



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 NINE MONTHS ENDED 30 SEPTEMBER 2002

Financial Highlights Unaudited Financial Figures for the Nine Months Ended 30 September 2002

| | 2002 | 2001 | Growth |
|---|-------|-------|--------|
| | HK\$M | HK\$M | (%) |
| Turnover | 8,533 | 6,954 | +23 |
| Profit before tax | 447 | 228 | +96 |
| Net profit attributable to shareholders | 411 | 213 | +93 |
| Basic earnings per share (HK cents) | 16.22 | 8.56 | +89 |

Key Operational Highlights For the Third Quarter Ended 30 September 2002

- Continued to record growth in sales turnover and earnings. Sales turnover and net profit attributable to shareholders amounted to HK\$3,148 million and HK\$158 million respectively, representing growth of 30% and 203%
- Domestic sales of TVs increased by 28% to 1.54 million sets; TV exports also surged considerably by 51% to 323,000 sets
- Sales of handsets recorded an exponential growth of more than 4 times, reaching 1.86 million sets
- PC business turned around during the third quarter
- To explore the full potential of overseas markets, the Group announced to acquire assets and brand names of the German-based consumer electronics product manufacturer Schneider Electronics AG, and formed a joint-venture with Great Wall Cybertech
- Announced to acquire further equity stake in TCL Mobile to benefit more from the high growth potential in the mobile handset business

