TCL International Holdings Limited

FAST FORWARD TO THE GLOBE

Annual Report
2003

FAST FORWARD
TO THE GLOBE

CONTENTS

CORPORATE PROFILE

TCL International Holdings Limited (HKSE: 1070) is a leading multimedia consumer electronics product manufacturer, with a strong brand presence in China and Asia. Its core products include televisions, mobile handsets, personal computers, audio-visual equipment as well as information technology services. Under its highly recognized and well-established TCL brand, it is one of the strongest players in the TV and mobile handset marketplace in China. Committed to expanding globally, the Group acquired the assets of Schneider, a Germany-based consumer electronics brand in Europe in 2002. Headquartered in China, it operates a number of highly efficient manufacturing bases in China, Asia and Europe. For further information on the Group, please visit www.tclhk.com.

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

	2003 (HK$ mil)	2002 (HK$ mil)	Change
Turnover	**15,149**	12,188	+24%
Gross profit	**2,477**	2,190	+13%
Gross profit margin (%)	**16%**	18%	–2%
Net profit	**642**	574	+12%
Net profit margin (%)	**4.2%**	4.7%	–0.5%
Basic EPS (HK cents)	**24.2**	22.5	+8%
Dividend per share (HK cents)	**10**	7	+43%

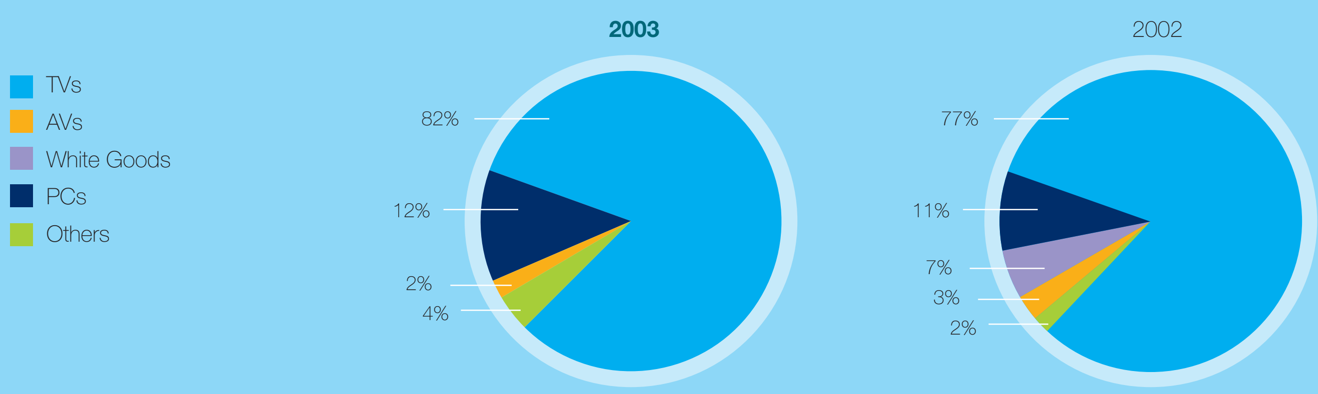
OPERATION INDICATORS

	2003	2002
Return on equity	**16%**	16%
Current ratio	**1.5**	1.5
Debt/Equity ratio	**18%**	21%
Interest cover (times)	**21**	45
A/R turnover (days)	**36**	29
Inventory turnover (days)	**72**	84

