes:

- (i) The sales of raw materials were made at cost.
- (ii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.
- (iii) The sales commission was calculated at 10% of the retail price of the products distributed.
- (iv) The Group sold its finished goods at an average mark-up of 1.5% (2002: 2%).
- (v) The rent was determined with reference to open market rentals.
- (vi) The sales handling fee income was calculated at 1.7% of the invoiced sales of products distributed.
- (vii) The contract fee was the sum of the followings:
 - (1) A fee equivalent to 8% of net asset value of the contracted operation as at the end of preceding financial year; and
 - (2) Depreciation costs of the contracted operation for this financial year.