The Board of Directors of TCL International Holdings Limited (the “Company”) is pleased to announce the unaudited quarterly financial statements of the Company and its subsidiaries (the “Group”), which do not include the condensed statements of cash flow and changes in equity, for the nine months ended 30 September 2002. These financial statements have been reviewed by Ernst & Young, independent auditors of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | 9 months ended 30 September 2002 (unaudited) HK\$'000 | 9 months ended 30 September 2001 (unaudited) HK\$'000 | 3 months ended 30 September 2002 (unaudited) HK\$'000 | 3 months ended 30 September 2001 (unaudited) HK\$'000 |
|---|---|--|--|--|--|
| TURNOVER | 2 | 8,532,864 | 6,953,748 | 3,147,630 | 2,424,619 |
| Cost of sales | | <u>(7,033,154)</u> | <u>(5,820,918)</u> | <u>(2,657,682)</u> | <u>(2,039,969)</u> |
| Gross profit | | 1,499,710 | 1,132,830 | 489,948 | 384,650 |
| Other revenue and gains | | 77,600 | 48,574 | 14,677 | 12,886 |
| Selling and distribution costs | | (874,024) | (728,799) | (273,017) | (271,815) |
| Administrative expenses | | (394,904) | (211,857) | (147,414) | (75,944) |
| Other operating expenses | | <u>(73,739)</u> | <u>(15,994)</u> | <u>(40,113)</u> | <u>(2,487)</u> |
| PROFIT FROM OPERATING ACTIVITIES | 2 | 234,643 | 224,754 | 44,081 | 47,290 |
| Finance costs | | (8,031) | (12,079) | (29) | (2,983) |
| Share of result: | | | | | |
| Associates | | (75) | 2,018 | (9) | 1,348 |
| Jointly-controlled entities | 4 | 253,018 | 13,654 | 130,349 | 9,896 |
| Others | | <u>(32,548)</u> | <u>—</u> | <u>(5,958)</u> | <u>—</u> |
| PROFIT BEFORE TAX | | 447,007 | 228,347 | 168,434 | 55,551 |
| Tax | 6 | <u>(45,609)</u> | <u>(10,890)</u> | <u>(12,014)</u> | <u>(3,895)</u> |
| PROFIT BEFORE MINORITY INTERESTS | | 401,398 | 217,457 | 156,420 | 51,656 |
| Minority interests | | <u>9,930</u> | <u>(4,395)</u> | <u>1,915</u> | <u>558</u> |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | 411,328 | 213,062 | 158,335 | 52,214 |
| Transfer to reserve funds | | <u>(39,321)</u> | <u>(282)</u> | <u>—</u> | <u>—</u> |
| Retained profit for the period | | <u>372,007</u> | <u>212,780</u> | <u>158,335</u> | <u>52,214</u> |
| DIVIDEND | 7 | <u>Nil</u> | <u>Nil</u> | <u>Nil</u> | <u>Nil</u> |
| EARNINGS PER SHARE | 8 | | | | |
| — Basic | | <u>16.22 cents</u> | <u>8.56 cents</u> | <u>N/A</u> | <u>N/A</u> |
| — Diluted | | <u>15.83 cents</u> | <u>8.53 cents</u> | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | Unaudited 30 September 2002 <i>HK\$'000</i> | Audited 31 December 2001 <i>HK\$'000</i> |
|--|--------------|--|---|
| | <i>Notes</i> | | |
| NON CURRENT ASSETS | | | |
| Fixed assets | | 796,365 | 853,364 |
| Goodwill | | 281,194 | 306,046 |
| Interest in an associate | | 15,020 | 14,953 |
| Interests in jointly-controlled entities | | 721,934 | 237,048 |
| Long term investment | | <u>1,682</u> | <u>1,682</u> |
| | | <u>1,816,195</u> | <u>1,413,093</u> |
| CURRENT ASSETS | | | |
| Inventories | | 2,287,549 | 2,039,045 |
| Trade and bills receivable | 9 | 1,138,097 | 937,463 |
| Other receivables | | 445,873 | 301,563 |
| Pledged bank deposits | | 125,543 | 63,112 |
| Cash and bank balances | | <u>1,155,372</u> | <u>1,021,009</u> |
| | | <u>5,152,434</u> | <u>4,362,192</u> |
| CURRENT LIABILITIES | | | |
| Trade and bills payable | 10 | 2,975,091 | 2,151,096 |
| Tax payable | | 17,201 | 20,895 |
| Other payables and accruals | | 580,611 | 600,638 |
| Interest-bearing bank borrowings | 11 | <u>313</u> | <u>23,667</u> |
| | | <u>3,573,216</u> | <u>2,796,296</u> |
| NET CURRENT ASSETS | | <u>1,579,218</u> | <u>1,565,896</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>3,395,413</u> | <u>2,978,989</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 11 | 6,393 | 6,628 |
| Deferred tax | | <u>1,915</u> | <u>1,915</u> |
| | | 8,308 | 8,543 |
| MINORITY INTERESTS | | <u>26,805</u> | <u>36,508</u> |
| | | <u>3,360,300</u> | <u>2,933,938</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | | 259,461 | 251,122 |
| Reserves | | <u>3,100,839</u> | <u>2,682,816</u> |
| | | <u>3,360,300</u> | <u>2,933,938</u> |

1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited quarterly 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 nine months ended 30 September 2002 is as follows:

| | Turnover | | Profit from operating activities | |
|------------------------------------|------------------|------------------|----------------------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Continuing operations: | | | | |
| Televisions | 6,444,364 | 5,332,705 | 403,871 | 237,185 |
| Computers related products | 1,058,313 | 648,764 | 2,437 | 6,840 |
| Other audio visual products | 153,144 | 175,497 | (26,716) | (9,067) |
| Others | 106,717 | 60,791 | (21,828) | (28,733) |
| | 7,762,538 | 6,217,757 | 357,764 | 206,225 |
| Discontinuing operations: (Note 3) | | | | |
| White goods | 770,326 | 735,991 | (69,067) | 60,661 |
| | 8,532,864 | 6,953,748 | 288,697 | 266,886 |
| Less: Amortisation of goodwill | | | (24,852) | (16,513) |
| Corporate expenses | | | (29,202) | (25,619) |
| | | | 234,643 | 224,754 |

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.

The Company is in the process of terminating its remaining white goods manufacturing business other than those under disposal.