FINANCIAL POSITION

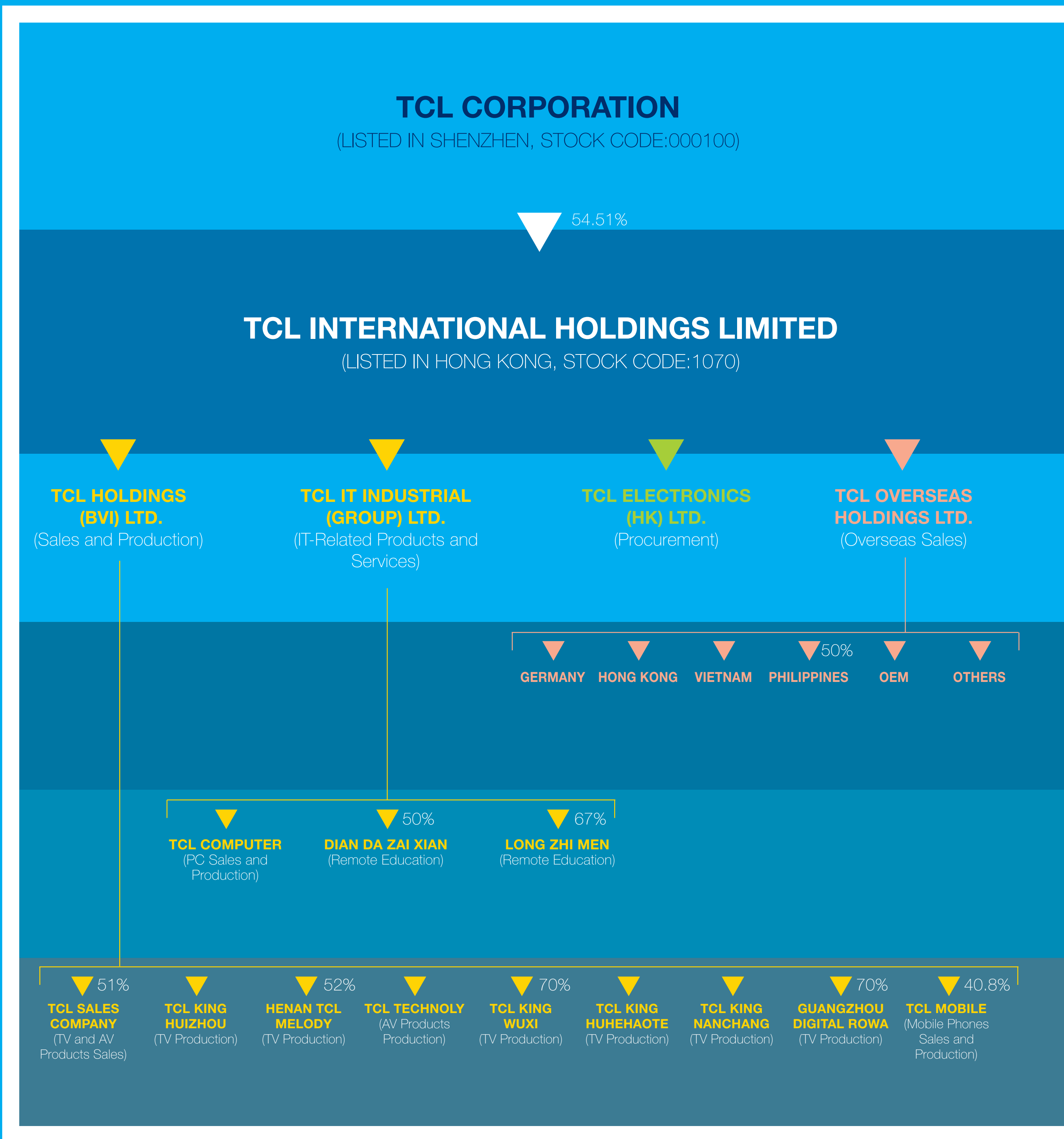
	2003 (HK$ mil)	2002 (HK$ mil)
Fixed assets	**869**	734
Net current assets	**1,999**	1,770
Cash and time deposits	**1,075**	1,183
Total liabilities	**4,450**	4,164
Interest bearing debts	**743**	757
Net assets	**4,120**	3,566

TURNOVER BREAKDOWN BY PRODUCTS



* White Goods business was sold to the parent company in December 2002.

