



TCL INTERNATIONAL HOLDINGS LIMITED

(TCL 國際 控 股 有 限 公 司)

(incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

FINANCIAL HIGHLIGHTS

	2003 <i>HK\$M</i>	2002 <i>HK\$M</i>	Change (%)
Turnover	15,149	12,188	+24.2%
Profit before tax	734	654	+12.2%
Net profit attributable to shareholders	642	574	+11.8%
Basic earnings per share (<i>HK cents</i>)	24.21	22.46	+7.8%
Dividend per share (<i>HK cents</i>)	10.0	7.0	+42.8%

The Board of Directors of TCL International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results and financial position of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2003 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 Dec 2003 (audited) HK\$'000	Year ended 31 Dec 2002 (audited) HK\$'000 (Restated)	3 months ended 31 Dec 2003 (unaudited) HK\$'000	3 months ended 31 Dec 2002 (unaudited) HK\$'000
TURNOVER	2	15,148,652	12,187,549	5,169,619	3,654,685
Cost of sales		<u>(12,671,516)</u>	<u>(9,997,175)</u>	<u>(4,311,584)</u>	<u>(2,964,021)</u>
Gross profit		2,477,136	2,190,374	858,035	690,664
Other revenue and gains		86,675	96,733	6,216	19,133
Selling and distribution costs		(1,397,841)	(1,294,356)	(506,642)	(420,332)
Administrative expenses		(552,617)	(504,325)	(134,471)	(142,522)
Other operating expenses	3	(107,307)	(135,214)	(28,780)	(28,374)
Gain on disposal of subsidiaries		<u>1,331</u>	<u>4,062</u>	<u>1,331</u>	<u>4,062</u>
PROFIT FROM OPERATING ACTIVITIES	2	507,377	357,274	195,689	122,631
Finance costs		(32,929)	(12,159)	(12,272)	(4,128)
Share of profits and losses of:					
Jointly-controlled entities	4	337,675	373,325	98,009	120,306
Associate		—	(53)	—	22
Amortisation/impairment of goodwill on acquisition of jointly- controlled entities		(78,433)	(29,642)	(19,609)	(12,760)
Loss on deemed disposal of interest in a jointly controlled entity		—	(38,825)	—	—
Gain on disposal of discontinued operations of jointly controlled entities and an associate		<u>—</u>	<u>3,985</u>	<u>—</u>	<u>3,985</u>
PROFIT BEFORE TAX		733,690	653,905	261,817	230,056
Tax	6	<u>(84,093)</u>	<u>(61,213)</u>	<u>(29,233)</u>	<u>(15,002)</u>
PROFIT BEFORE MINORITY INTERESTS		649,597	592,692	232,584	215,054
Minority interests		<u>(7,748)</u>	<u>(19,041)</u>	<u>6,659</u>	<u>(28,971)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>641,849</u>	<u>573,651</u>	<u>239,243</u>	<u>186,083</u>
DIVIDEND	7	<u>272,000</u>	<u>184,555</u>		
EARNINGS PER SHARE	8				
— Basic		<u>24.21 cents</u>	<u>22.46 cents</u>		
— Diluted		<u>23.28 cents</u>	<u>21.87 cents</u>		