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

| | Unaudited | |
|--|-------------------------------|----------------------|
| | Nine months ended | |
| | 30 September | |
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| TURNOVER | 770,326 | 735,991 |
| Cost of sales | <u>(688,913)</u> | <u>(575,374)</u> |
| Gross profit | 81,413 | 160,617 |
| Other revenue and gains | 580 | 325 |
| Selling and distribution costs | (133,795) | (87,417) |
| Administrative expenses | (14,962) | (12,453) |
| Other operating expenses | <u>(2,303)</u> | <u>(411)</u> |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | (69,067) | 60,661 |
| Finance costs | (6,409) | (7,115) |
| Share of loss of an associate | (75) | — |
| Share of losses of jointly-controlled entities | <u>(5,819)</u> | <u>(786)</u> |
| PROFIT/(LOSS) BEFORE TAX | (81,370) | 52,760 |
| Tax | <u>2,872</u> | <u>(585)</u> |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | (78,498) | 52,175 |
| Minority interests | <u>9,156</u> | <u>(5,001)</u> |
| NET PROFIT/(LOSS) | <u><u>(69,342)</u></u> | <u><u>47,174</u></u> |

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 ("TCL Mobile") and its subsidiaries ("TCL Mobile Group"), a group mainly engaged in the manufacturing and selling of mobile phones. Proforma consolidated results of TCL Mobile Group, prepared on the basis that TCL Mobile has been treated as the holding company of its subsidiaries for the whole financial year presented, rather than from the date of their acquisition, are as follows:

Proforma Condensed Consolidated Profit and Loss Account of TCL Mobile Group:

| | Unaudited | |
|----------------------------------|------------------------------|-----------------------|
| | Nine months ended | |
| | 30 September | |
| | 2002 | 2001 |
| | <i>HK\$'000*</i> | <i>HK\$'000*</i> |
| TURNOVER | 5,389,747 | 954,711 |
| Cost of sales | <u>(3,810,962)</u> | <u>(619,021)</u> |
| Gross profit | 1,578,785 | 335,690 |
| Other revenue and gains | 63,178 | 2,466 |
| Selling and distribution costs | (456,329) | (162,982) |
| Administrative expenses | (226,226) | (23,753) |
| Other operating expenses | <u>(46,521)</u> | <u>(10,535)</u> |
| PROFIT FROM OPERATING ACTIVITIES | 912,887 | 140,886 |
| Finance costs | <u>(3,453)</u> | <u>(3,177)</u> |
| PROFIT BEFORE TAX | 909,434 | 137,709 |
| Tax | <u>(43,191)</u> | <u>—</u> |
| NET PROFIT | <u><u>866,243</u></u> | <u><u>137,709</u></u> |

Proforma Condensed Consolidated Balance Sheet of TCL Mobile Group:

| | Unaudited | Audited |
|---------------------------------------|--------------------------------|-----------------------|
| | 30 September | 31 December |
| | 2002 | 2001 |
| | <i>HK\$'000*</i> | <i>HK\$'000*</i> |
| NON-CURRENT ASSETS | 167,389 | 113,998 |
| CURRENT ASSETS | 4,572,082 | 1,121,163 |
| CURRENT LIABILITIES | <u>(3,459,850)</u> | <u>(840,416)</u> |
| NET CURRENT ASSETS | <u>1,112,232</u> | <u>280,747</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>1,279,621</u> | <u>394,745</u> |
| NON-CURRENT LIABILITIES | <u>(3,533)</u> | <u>(8,043)</u> |
| | <u><u>1,276,088</u></u> | <u><u>386,702</u></u> |
| CAPITAL AND RESERVES | <u><u>1,276,088</u></u> | <u><u>386,702</u></u> |

* Based on exchange rate of HK\$1.00 = RMB1.06

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\$283 million. Goodwill on acquisition in the amount of approximately HK\$238 million 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%.