CORPORATE STRUCTURE



China Hong Kong Overseas

Note: Shareholding position is 100% if it is not specified

CORE BUSINESSES

TELEVISIONS

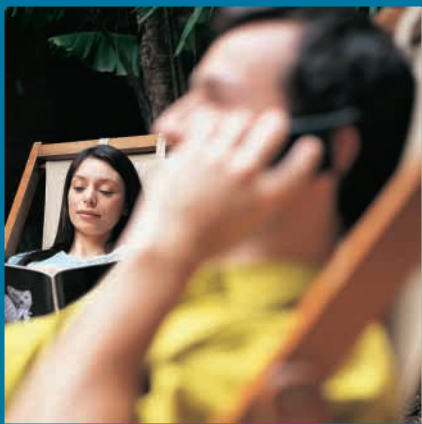
100% owned by the Group

MAIN PRODUCTION BASE

Located in Huizhou, China

MAJOR MARKETS

China, Hong Kong, SE Asia, North America, Europe, Middle East and Russia



MOBILE HANDSETS

40.8% owned by the Group

MAIN PRODUCTION BASE

Located in Huizhou and Inner Mongolia, China

MAJOR MARKETS

China, Hong Kong and SE Asia

COMPUTERS

100% owned by the Group

MAIN PRODUCTION BASE

Located in Shenzhen, China

MAJOR MARKET

China


Russia
Germany
China
United States
India
Hong Kong
Vietnam
Philippines
Singapore
Malaysia
Indonesia

2003 YEAR IN REVIEW

01 January

- TCL Mobile entered into a long term strategic partnership agreement with British listed company TTP Communication plc., to jointly develop multi-functional handset products

03 March

- Acquired further 30% equity interest in Team Way Limited to fully control the company. Subsequent to the acquisition, Team Way Limited has been renamed to TCL Overseas Consumer Electronics Limited which is mainly engaged in marketing and distribution of multi-media consumer electronics in overseas markets

2003

08 August

- Schneider participated in the IFA electronics fairs and launched new lines of TV and AV products in Berlin, which received acclaim in the industry, in particular LCD TV

06 June

- Ranked "The Best IR Company" in Hong Kong and "Most Improved IR Company" in the technology category of the Reuters Institutional Investors Report 2003

- Disposal of all equity interest in TCL Network to parent company TCL Corporation. The move enables the Group to focus on its core businesses

11 November

- Entered into a memorandum of understanding ("MOU") with Thomson, the worldwide leader in video technologies, products and services, to form a joint venture company named TCL-Thomson Electronics for the development, manufacturing and distribution of television sets and related products and services

12 December

- Parent Company, TCL Corporation, announced its A share listing details on the Shenzhen Stock Exchange

- TCL Mobile was ranked a Top Five Fastest Growing Technology Company in the second "Asia Pacific Technology 500" Program by Deloitte Touche Tohmatsu

TV BUSINESS

Despite the severe competition in China's TV market in 2003, TCL continued to be the best selling TV brand in China according to the statistics compiled by the MII. TCL TV's domestic sales and overseas export amounted to 11.65 million units, representing a surge of 45%, in which TV exports amounted to 3.83 million units, equivalent to almost three times of that of 2002.

45%

CHAIRMAN'S STATEMENT

"In conclusion, we will keep our spirit of innovation and improve ourselves constantly as we march into the global markets at full speed."

CHAIRMAN'S STATEMENT

Year 2003 was an important one in the history of the Group — business in China experienced stable growth, and overseas expansion reaped fruitful results. With the efforts 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., 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 emerged 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.

FINANCIAL PERFORMANCE

Despite the adverse impact of the SARS outbreak which led to business slowdowns 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 31st December 2003 amounted to HK$15,149 million, representing an increase of 24% as compared to the previous year. Effective cost control measures also enabled us to maintain our gross margin at 16% (2002: 18%). Profit attributable to shareholders during the year under review rose to HK$642 million, an increase of 12%. Basic earnings per share also went up to HK24.2 cents (2002: HK22.5 cents).

Mr LI Dong Sheng, Tomson
Chairman

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 HK10 cents (2002: HK7 cents).

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

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. The Group, committed to product research and development, strengthened the sale of high-end models to cater to market needs and improved its product mix in 2003. This allowed the Group to maintain a satisfactory gross margin amid fierce market competition. Domestic TV sales in 2003 reached 7.83 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 China 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 9.82 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. The profit contribution from this business, as a result, decreased from HK$353 million in 2002 to HK$319 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 surged 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 4Q 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 the Philippines. In addition, the Group set up a branch office in Russia during the year under review 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 under review amounted to 3.83 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 completed during the year. At the IFA Expo held in Berlin last August, the Group launched a series of products under the Schneider brand, including LCD TVs. These products were highly praised by the industry. With Germany as one of its key focuses, the Group will tap opportunities in the European market with products under the Schneider brand.