CONDENSED CONSOLIDATED BALANCE SHEET

	2003 <i>(audited)</i> HK\$'000	2002 <i>(audited)</i> HK\$'000 (Restated)
NON CURRENT ASSETS		
Fixed assets	868,919	734,262
Trademarks	27,744	25,910
Goodwill	244,539	277,949
Interests in jointly-controlled entities	1,653,375	1,543,143
Long term investments	1,682	1,682
Prepayment for the acquisition of a subsidiary	47,815	—
Deferred tax assets	8,855	8,098
	<u>2,852,929</u>	<u>2,591,044</u>
CURRENT ASSETS		
Inventories	2,441,500	2,579,118
Trade and bills receivable	1,941,137	1,029,005
Other receivables	359,569	408,413
Pledged bank deposits	5,199	89,340
Cash and bank balances	1,069,562	1,093,187
	<u>5,816,967</u>	<u>5,199,063</u>
CURRENT LIABILITIES		
Trade and bills payable	2,966,659	2,769,271
Tax payable	53,543	23,056
Other payables and accruals	684,235	612,751
Bank borrowings	113,929	23,845
	<u>3,818,366</u>	<u>3,428,923</u>
NET CURRENT ASSETS	<u>1,998,601</u>	<u>1,770,140</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,851,530</u>	<u>4,361,184</u>
NON-CURRENT LIABILITIES		
Bank borrowings	282,353	382,785
Convertible notes	347,000	350,000
Deferred tax liabilities	1,847	2,031
	<u>631,200</u>	<u>734,816</u>
MINORITY INTERESTS	<u>100,079</u>	<u>60,378</u>
	<u>4,120,251</u>	<u>3,565,990</u>
CAPITAL AND RESERVES		
Issued capital	268,133	263,100
Reserves	3,580,118	3,118,335
Proposed final dividend	272,000	184,555
	<u>4,120,251</u>	<u>3,565,990</u>

1. Basis of Preparation and Principal Accounting Policies

The Directors are responsible for the preparation of the Group's audited 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.

The accounting policies and method of computation used in the preparation of these financial statements are consistent with those used in annual financial statements for the year ended 31 December 2002 except that the Group has changed its accounting policy to comply with the SSAP12 (revised) "Income tax" and SSAP 35 "Accounting for government grants and disclosure of government assistance" issued by the HKSA, which are effective for this accounting year.

SSAP12 (revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt. SSAP12 (revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirement in SSAP12 (revised), the new accounting policy has been applied retrospectively. The principal impacts of the revision of this SSAP are that the opening retained profits at 1 January 2003 and 1 January 2002 have been increased by HK\$8.0 million and HK\$4.5 million respectively and the tax charge for the current and prior year decreased by HK\$0.9 million and HK\$3.5 million respectively.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for the financial statements except for additional disclosures.

2. Segment Information

An analysis of the Group's turnover and profit from operating activities by principal activities for the year ended 31 December 2003 is as follows:

	Turnover		Profit from operating activities	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Continuing operations:				
Television	12,422,446	9,393,956	582,873	582,724
Computers	1,775,583	1,388,554	31,241	17,244
Other audio-visual products	374,846	350,221	(28,506)	(46,165)
Others	575,777	260,865	(14,613)	(51,401)
	<u>15,148,652</u>	<u>11,393,596</u>	<u>570,995</u>	<u>502,402</u>
Discontinued operations:				
White goods	—	793,953	—	(72,217)
	<u>15,148,652</u>	<u>12,187,549</u>	<u>570,995</u>	<u>430,185</u>
Less: Amortisation of goodwill			(33,410)	(33,409)
Corporate expenses			(31,539)	(43,564)
Gain on disposal of subsidiaries			1,331	4,062
			<u>507,377</u>	<u>357,274</u>

3. Other Operating Expenses

Research and development costs of HK\$56,895,000 (2002: HK\$61,289,000) are included in the “Other operating expenses” on the face of consolidated profit and loss account.

4. 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”), a group mainly 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 year ended 31 December 2003:

	Year ended	Year ended	3 months	3 months
	31 Dec 2003	31 Dec 2002	ended	ended
	HK\$'000	HK\$'000	31 Dec 2003	31 Dec 2002
			HK\$'000	HK\$'000
TURNOVER	9,019,503	7,875,762	2,208,688	2,486,015
Cost of sales	(7,237,547)	(5,724,279)	(1,738,525)	(1,849,889)
Gross profit	1,781,956	2,151,483	470,163	636,126
Other revenue and gains	27,493	26,099	9,065	4,140
Selling and distribution costs	(843,115)	(655,267)	(214,558)	(198,938)
Administrative and other operating expenses	(155,704)	(254,156)	(36,189)	(86,056)
PROFIT FROM OPERATING ACTIVITIES	810,630	1,268,159	228,481	355,272
Finance costs	(10,657)	(17,053)	(1,201)	(13,600)
PROFIT BEFORE TAX	799,973	1,251,106	227,280	341,672
Tax	(18,220)	(52,733)	(1,185)	(9,542)
NET PROFIT	781,753	1,198,373	226,095	332,130

