TCL 通訊科技控股有限公司
TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2618)

RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

FINANCIAL HIGHLIGHTS
Unaudited results for the NINE months ended 30 September

	2004	2003	
	HK$ Million	*HK$ Million*	Change
Turnover	**5,175**	6,852	-24.5%
Gross Profit	**1,022**	1,389	-26.4%
EBITDA	**342**	616	-44.5%
Net Profit attributable to shareholders	**274**	552	-50.4%
Basic EPS (HK cents)	**9.7**	19.5	-50.3%

The Board of Directors of TCL Communication 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 nine months ended 30 September 2004 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Nine months ended 30 September		Three months ended 30 September	
		2004	2003	**2004**	2003
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	3	**5,175,433**	6,852,127	**1,687,414**	1,923,215
Cost of sales		**(4,153,475)**	(5,463,488)	**(1,450,523)**	(1,571,981)
Gross profit		**1,021,958**	1,388,639	**236,891**	351,234
Other revenue and gains	4	**97,858**	18,521	**65,072**	6,998
Selling and distribution expenses		**(516,788)**	(647,611)	**(187,385)**	(208,522)
Administration expenses		**(199,318)**	(101,205)	**(120,605)**	(31,749)
Research and development expenses		**(109,698)**	(80,271)	**(33,379)**	(29,666)
Other operating expenses		**(1,520)**	(2,471)	**(266)**	(1,076)
PROFIT (LOSS) FROM OPERATING ACTIVITIES		**292,492**	575,602	**(39,672)**	87,219
Finance costs		**(11,939)**	(10,284)	**(9,062)**	(1,025)
PROFIT (LOSS) BEFORE TAX		**280,553**	565,318	**(48,734)**	86,194
Tax	6	**(35,194)**	(13,438)	**(8,233)**	4,486
PROFIT (LOSS) BEFORE MINORITY INTERESTS		**245,359**	551,880	**(56,967)**	90,680
Minority interests		**28,529**	—	**28,529**	—
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS		**273,888**	551,880	**(28,438)**	90,680
DIVIDEND	7	**—**	—		
EARNINGS PER SHARE	8				
— Basic		**9.7 cents**	19.5 cents		
— Diluted		**8.6 cents**	N/A		

CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited 30 September 2004 *HK$'000*	Audited 31 December 2003 *HK$'000*
NON-CURRENT ASSETS		
Fixed assets	**357,927**	255,639
Intangible assets	**33,837**	3,689
Other non-current assets	**590**	270
Long term investment	**293**	—
	392,647	259,598
CURRENT ASSETS		
Inventories	**1,062,920**	760,965
Prepayments, deposits and other receivables	**585,352**	468,551
Accounts receivable	**1,454,655**	392,191
Notes receivable	**863,006**	1,357,280
Due from related companies	**68,618**	88,098
Other current assets	**51,885**	—
Deferred tax	**22,451**	6,165
Pledged bank deposits	**—**	161,354
Cash and cash equivalents	**1,992,863**	697,100
	6,101,750	3,931,704
CURRENT LIABILITIES		
Trust receipt loans	**—**	13,851
Accounts payable	**1,300,140**	696,765
Notes payable	**346,155**	353,439
Bills payable	**129,427**	187,499
Other payables and accruals	**1,402,622**	766,018
Tax payable	**13,847**	514
Due to related companies	**814,812**	156,074
Current portion of finance lease	**—**	2,333
Deferred tax	**7,134**	—
	4,014,137	2,176,493
NET CURRENT ASSETS	**2,087,613**	1,755,211
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,480,260**	2,014,809
NON-CURRENT LIABILITIES		
Retirement indemnities	**38,968**	—
Long service medals	**6,570**	—
	45,538	—
MINORITY INTERESTS	**404,160**	—
	2,030,562	2,014,809
CAPITAL AND RESERVES		
Issued capital	**282,750**	232,215
Reserves	**1,747,812**	1,782,594
	2,030,562	2,014,809

Notes:

1. Basis of Preparation

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "Reorganisation" of Appendix IX to the Company's listing document dated 20 September 2004 (the "Listing Document") to rationalize the structure of the Group in preparation for the listing of its shares on The Stock Exchange of Hong Kong Limited on 27 September 2004, the Company became the holding company of the wholly-owned subsidiaries now comprising the Group by way of share exchange.

The Reorganisation involved companies under common control. The condensed financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 Accounting for Group Reorganisation. On this basis, the Company has been treated as the holding company of the above mentioned wholly-owned subsidiaries with effect from 1 January 2003 or since their respective date of incorporation, where this is a shorter period.

2. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited quarterly financial statements. The quarterly financial statements are unaudited, but have been reviewed by the audit committee of the Company. The accounting policies and methods of computation used in the preparation of these statements are consistent with those used in and should be read in conjunction with the accountants' report as contained in Appendices I and III to the Listing Document. They have been prepared under the historical cost convention.

3. Segmental Information

During the relevant Periods, the Group had only one business segment, which is the manufacture and sale of mobile phone and accordingly, no further business segmental analysis is presented. An analysis of the Group's turnover and profit (loss) from operating activities by geographical for the nine months ended 30 September 2004 is as follows:

	Turnover		**Profit (loss) from operating activities**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**4,468,418**	6,372,479	**329,884**	526,613
Asian countries (other than PRC)	**311,730**	479,648	**24,609**	39,636
Europe	**366,319**	—	**(47,950)**	—
North America	**28,966**	—	**406**	—
	5,175,433	6,852,127		
Interest income			**3,990**	9,353
Corporate expenses			**(18,447)**	—
			292,492	575,602

4. Other revenue and gains

Included in the total are government subsidies of approximately HK$84,893,000 (2003: Nil) granted for general purposes for encouraging to develop advanced technology.

5. Depreciation and Amortization

During the period, depreciation of approximately HK$48,673,000 (2003: HK$39,435,000) was charged to the profit and loss account in respect of the Group's fixed assets; and amortization of approximately HK$823,000 (2003: HK$939,000) was charged to the profit and loss account in respect of the group's intangible assets.

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 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 Nine months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
Group:		
Current year provision		
Hong Kong	**5,861**	2,862
Mainland China	**39,760**	10,274
Deferred	**(9,143)**	302
Overprovision for previous periods		
Overseas	**(1,284)**	—
	35,194	13,438

7. Dividend

The directors of the Company do not recommend the payment of any dividend for nine months ended 30 September 2004. (2003: Nil).

8. Earnings Per Share

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the period ended of HK$273,888,000 (2003: HK$551,880,000) and the weighted average of 2,827,500,000 (2003: 2,827,500,000) shares deemed to have been 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$273,888,000, adjusting the 45% share of loss by minority interest in respect of the joint venture formed between the Company and Alcatel on 31 August 2004, TCL & Alcatel Mobile Phones Limited (the "Joint Venture") amounting to HK$28,529,000. The weighted average number of shares used in the calculation is 2,869,238,000, which comprises the 2,827,500,000 ordinary shares deemed to have been in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 41,738,000 ordinary shares assumed to be issued on the deemed exercise of the shares option granted to Alcatel. Pursuant to the put and call option agreement ("Option Agreement") entered into between the Company and Alcatel on 31 August 2004, the Company granted to Alcatel a put option and Alcatel granted to the Company a call option to exchange all of the shares held by Alcatel in the Joint Venture for shares in the Company. Further details of the Option Agreement are set out in the Listing Document.

No dilutive earnings per share amounts have been presented for the same period last year as the Company did not have any dilutive potential ordinary shares.

OVERALL BUSINESS REVIEW

The third quarter of 2004 brought both challenges and opportunities to TCL Communication Technology Holdings Limited (the "Company"). After a few years of extraordinary growth, China's handset market exhibited a slowdown at the beginning of 2004. The slowdown continued in the third quarter which is also the low season of the year. According to the China Centre for Information Industry Development ("CCID"), the overall demand for handsets in July and August of 2004 showed a shrinkage of 22% year on year. The market share of domestic players ,was down from 52% in the first half of the year to 45% in July and August.

Under this backdrop, the Company pursued overseas expansion to grow its businesses and to develop a diversified revenue base which would contribute to the long term growth of the Company and its subsidiaries (together the "Group"). During the third quarter of the year, TCL & Alcatel Mobile Phones Limited ("TAMP"), the TCL-Alcatel joint venture 55%-owned by the Company, commenced its operations in September 2004. The joint venture took the Group's business to new heights and transformed the Group from a leading Chinese handset manufacturer to a global player with a distribution network covering 50 countries worldwide. Firmly backed by Alcatel's technical expertise, the Group's R&D capabilities were greatly enhanced. We believe the combined unit sales of Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile") (the PRC business arm of the Group) and TAMP (the overseas business arm of the Group) would rank us the 7th largest handset manufacturer in the international marketplace.

Nevertheless, the third quarter of 2004 has been a tough quarter for the Group as our joint venture with Alcatel has just been formed and synergies have yet to be realized. This combined with a typical low season for the third quarter and tough market situation in the PRC market that further hit the financial performance of the Group and leading to a loss of HK$28 million in the quarter. However, the Board of Directors believe this is only a short-term phenomenon. The Group is implementing different measures to ride on the economies of scale created from procurement, R&D, manufacturing and other aspects. Synergies are expected to realize down the road. The Board of Directors is optimistic of the Group's business in the medium and long run.