The 3rd 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 formed a joint-venture company named TCL-Thomson Electronics ("TCL-Thomson").

TCL-Thomson will combine and consolidate the resources of the two groups, helping us to realize our vision of becoming a major player in the global TV marketplace. The strengths of the Group and Thomson match and complement each other perfectly. 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. Upon completion of the merger, TCL-Thomson will be the leader in the global TV market. Our brand image will be raised to an international level. This will not only 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 a new era of growth.

FUTURE OUTLOOK

Following the successful A-Share listing of TCL Corporation, the parent company of the Group, on the Shenzhen Stock Exchange, the blueprint for the business development and the division of businesses among the subsidiaries of TCL Corporation will be clearer. Looking to the future, the Group will focus on multimedia electronics products and information technology products comprising mainly PCs.

The globalization of the world economy means that Chinese corporations' challenge is not only to serve the needs of Chinese consumers, but also those of the global market. The partnership of the Group and Thomson will create a new leader that combines the R&D, manufacture and sales network on a global platform, which will strengthen the Group's operational efficiencies, enhance resources usage and further improve cost advantages.

The Group will adopt a multi-brand strategy, using the different brand names of TCL and Thomson to tap the different markets. The TCL brand will continue to be the major brand in Asia and emerging markets, while RCA will be seen in North America and the Thomson brand in Europe.

The key opportunity and challenge that lies ahead for the Group is the management team's ability to integrate the management cultures of East and West, combining the strengths of TCL and Thomson to take the TV and multimedia business on the journey to rapid growth, creating value for shareholders.

Along with our objective to focus on multimedia electronics products and information technology products mainly PCs, the Group will restructure its 40.8% owned handset business. This will enable the Group to consolidate resources on businesses that generate better returns for shareholders.

The Group's PC business will continue to focus on the home PC and commercial PC markets, while at the same time, developing products such as Home AV Centres that carry high added values and offer additional functions through external supplementary parts to create distinctive competitive advantages.

In conclusion, we will keep our spirit of innovation and improve ourselves constantly as we march into the global market at full speed.

Lastly, on behalf of the board of directors, I would like to extend my gratitude to the management and all staff members at TCL for their efforts and hard work. I would also like to thank our shareholders, auditors and business partners for their continued support.

LI Dong Sheng
Chairman

2nd March 2004

MOBILE COMMUNICATIONS

In 2003, the sales of mobile phones experienced remarkable growth. A total of 9.82 million handsets were sold, representing an increase of 57%. According to the statistics from the MII, TCL handsets achieved an encouraging market share of 11% in China during the year.


57%

MANAGEMENT DISCUSSION AND ANALYSIS

"TCL will play an increasingly important role in the domestic and international marketplace."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group laid down two main objectives in 2003: (1) commitment to developing the multimedia electronic business, (2) determination to drive the globalization of our business expansion. The rationale behind these two objectives is our vision to become one of the top five global TV manufacturers. During the year under review, the Group maintained its leading market position in China with its highly recognized TCL brand, extensive sales and distribution network covering all the regions and flexible, cost-effective manufacturing bases. The overseas business also grew rapidly at the same time. Having planted the seeds of further development in 2003, our corporate goal ahead is to become a world-class enterprise with high competitiveness on the global marketplace.

TV BUSINESS

Market competition in China in 2003 was even more ferocious than in 2002. The TV market saw further prices decline. Manufacturers battled on, competing in the high-end products market. An increasing number of new market players also led to a change in the operating environment. Despite the difficult operating environment, the Group continued to maintain its market leadership in the industry.

Domestic sales of TVs in 2003 amounted to 7.83 million sets, a growth of 16%. According to statistics issued by MII for the first 10 months of 2003, TCL accounted for a 19% share in the domestic TV market, similar to that in the previous year. As such, TCL continued to be the best selling TV brand in China. A report by China Economy Consultancy stated that TCL's rear projection TV accounted for 11% market share in 2003, ranking it the fifth largest TV brands in that product segment among all players, or the second among domestic brands.