Financial position:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
NON CURRENT ASSETS	<u>259,598</u>	<u>194,020</u>
CURRENT ASSETS		
Inventories*	760,965	1,409,987
Trade receivables	392,021	76,058
Bills receivable	1,356,571	1,272,208
Cash and bank balances	858,454	629,003
Other current assets	<u>610,280</u>	<u>840,584</u>
	<u>3,978,291</u>	<u>4,227,840</u>
CURRENT LIABILITIES		
Trust receipt loans	13,851	67,643
Trade and bills payable	1,340,978	1,409,207
Other payables and accruals	776,223	1,260,498
Other current liabilities	<u>92,610</u>	<u>73,944</u>
	<u>2,223,662</u>	<u>2,811,292</u>
NET CURRENT ASSETS	<u>1,754,629</u>	<u>1,416,548</u>
NON-CURRENT LIABILITIES	<u>—</u>	<u>2,456</u>
	<u>2,014,227</u>	<u>1,608,112</u>
CAPITAL AND RESERVES		
Paid-up capital	232,215	232,215
Reserves	<u>1,782,012</u>	<u>1,375,897</u>
	<u>2,014,227</u>	<u>1,608,112</u>

* Included in the inventories are raw materials of HK\$557,109,000 (2002: HK\$847,466,000), work in progress of HK\$78,868,000 (2002: HK\$120,616,000) and finished goods of HK\$124,988,000 (2002: HK\$441,905,000).

5. Depreciation and Amortization

During the year, depreciation of HK\$161,363,000 (2002: HK\$159,335,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK\$114,735,000 (2002: HK\$62,620,000) was charged to the profit and loss account in respect of the Group's intangible assets and goodwill arising on consolidation.

6. 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 year. 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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
<i>Group:</i>		
Current — Hong Kong		
Charge for the year	17,685	10,000
Overprovision in prior years	(31)	—
Current — Elsewhere	59,800	38,697
Deferred	(941)	(3,524)
	<u>76,513</u>	<u>45,173</u>
<i>Share of tax attributable to:</i>		
Jointly-controlled entities	<u>7,580</u>	<u>16,040</u>
Tax charge for the year	<u><u>84,093</u></u>	<u><u>61,213</u></u>

7. Dividend

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Proposed final 10 HK cents (2002: 7 HK cents) per share	<u><u>272,000</u></u>	<u><u>184,555</u></u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$641,849,000 (2002: HK\$573,651,000) and the weighted average of 2,651,526,753 (2002: 2,554,562,270) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$641,849,000 (2002: HK\$573,651,000), adjusted by the reduction of interest expenses of HK\$10,490,000 (2002: HK\$1,525,000) relating to the convertible notes. The weighted average number of shares used in the calculation is 2,651,526,753 (2002: 2,554,562,270) shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 13,470,468 (2002: 55,356,614) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year; and the weighted average of 136,857,676 (2002: 20,258,538) shares on the deemed conversion of all convertible notes during the year.