For the nine months ended 30 September 2004, handset sales amounted to 6,783,000 units, of which majority of the sales came from China, as TAMP only started its operations on 1 September 2004. Sales in the third quarter were weak, mainly for seasonality reasons as July and August are typically low seasons of the year for both China and overseas market.

	Handset Unit Sales Unaudited results for the NINE months ended 30 September		
	2004	2003	**Change**
	('000 units)	*('000 units)*	
TCL Mobile	**6,211**	7,015	-11.5%
TAMP	**572**	N/A	N/A

	Unaudited results for the THREE months ended 30 September		
	2004	2003	**Change**
	('000 units)	*('000 units)*	
TCL Mobile	**1,810**	2,291	-21%
TAMP	**572**	N/A	N/A

TCL Mobile — the PRC Market

The Group experienced a downturn in unit sales for the first nine months of 2004, attributable to the overall industry slowdown in the PRC and delays in new product rollouts. Market competition in the third quarter further intensified. Both domestic and foreign players competed on pricing and product functionalities. The sales of TCL Mobile for the three months and nine months ended 30 September 2004 amounted to 1,810,000 sets and 6,211,000 sets respectively, representing a year-on-year decline of 21.0% and 11.5% respectively. Revenue for the nine months ended 30 September 2004 was also down by 30.6% to HK$4,757 million.

In terms of profitability, the Group also experienced a tough period as keen competition continued and market players in general were under the pressure of clearing the higher-than-usual inventory. Gross profit margin was 19.6% during the period under review, which was 20.3% in the same period last year. Net profit margin trended downwards to 6.9%.

According to statistics from the Ministry of Information Industry of the PRC ("MII"), the Group's market share was 8% in the first eight months of the year, and was among the top 5 players in the domestic market. The Group has launched a series of marketing and promotional campaigns to promote its brand, in particular two flagship handset series, namely the MOBO series targeting female customers who prefer trendy and fashionable designs, and the 神典 series which places a strong emphasis on digital technology and innovative functions for high-end male customers. Both series received a satisfactory market response.

The Group has firmly established its leadership in the low-end market, characterized by monochrome handsets. On these grounds, the Group rolled out a total of 11 new handset models in the third quarter, to strengthen its presence in the mid-to-high-end market segments. Of the 11 new models, 4 were colour display models, 7 multi-media phones including one smart phone equipped with 1 mega pixel camera.

The Group is pleased to announce that it is the first Chinese manufacturer to launch the 1 mega pixel camera smartphone. This well illustrates the Group's strong R&D capabilities. To further differentiate itself from its peers, the Group pioneered in the development of a new smartphone model using Windows platform. The Group will also be the first domestic handset manufacturer to apply Qualcom 6050 chips in its handsets. The high-end model, based on this chipset will be launched in the fourth quarter to further enhance our CDMA product offering.

TAMP — Overseas Market

Notwithstanding the third quarter being a typically low season, TAMP achieved sales of 572,000 units and a turnover of Euro43 million (HK$418 million) since its commencement of operations in September 2004. In September 2004, TAMP's net loss was Euro6.5 million (HK$63 million).

TAMP launched two new models in the third quarter. Both models have been well received, particularly by mobile operator customers.

Currently, TAMP is a small player in the global market. However, with its global network, cost advantage and R&D expertise, the Board believes that there are significant opportunities for TAMP to establish its global market share in the coming year.

Outlook

So far 2004 has been a tough year for the PRC market, which slowed down after several years of tremendously high growth. Further, as the handset industry is currently going through a period of technology transition, players with weaker R&D, capabilities, typically the Chinese domestic handset manufacturers, are more likely to lose their market share. This is exactly what happened in the first nine months of 2004. With technologies becoming mature and domestic manufacturers catching up with the product development learning curve, the Group believes the distribution network and low cost manufacturing will again favour domestic companies in the coming future.

Globally, the handset market continued to experience strong competition as players kept on pursuing volume growth. In particular, in attempting to regain their lost market share, a number of manufactures heavily adjusted down their pricing on a number of products, further compounding the strong downward pressure on price. Together with the current over-supply market situation, the Group anticipates further pricing pressure in the fourth quarter of this year.

The Company places equal emphasis on volume and profit growth. Looking ahead, the Group's goal is to maintain its profitability in the PRC market and to turn TAMP into a profitable entity. To achieve this, the Group will roll out new models to improve its product portfolio, offering customers a comprehensive range of products meeting demands of various market segments. It will improve its R&D cost structure by creating an optimal level of R&D activities in China and France. TAMP having been established recently, synergy implementation having just begun, synergies from procurement, R&D and manufacturing will be created via economies of scale and be gradually realized in the upcoming quarters.