In 2003, the Group lowered the proportion of low-end TV models in its sales mix as planned, and strengthened the sales of high-end models. This successfully enhanced the product mix. Despite keen market competition, the proportion of high-end products and "pure flat TVs" increased in the sales mix, helped to keep average selling prices stable as compared to that of the previous year. The Group's product development capabilities were substantially enhanced in 2003, and new models were rolled out at a higher pace. The sales of new products increased significantly, up from 31% in the previous year to 46% during the year under review. A total of 28 new high-

end models were launched, comprising 5 Plasma TV models, 9 LCD TV models and 14 rear projection TV models. An additional 57 regular CRT TV models, mostly featuring digital high definition and progressive scanning, were also introduced.

On the R&D front, the Group achieved a major breakthrough in the development and application of driving circuitry and control technology for Plasma TVs in China. Recognized at the State level, these technologies are regarded as internationally advanced and domestically leading. The Group has pioneered in the development of such technologies which are core to the production of Plasma TVs. In 2003, our efforts were focused on the research and development of rear projection TVs and LCD TV series. Among these models, the Group's 26 Series LCD TVs stayed ahead of its rivals, being well-received by the market ever since they were launched. We were delighted to see this product series under the spotlight at the "Digital Window" and at the IFA Expo held in Germany. A substantial number of purchase orders for these products were also received by Schneider in Germany.

The Group will expand the high-end product range in 2004. A wide array of new products such as Plasma TVs, LCD TVs, and rear projection TVs will be introduced to the market to elevate our brand image and broaden the room for future development. The launch of upgraded rear projection and CRT TVs (with digital high definition features) will also boost our profitability. Over 50 new models will be rolled out in 2004, among which, over 50% would be high-end models.

The Group signed a MOU with Thomson Group in November 2003 for the establishment of a joint venture company called TCL-Thomson Electronics to jointly develop, manufacture and distribute TVs and related products by integrating their respective strengths in the TV industry. The two parties have signed a Combination Agreement in January 2004 during the State visit of President Hu Jintao to France. This agreement provides the basis for the formation of TCL-Thomson Electronics which is expected to be fully operational by 1 July 2004. Through this initiative, TCL made a significant leap towards globalization, strengthening its presence in China and aboard.

OVERSEAS BUSINESS

2003 marked an important step in the Group's overseas business development. The TV and AV businesses extended their coverage to virtually every corner of the world. Following the business restructuring in the previous year, the overseas business improved significantly in terms of market understanding and operational efficiencies, resulting in rapid growth during the year under review. TV exports in 2003 amounted to 3.83 million sets, and AV products to 563,000 sets, representing a growth of 195% and 68% respectively.

The SARS outbreak in early 2003 did not have a major impact on the development of our overseas markets. The TCL brand continued to see stable development in the Southeast Asian market, highlighting consumer confidence in the TCL brand. The Group recorded an impressive performance with significant market shares in emerging markets such as Bangladesh and Sri Lanka. The Group's business in North America was mainly on OEM basis through cooperation with international brands. In Europe, the Group mainly used the Schneider brand to tap this market. The Schneider business, acquired in the fourth quarter of 2002, was still in the investment stage in 2003. Schneider products displayed at the IFA exhibition in Berlin last August, especially its LCD TVs, were highly praised. The Schneider business started to record satisfactory sales in the fourth quarter which is also a peak season for product sales.

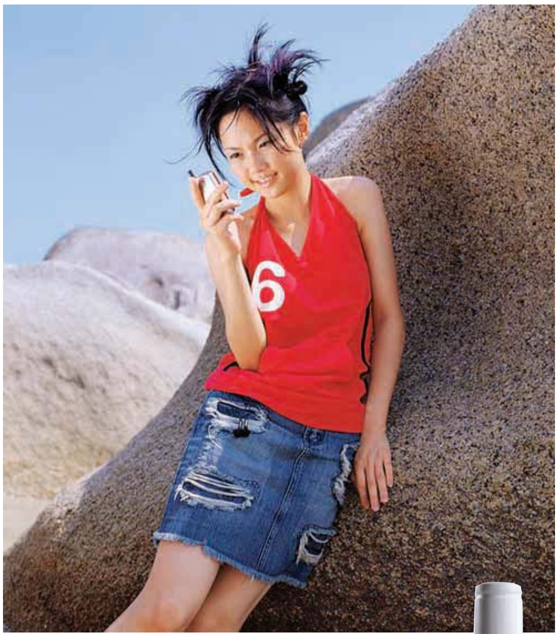
The Group's overseas OEM business extends its reach to the Far East, across the Pacific, Latin America as well as the Middle East and African regions. Our market share in the Middle East, Africa and Australia was encouraging.