On 26 September 2002, the Group entered into an agreement for the acquisition of an additional 13.8% interest in TCL Mobile for a cash consideration of approximately HK\$765 million. The transaction was completed subsequent to the period end in November 2002. The consideration was funded partly by the net proceeds from the issue of convertible notes in the amount of approximately HK\$350 million, and partly from bank borrowing of HK\$400 million and the remaining balance by internal resources.

5. Depreciation and Amortization

During the nine months period, depreciation of HK\$126,951,000 (2001: HK\$61,195,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortisation of HK\$41,733,000 (2001: HK\$16,513,000) 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%.

| | Unaudited | |
|-------------------------------|--------------------------|----------------------|
| | Nine months ended | |
| | 30 September | |
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Group: | | |
| Hong Kong | 4,933 | 2,234 |
| Elsewhere | <u>27,900</u> | <u>7,923</u> |
| | 32,833 | 10,157 |
| Share of tax attributable to: | | |
| Jointly-controlled entities | <u>12,776</u> | <u>733</u> |
| | <u>45,609</u> | <u>10,890</u> |

7. Dividend

The Directors of the Company do not recommend the payment of any interim dividend for the nine months ended 30 September 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\$411,328,000 (2001: HK\$213,062,000) and the weighted average of 2,536,408,417 (2001: 2,488,780,026) 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\$411,328,000 (2001: HK\$213,062,000). The weighted average number of shares used in the calculation is 2,536,408,417 (2001: 2,488,780,026) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 62,717,460 (2001: 8,958,246) 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 September 2002 HK\$'000 | Audited 31 December 2001 HK\$'000 |
|----------------------|---|--|
| Current to 90 days | 937,595 | 744,785 |
| 91 days to 180 days | 155,837 | 152,559 |
| 181 days to 365 days | 29,220 | 14,619 |
| Over 365 days | <u>15,445</u> | <u>25,500</u> |
| | <u>1,138,097</u> | <u>937,463</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:

| | Unaudited 30 September 2002 HK\$'000 | Audited 31 December 2001 HK\$'000 |
|----------------------|---|--|
| Current to 90 days | 2,376,113 | 1,925,597 |
| 91 days to 180 days | 512,082 | 199,948 |
| 181 days to 365 days | 61,054 | 10,545 |
| Over 365 days | <u>25,842</u> | <u>15,006</u> |
| | <u>2,975,091</u> | <u>2,151,096</u> |

11. Interest-bearing Bank Borrowings

| | Unaudited 30 September 2002 HK\$'000 | Audited 31 December 2001 HK\$'000 |
|---|---|--|
| Secured | 6,706 | 6,931 |
| Unsecured | — | 23,364 |
| | <u>6,706</u> | <u>30,295</u> |
| Bank loans repayable: | | |
| Within one year | 313 | 23,667 |
| In the second year | 323 | 312 |
| In the third to fifth year, inclusive | 1,028 | 998 |
| Beyond five years | <u>5,042</u> | <u>5,318</u> |
| | 6,706 | 30,295 |
| Portion classified as current liabilities | <u>(313)</u> | <u>(23,667)</u> |
| Long Term Portion | <u>6,393</u> | <u>6,628</u> |

- (a) Certain of the bank loans were secured by the Group's land and buildings with a total net book value of HK\$10,364,000 (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 encouraging and continual growth in sales and financial performance. Sales turnover grew by 23% to HK\$8,533 million for the nine months ended 30 September 2002. Net profit attributable to shareholders also increased by 93% to HK\$411 million. The core businesses performed well during the period under review. While the TV and mobile handset businesses continued to record strong growth, the PC business also turned around and became profitable. The Group has every confidence in meeting the sales target set at the beginning of the year.

As a further step to accelerate corporate development, the Group entered into an agreement to acquire the assets and brand names of the German company Schneider Electronics AG and announced its plan to further increase its equity stake in Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile") which engages in the manufacture and sale of mobile handset. These strategic moves will fuel the Group towards a new era of growth.