REVIEW AND OUTLOOK

OPERATIONAL HIGHLIGHTS

	For the year ended 31 December		
	2003		
	2003	2002	Change
	<i>Unit Sales</i>	<i>Unit Sales</i>	(%)
	(<i>'000</i>)	(<i>'000</i>)	
TVs — PRC market	7,826	6,753	+16%
— Overseas	3,828	1,299	+195%
Mobile Handsets	9,817	6,236	+57%
PCs	527	376	+40%

- **The Group maintained leading position in all core businesses: TV ranked first, handset ranked second and PC ranked fifth, among all players in China.**
- **The TV business continued to be the major revenue contributor, accounting for 82% of the total sales revenue. The Group maintained 19% share in the domestic TV market and its unit sales increased by 16%. Overseas TV sales saw remarkable performance with a surge of 195% to 3.83 million sets. The revenue contribution from the overseas business doubled, from 11% in 2002 to 22% in 2003.**
- **Handset sales increased substantially by 57% and the Group captured an 11% share in the domestic market. However, the price drop offset the volume increase. Profit contribution from the handset business decreased.**
- **PC sales up 40%, with a market share of 4% in the overall PC market.**

BUSINESS REVIEW

Year 2003 was an important one in the history of the Group — business development in China experienced stable growth, and overseas expansion reaped fruitful results. Under the diligent work of staff at all levels, the Group continued to be the best selling TV manufacturer in China. Our handset business was ranked among the top 2 players in China. Overseas exports also grew rapidly, setting new records in sales and creating a new driving force. With internationalization in full gear, the Group and Thomson S.A. (“Thomson”), a well-known French corporation, entered into a Memorandum of Understanding (“MOU”) for a partnership in the TV business. **This is the first time a Chinese enterprise has the chance to emerge as a global leader in terms of the scale of operations in its core business.** This partnership carries significant implications for the long-term development of the Group.

The TV market has long been one of the most competitive markets in China. With the increasing consumption power in the domestic market, the battlefield has shifted to the high-end TV market. TCL, committed to product research and development, strengthened the sale of high-end models to cater to market needs and improved its product mix. This allowed the Group to maintain a satisfactory gross margin amid fierce market competition. Domestic TV sales in 2003 reached 7.8 million sets, capturing a market share of 19%, making TCL the best selling TV brand in China.

The handset market is ever-changing. New product designs and functions continue to emerge everyday. Both domestic and foreign players joined the competition, launching new models in the fastest possible manner. This exerted pressure on product prices as a whole. The Group, as one of the pioneers in the PRC handset market, established market leadership with its distinctive product design and stayed ahead of its rivals. In spite of the intensifying market competition, the Group recorded satisfactory sales of 9.8 million units, taking up a share of 11% in the China market. However, the price decline offset the impact of the growth in unit sales. Net profit as a result decreased from HK\$1,198 million in 2002 to HK\$782 million this year.

The China PC market continued to maintain double-digit growth in 2003. However, the lack of technological breakthroughs in CPUs and related parts led to a continuing decline in PC prices. The Group's PC business, with its focus on meeting the needs of two main groups of users, namely home users and commercial users, witnessed a surge of 40%. Unit sales in 2003 reached 527,000 sets, narrowing the gap between TCL and other major players in the market. Statistics from CCID indicated that TCL ranked No. 5 in the overall PC market with a share of 4% in 3Q of 2003.

Our overseas business recorded encouraging growth in 2003, reaping the fruits of our strategic planning in 2002. The Group adopted a dual strategy with branded and OEM products running side-by-side. Branded products are mainly for the Southeast Asian markets. After a few years of business expansion, the Group's TCL branded products have established market leadership in countries such as Vietnam and Philippines. In addition, the Group set up a branch office in Russia during the year to drive the sale of branded products there. Sales in other markets which include the U.S., South Africa, the Middle East, etc., are mainly for OEM business which also recorded strong performances. Total TV exports during the year amounted to 3.8 million sets, representing a surge of 195% as compared to the previous year.

The Group acquired assets from Schneider in September 2002. Subsequent corporate restructuring was almost completed during the year. At the IFA Expo held in Berlin last September, the Group launched a series of products under the Schneider brand, including LCD TVs. These products were highly praised. With Germany as one of its key focuses, the Group will tap opportunities in the European market with products under the Schneider brand.