Going forward, TAMP is expected to improve its overall performance by re-establishing its market position in Western Europe where it has historically achieved strong sales and it will continue to grow in the developing markets like Latin America, Mexico and Russia. As part of the rebuilding strategy, the Group will devote significant resources towards the sales and marketing of products, to improve brand awareness of products to be launched in 2005.

The Board of Directors is committed to growing the business in the long run. The Group seeks to become a first-tier player in the global handset industry, sharing with investors the fruitful returns in the years ahead.

FINANCIAL REVIEW

Results

For the nine months ended 30 September 2004, the Group achieved an unaudited consolidated turnover of approximately HK$5,175 million. It represented a decrease of 24.5% as compared to the same period last year. Profit attributable to shareholders for the first nine months this year amounted to approximately HK$274 million, against HK$552 million recorded in the same period last year. Basic earnings per share were HK$9.7 cents (2003: HK$19.5 cents).

Significant Investment and Acquisitions

On 31 August 2004, the Joint Venture with Alcatel pursuant to the subscription agreement entered into between the Company and Alcatel on 18 June 2004 (the "Subscription Agreement") whereby the Company has contributed Euro 55 million (approximately HK$537 million) in cash for a 55% equity stake in the Joint Venture, and Alcatel has contributed cash and its mobile handset business (the "Alcatel mPD") together amounting to a value of Euro 45 million (approximately HK$439 million) for the remaining 45% stake in the Joint Venture. The aforesaid subscription ratio was determined assuming the consolidated net asset value of the Joint Venture excluding certain specified items and the cash payment by the Company and Alcatel for the subscription (which in essence represents the net asset value of Alcatel mPD) (the "NAV") is not less than zero as at 31 August 2004, the closing date of the Subscription Agreement, (the "Joint Venture Closing Date"). Accordingly, the Subscription Agreement has provided for a post-closing adjustment mechanism such that if the NAV as at the Joint Venture Closing Date as estimated by Alcatel for the purpose of closing (the "Estimated NAV") is less than that as reflected in the final audited consolidated balance sheet of the Joint Venture (the "Audited NAV"), Alcatel shall pay the difference in cash to the Joint Venture. If however the Audited NAV exceeds the Estimated NAV, the Joint Venture shall pay the difference in cash to Alcatel. Given as at the date hereof the Audited NAV is not yet available, there may be adjustment to the accounts provided herein.

Liquidity and Financial Resources

The Group consistently maintained a strong liquidity position throughout the period. The cash and cash equivalents balances as at 30 September 2004 amounted to HK$1,993 million, of which 3% was maintained in Hong Kong Dollars, 3% in US Dollars, 16% in Renminbi and 78% in Euro for the operations. The Group's financial position remain strong, with net current assets of HK$2,088 million as at 30 September 2004 and gearing ratio at the period end was zero, which is calculated based on the Group's total interest-bearing borrowings and the shareholders' funds.

Capital Commitments and Contingent Liabilities

As at 30 September 2004, the Group has capital commitment of approximately HK$39 million contracted, but not provided for, and approximately HK$2 million authorized, but not contracted for. There was no significant contingent liabilities of the Group as at 30 September 2004.

Foreign Exchange Exposure

It is the Group's policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines and utilizes forward contracts. Most of the Group's transactions are either hedged or denominated in Hong Kong dollars, US dollars or Renminbi.

Employees and Remuneration Policy

As at 30 September 2004, the Group had 7,825 employees. Total staff costs for the period was approximately HK$175 million. Remuneration policy was reviewed, making reference to current legislation, market condition and both the individual and company performance.

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.

AUDIT COMMITTEE

The Company has established an audit committee pursuant to a resolution of the Directors passed on 13 September 2004 in compliance with the code of best practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Code of Best Practice"). The audit committee consists of three independent non-executive Directors, namely Mr. Shi Cuiming, Mr. Wang Chongju and Mr. Lau Siu Ki, Kevin.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice.

On behalf of the Board
LI Dong Sheng, Tomson
Chairman

Hong Kong, 28 October 2004

As at the date hereof, the executive Directors are Mr. Li Dong Sheng (Chairman of the Company), Mr. Wan Mingjian, Mr. Wong Toe Yeung, Mr. Yan Yong, Vincent, Mr. Du Xiaopeng, Simon and Mr. Guo Aiping, George, and the independent non-executive Directors are Mr. Shi Cuiming, Mr. Wang Chongju and Mr. Lau Siu Ki, Kevin.

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