Television Business

According to the Ministry of Information Industry, a total of 29.31 million television sets were sold during the first eight months of 2002, of which 19.32 million sets were sold in the PRC and 9.99 million sets were exported to overseas markets. The average selling price was relatively stable. The overall operating environment improved when compared to the same period last year as market competition moved towards high-end products such as PDPs, LCDs, LCOSs and rear projection models. Pricing pressure is perceived to be limited due to the tightened supply of CRTs.

The Group recorded a sale of 1.54 million sets of televisions domestically during the third quarter of 2002, representing a growth of 28%. Inventory control improved considerably. The Group launched a total of 21 new models such as HiD rear projection and Game TV in the third quarter. Most of these new products were produced in high volumes. During the period under review, the Group was able to maintain the gross profit margin for the TV business at 20%.

According to statistics from the Ministry of Information Industry for the first eight months of 2002, the Group was ranked number one in the PRC market, with a market share of approximately 20%.

Sharpening its competitive edge and further enhancing its profitability, the Group will step up the sales and marketing of new and high-end products. The Group is confident in achieving its domestic sales target of 6 million television sets in 2002.

Mobile Phone Business

The mobile communications industry is definitely one of the fastest growing industries in the PRC. Both domestic and foreign handset manufacturers have adopted varying strategies to tap this vast market. While foreign manufacturers launched new models with camera functions and colour display, local players also introduced a number of fashionable models with new features. Market competition in general intensified.

Sales of TCL handsets continued to record strong growth. A total of 1.86 million handsets were sold in the third quarter, representing an exponential growth of 1.5 times as compared to the second quarter of 2002. The surge is primarily attributable to the strong sales of four trendy “3” series handset models launched during the period.

The market research conducted by CCID Consulting Co. Ltd showed that in September 2002, TCL handsets accounted for a 12% market share, ranking TCL as the third best selling mobile handset brand in the PRC.

Looking to the fourth quarter, the Group will further strengthen internal management, enrich product lines, accelerate product rollout, and exercise tighter controls on retail pricing and sales network. The Group will foster closer ties with distributors on a unique distribution network. All these efforts were driven towards maintaining profit growth. In order to meet market needs, the Group will launch new colour display handset models and CDMA models in the fourth quarter, keeping the momentum for profit growth.

In view of the strong growth of the handset business, the Group announced its plan to acquire 13.8% equity stake in TCL Mobile at a consideration of about HK\$765 million in September 2002, and all related procedures were completed further in November 2002. This acquisition will further broaden the Group’s earnings base, enabling the Group to enjoy a larger share of the fast growing mobile handset business and to benefit from the ample room of market development. Indeed, the net profit contributed by mobile handset in the first nine months of 2002 has already exceeded the full year profit guaranteed by the vendor of equity stakes, approximately HK\$792 million.

The Group anticipates that the mobile handset market in China will continue to experience rapid growth. Domestic handset manufacturers are expected to take up an increasingly important role with a share of approximately 30% in the PRC market by the end of 2002. With this in mind, the Group is confident that it will be able to achieve the sales target of 5 million sets, further consolidating its leading position in the industry. In addition, exports of TCL handsets are also expected to rise.

PC Business

Despite the gradual recovery of the PC market in the PRC, market demand was far from strong. Coupled with the decrease in PC retail prices, the PC market as a whole showed weak performances during the period under review as compared to the corresponding period last year.

Although the operating environment did not improve, gradual pick-up of the Group's PC business was seen as a result of the branding advantages developed earlier under the P4 strategy. In the first half of the year, the Group implemented stringent corporate and operational reforms. Making use of its ERP system, the Group adjusted channel policies in the supply, manufacture and sales management process. With these measures in place, in spite of the weak market that showed hardly any improvement, the Group was able to increase its operational efficiencies and raise its competitiveness.