FINANCIAL RESULTS

Despite the adverse impact of the SARS outbreak which led to business slowdown during the first half of 2003, the Group recorded rapid sales rebound in the second half of the year. Performance in 2003 as a whole was satisfactory. The consolidated turnover for the year ended 31 December 2003 amounted to HK\$15,149 million, representing an increase of 24.2% as compared to the previous year. Effective cost control measures also enabled us to maintain our gross margin at 16.4% (2002: 18.0%). Profit attributable to shareholders during the year under review rose to HK\$642 million, an increase of 11.8%. Basic earnings per share also went up to 24.21 HK cents (2002: 22.46 HK cents).

The TV business continued to be the main profit contributor, accounting for 76% of the Group's net profit. This was followed by the handset business which accounted for 35% of the net profit.

In view of the satisfactory business performance of the Group in 2003, the Board of Directors has proposed a final dividend of 10 HK cents (2002: 7 HK cents).

Significant Acquisitions and Disposals

The 3rd of November 2003 marked an important milestone in the Group's internationalization plan. On that day, the Group entered into an MOU with Thomson to combine the TV businesses and related assets of the two companies and to form a joint-venture company named TCL-Thomson Electronics ("TTE"). TTE will be held as to 67% and 33% by the Company and Thomson respectively.

TTE will combine and consolidate the resources of the two groups. It is estimated that the combined net asset value of the TTE will be in excess of Euro 450 million (approximately HK\$4.41 billion) and it is the Directors' belief that TTE will become a major global company with long term competitiveness in the businesses of TV R&D, manufacture, distribution and sales. The strengths of the Group and Thomson match and complement each other. The competitive advantages of TCL's fast growing TV business, coupled with the unparalleled R&D capabilities of Thomson, will enhance the product mix, increase our market share in the high-end market, raise the efficiency of resource allocation, and strengthen the Group's competitiveness globally. Our brand image will be raised to an international level. Not only will the partnership enhance our competitive edge in the domestic market, but also lower our cost of overseas expansion. The resulting joint business network will cover the world's three major markets — Asia, Europe and North America, taking TCL's business to new era of growth.

Further details of the joint venture are set out in the Company's announcement dated 30 January 2004.

Liquidity and Financial Resources

The Group consistently maintained a strong liquidity position throughout the year. Through its centralized treasury function, the Group was able to make efficient allocation of its financial resources and reduced any unnecessary financial expenses. The cash and bank balances as at the year end amounted to HK\$1,075 million, of which 38% was maintained in Hong Kong Dollars, 11% in US Dollars, 48% in Renminbi and 3% was held in other currencies for the overseas operations. The Group's gearing ratio at the year end was 0.2 which is calculated based on the Group's total interest-bearing borrowings at approximately HK\$743 million and the shareholders' funds of approximately HK\$4,120 million.

There was no material change in available credit facilities when compared with 2002 and there was no asset held under finance lease at the year end. Convertible notes were subject to fixed interest rate at 3% per annum. During the year, a total amount of HK\$3 million convertible notes were exercised and converted into 1,173,708 shares of the Company at an exercise price of HK\$2.556 per share.

Foreign Exchange Exposure

Since most business transactions conducted by the Group and payments made to suppliers are made in either Hong Kong Dollars, US Dollars or Renminbi, use of financial instruments for hedging purposes is considered unnecessary.

Employees and Remuneration Policy

The Group had a total of 21,000 dynamic and talented employees, of which approximately 4% was management staff, 23% technical staff, 9% clerical staff, 25% sales & marketing staff, and 39% workers. 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. Total outstanding share options at the year end amounted to 73,346,438 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 year under review.

BOOK CLOSURE

The Register of Members will be closed from 12 May 2004 to 18 May 2004 both days inclusive. In order to qualify for the proposed final dividends, all transfers, accompanied by the relevant share certificates, should be lodged with the Registrar by 4:30 p.m. on 11 May 2004.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the year.

On behalf of the Board
LI Dong Sheng, Tomson
Chairman

Hong Kong, 2 March 2004

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on both the Company's website (www.tclhk.com) and the Stock Exchange's website (www.hkex.com.hk) in due course.

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