



# 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 SIX MONTHS ENDED 30 JUNE 2002

FINANCIAL HIGHLIGHTS	2002 HK\$M	2001 HK\$M	change (%)
Turnover	5,385	4,529	19%
Profit before tax	279	173	61%
Net profit attributable to shareholders	253	161	57%
Basic earnings per share (HK cents)	10.03	6.49	55%

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	5,385,234	4,529,129
Cost of sales		<u>(4,375,472)</u>	<u>(3,780,949)</u>
Gross profit		1,009,762	748,180
Other revenue and gains		62,923	35,688
Selling and distribution costs		(601,007)	(456,984)
Administrative expenses		(247,490)	(135,913)
Other operating expenses		<u>(33,626)</u>	<u>(13,507)</u>
PROFIT FROM OPERATING ACTIVITIES	2	190,562	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>	—
<b>PROFIT BEFORE TAX</b>		<b>278,573</b>	172,796
Tax	6	<b>(33,595)</b>	(6,995)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>244,978</b>	165,801
Minority interests		<b>8,015</b>	(4,953)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>252,993</b>	160,848
<b>DIVIDEND</b>	7	<b>Nil</b>	Nil
<b>EARNINGS PER SHARE</b>	8		
— Basic		<b>10.03</b>	6.49
— Diluted		<b>9.77</b>	6.47

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2002 <i>HK\$'000</i>	Audited 31 December 2001 <i>HK\$'000</i>
<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>	<u>1,021,009</u>
		<b>3,999,888</b>	<u>4,362,192</u>
<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>	<u>23,667</u>
		<b>2,541,136</b>	<u>2,796,296</u>
<b>NET CURRENT ASSETS</b>		<b>1,458,752</b>	<u>1,565,896</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,184,012</b>	<u>2,978,989</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	11	<b>6,471</b>	6,628
Deferred tax		<b>1,915</b>	<u>1,915</u>
		<b>8,386</b>	8,543
<b>MINORITY INTERESTS</b>		<b>28,720</b>	<u>36,508</u>
		<b>3,146,906</b>	<u>2,933,938</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>253,551</b>	251,122
Reserves		<b>2,893,355</b>	<u>2,682,816</u>
		<b>3,146,906</b>	<u>2,933,938</u>

*Notes:*

## 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.



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

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

#### 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:

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

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.

## 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%.

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

## 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:

	<b>Unaudited</b> <b>30 June</b> <b>2002</b> <i>HK\$'000</i>	Audited 31 December 2001 <i>HK\$'000</i>
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	<u>18,690</u>	<u>25,500</u>
	<u><b>934,004</b></u>	<u><b>937,463</b></u>

## 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:

	<b>Unaudited</b> <b>30 June</b> <b>2002</b> <i>HK\$'000</i>	Audited 31 December 2001 <i>HK\$'000</i>
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	<u>17,341</u>	<u>15,006</u>
	<u><b>1,998,361</b></u>	<u><b>2,151,096</b></u>

## 11. Interest-bearing Bank Borrowings

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Secured	6,782	6,931
Unsecured	<u>—</u>	<u>23,364</u>
	<u><b>6,782</b></u>	<u><b>30,295</b></u>
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	<u>5,130</u>	<u>5,318</u>
	<u><b>6,782</b></u>	<u>30,295</u>
Portion classified as current liabilities	<u>(311)</u>	<u>(23,667)</u>
Long term portion	<u><b>6,471</b></u>	<u><b>6,628</b></u>

- (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.

## BUSINESS REVIEW AND OUTLOOK

The Group is pleased to see steady growth in its core businesses, amongst which the Television Business and the Mobile Phone Business recorded strong increases in sales, consolidating the Group's position as the leading consumer electronics brand in the PRC. For the six months ended 30 June 2002, turnover amounted to HK\$5,385 million, an increase of 19% as compared to the corresponding period last year, while profit attributable to shareholders increased by 57% to HK\$253 million. Basic earnings per share were HK10.03 cents.

### The Television Business

TCL is the best-selling television brand in the PRC. Building on this solid foundation, sales of TCL televisions continued to outpace competitors, reaching 3.5 million sets in the first half of 2002. Domestic sales in the PRC amounted to 3 million sets, an increase of 13% over the same period last year. The Group's market share further increased to 20%.

Market competition eased in the first half of the year as compared to the same period last year. Price reductions for televisions in general were flattened. Competition moved towards high-end products, such as PDP, LCD, LCOS rear projection TV etc. As the market leader, the Group introduced 18 new models in the first half of the year with a focus on middle to high-end models such as PDP and HiD. Not only did the launch of these products cater to market changes, but also increased the Group's competitiveness in the high-end market.



In addition to the comparatively stable television price, the reduction in component prices as well as the enhanced product mix also contributed to an increase in the gross profit margin, up from 16% last year to 21% for the first half of 2002.

Looking to the second half of the year, the Group will speed up the launch of new products. A total of 35 new models, mostly high-end designs, will be launched to strengthen high-end product portfolio. The Group will also place more efforts on marketing to seize arising opportunities and to enhance its market presence.

## **Mobile Phone Business**

Following the rapid development of the mobile communications market in the PRC, the Group successfully captured market opportunities. As a result, the mobile phone business recorded an outstanding performance in the first half of 2002.

The sale of TCL handsets reached 2.21 million sets in the first six months of 2002, representing a strong increase of 6 times over the same period last year. According to the CCID report on the first half of 2002, TCL, enjoying a market share of 7%, was ranked among the top five best selling handset brands in the PRC and the No. 1 best selling domestic handset brand in the PRC.