Sales of the TCL PC surged in the third quarter to 170,000 sets and the cumulative sales from January to September 2002 amounted to 258,000 sets, representing an increase of 137% and 66% respectively. The gross profit margin was maintained at 8%. The Group is pleased to see that this business has turned around to profit. Against this satisfactory year-to-date sales performance, the target of selling 300,000 sets of PC in 2002 is well within our reach.

AV Business

The overall performance of AV business was still unsatisfactory. Yet, sales in the third quarter amounted to 257,000 sets, representing an increase of 41% over the third quarter of last year.

During the period under review, the Group speeded up the pace of clearing inventory, consolidated sales channels and strengthened sales towards end customers. Reaping the benefits of these moves, the Group anticipates that this business will record a better performance in future.

In spite of growing concerns aroused by the patent rights of DVD players, the Group expects its impact on the earnings to be minimal as it only accounted for less than 2% of the total sales revenue of the Group and agreements on most of the patent rights concerned have been reached.

Information Technology Business

Information technology business was still not profitable during the period. Facing a highly segmented market, the Group focused on developing and promoting middle and low-end network facilities and products. One of the key products — switches reached a market share of 9.2% in the low-end segment.

The Group's remote education projects, including the project co-developed with the Central Radio Television University, started recording profits. In addition, the Group actively participated in a number of computerization projects in the Western Part of China which is a project of the Ministry of Education. "Digital Campus Virtual Reality Education Platform" and remote education project were some of the projects realized in the region. These projects will be highly beneficial in expanding the scale of operation and contributing to the growth in revenues and profits.

The Group will further consolidate its IT business, aiming to streamline resources to distinguish the key business and to explore growth areas.

Overseas Business

Television exports amounted to 323,000 sets in the third quarter of 2002, representing a year-on-year growth of 51%. Exports of DVD players amounted to 67,000 sets versus 4,100 sets of that of last year. For the period from January to September 2002, the Group recorded cumulative sales of 834,000 TV sets and 78,000 DVD players. These figures have already surpassed the sales figures for the entire year of 2001.

The Group's export business is driven by sales on an OEM basis which accounted for 70% of the total export volume. With regard to the Group's own brand, TCL brand exports grew steadily. Sales in Hong Kong had already reached the pre-set annual target by mid-September.

The Group signed an agreement with Great Wall Cybertech in September 2002 to set up a joint venture company. TCL International and Great Wall accounted for 70% and 30% respectively of the equity shares. With strong resource back-up from both shareholders, the joint venture will benefit from its shareholder background and will boost the export sales of TV sets and AV products.

In addition, in September the Group entered into a sale and purchase agreement with the Insolvency Administrator for Schneider Electronics AG, for the acquisition of substantial assets and the brand names of Schneider Electronics AG, at a consideration of approximately EURO 8.2 million. The Group is setting up its first production base in Europe through this acquisition. Production at the Tuerkheim location is expected to commence in early 2003. The Group believes this venture can leverage on TCL's overall cost advantages and as a result, strong export growth is expected in the TV market, especially for exports to Europe.

The Group believes that it will surpass the sales target of the overseas business this year.

White Goods Business

Fierce competition continued in the white goods industry during the third quarter of 2002. During the nine months period under review, gross profit margin of white goods of the Group has declined by 12% to 11%. The margin decline is partially offset by increase in sales volume. Sales of air-conditioners amounted to 81,000 sets, representing an increase of 31% as compared to the corresponding period last year, while sales of washing machines and refrigerators amounted to 93,000 sets and 67,000 sets respectively, representing a growth of 41% and 16%.

The Group announced in May this year that the white goods business would be sold to the parent company of the Group. Transaction procedures are now in progress and the transaction is expected to be completed by end of this year.

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 Listing Rules of the Stock Exchange of Hong Kong Limited during the period.

On behalf of the Board
LI Dong Sheng, Tomson
Chairman

Hong Kong, 13 November 2002

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