This remarkable performance was attributable to the strong sales of the “8-series” which exceeded the Group’s expectations. Its efficient costs and quality control measures also bore fruit. During the first half of the year, the Group launched 9 new models, mostly under the “8 series” and the “6 series”. Owing to the downward price adjustment of existing handset models, and as new models had not yet reached economies of scale, a slight decline in the gross profit margin was seen.

With respect to market competition, a number of handset brands, especially domestic brands, had speeded up the launch of new products and strengthened the marketing of mid- to high-end products. In response to market changes, the Group will also speed up the launch of new products and introduce 15 trendy and user-oriented new models in the second half of the year.

The Group anticipates that domestic handset manufacturers will take up more market shares from foreign brands. Domestic handset brands will therefore perform even better in the second half of the year. The Group will seek new distribution channels in addition to its own sales and distribution network to maintain its competitive edge, and its handset business is expected to post even better performances in the second half of the year.

## **The PC Business**

The Group is pleased to see continued improvement in the operating environment in the PC market. However, market demand was far from strong, and the entire PC industry showed a slight downward trend. The Group sold 88,000 PCs in the first half of the year, an increase of 4% over the same period of last year. The gross profit margin remained at a level similar to that in the previous year.

TCL maintained its position in the market. It was ranked the 3rd best selling consumer desktop PC brand and the 4th best selling domestic brand in the overall PC market, enjoying a market share of 5% and 3% respectively.

Under the lukewarm market conditions TCL implemented a series of operational reforms to straighten out the chain from the supply of raw materials and manufacturing to sales and distribution. These efforts improved overall capital efficiency and operational effectiveness

considerably, accelerating inventory turnover, accounts receivable cycles as well as capital and cash flows, paving the way for the Group to capture opportunities in the peak season in the third quarter.

In addition, as the Group has considerable experience in the education and government information services sectors, it is well positioned to tap opportunities in the commercial PC market. Entering the peak summer vacation season in July, the Group has seen substantial sales improvements. The PC business is expected to perform better in the second half of the year.

## **The AV Business**

The overall sales of AV equipments fell slightly in the first half of 2002. Among the various AV products, DVDs performed comparatively better. Following the launch of two new models in the first half of the year, the sale of DVDs continued to increase significantly. Nevertheless, the sale of VCD and SVCD products were affected by market adjustments and experienced different levels of declines. The sale of home theatres basically remained the same as last year.

Owing to keen competition, product prices continued to fall. Despite this, the rise in DVD sales volumes offset the impact. The overall gross profit margin improved when compared to the first quarter.

For the second half of the year, while consolidating the AV business, the Group will devote more resources to enhance product quality and technology applications aiming to further refine sales structures. It will also enhance the reputation of its AV products, increase its market presence and incorporate value-added functions to raise profitability.

## **The Internet Business**

In collaboration with leading research institutes and enterprise, such as Huazhong University of Science Technology (華中科技大學) and ACCTON, the Group developed and launched 5 new models of networking equipment products, boosting sales considerably. The market share for network card products, for instance, surged from 4.7% last year to 8.1% this year.

Benefiting from the increasing popularity of distant learning, the Group achieved satisfactory results in offering distant education. The number of students studying on the Digital Campus Virtual Reality Education Platform jointly run by the Group and the China Central Radio and Television University (CCRTU) (中央電大) reached 160,000. The business network covered primary and secondary cities throughout the nation.

In the second half of 2002, the Group will reallocate its resources in the IT business and abandon projects that are not related to its core businesses. As for the network equipment market, the Group will actively promote mid-end products which focus on education, community and government administration. It will also strengthen its channel-based regional sales platform and utilize its existing resources to achieve better investment returns in the Western China region.

## **The White Goods Business**

The performance of different white goods varied in the first half of 2002. The sale of air-conditioners amounted to 180,000 sets, representing an increase of over 83% when compared to the same period last year. As for refrigerators and washing machines, 97,000 sets and 136,000 sets were sold respectively, representing an increase of 5% and a decline of 19% respectively.

As the air-conditioner business division further refined its sales network during the period, its sales capabilities showed effective improvement. However, as refrigerators and washing machines were not price competitive, sales declines were seen. The gross profit posted a relatively significant decrease due to the provisions made for inventory left over from last year.

In May 2002, the Group announced the disposal of white good business to its parent company. Procedures related to transaction are now in progress and the transaction is expected to be completed by the end of this year.

## **Overseas Business**

The Group's overseas business took a major step in the first half of 2002. The Group started to explore the potential in new markets such as Russia and the Middle East. It also strengthened its sales in South East Asia, which were all sold under TCL brand. As a result, the sale of televisions overseas reached 512,000 sets, representing a surge of 41% over the same period of last year.

TCL achieved satisfactory results in brand building in Vietnam, the Philippines and Hong Kong. Sales in these areas increased by over 30%. It is now ranked as the 3rd best selling television brand in Vietnam with a market share of 15%.

In the second half of 2002, TCL will fortify its research and development and marketing of high-end products in overseas markets. The Group will adopt different strategies for different markets according to the respective market capacities, brand awareness and entry barriers. The Group's aim is to further strengthen the sales channels speed up market response and increase customer satisfaction. Moving into the conventional peak season in the second half of the year, the Group anticipates stronger demand for televisions as compared to the first half of the year. At the same time, demand for high-end products will also increase gradually.

## **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.

## **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 ("Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Exchange") during the period.

## **INTERIM REPORT**

The Interim Report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listings Rules of The Exchange will be published on both the Company's website ([www.tclhk.com](http://www.tclhk.com)) and the Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) in due course.

On behalf of the Board  
**LI Dong Sheng**  
*Chairman*

Hong Kong, 21 August 2002

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