Looking to 2004, and building on an established base with several years of overseas market development experience, the Group will continue to undertake reforms and innovations to further elevate brand awareness of TCL, both in Asia and around the world. We anticipate that sales in emerging markets such as Bangladesh and Sri Lanka will increase steadily. In view of the preliminary ruling with regard to anti-dumping, products exported to the US will primarily be confined to unaffected products. Additionally, the Group will consider various operational alternatives to continue exploring the potential in the US market. Regardless of the final ruling, the Group anticipates limited impact from this issue. Exports to North America in 2004 are expected to see stable growth, while in Europe, the Schneider brand will continue to enhance its competitive edge and capture the market with its cost advantages. We have every confidence that the overseas business will continue to post encouraging results in 2004.

HANDSET BUSINESS

The handset market experienced fierce competition in 2003. Market threats increased along with frequent turmoil in the industry.

The enormous market and high margins of the handset industry have encouraged manufacturers to expand their scale of production and output capacity. The frenzied competition, however, drove down average selling prices, leading to a drop in sales revenues despite the increase in sales volumes. In addition, "Xiaolintong" (小靈通) also ate up a portion of market share from the conventional handset market.



"Group will step up efforts to roll out new colour display models to enhance profitability and margins."

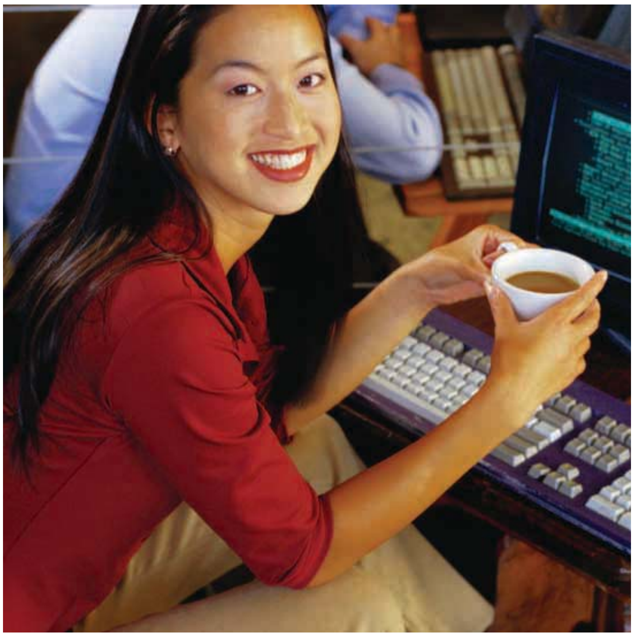
Despite the keen competition, the Group's handset business remained at the forefront of the industry. Statistics from MII showed that the Group captured an 11% share in China handset market in the first 11 months of 2003, ranking as the second best selling handset brand among all players, which is higher than the 9% market share in 2002.

The Group sold 9.82 million handsets in 2003, representing a growth of 57%. Ferocious competition coupled with the Group's initiative to expand product lines led to a decline in average product prices. The overall profitability of this business also experienced a decline from 2002.

SARS impacted on the Group's handset business for a short while. Third quarter results showed signs of the SARS impact, but sales soon rebounded to normal in the fourth quarter.

The Group rolled out a total of 30 new models in 2003, including 10 colour display models and 1 PDA model. Market response to these new products has been satisfactory with the colour display models particularly well received. The proportion of colour display models in the total sales mix increased substantially from 2% in the first quarter to 35% in the fourth quarter of 2003.

In 2004, the Group will focus on the development and promotion of three major brands. The "神典" brand will establish our presence in the high-end masculine handset market, "MOBO 蒙寶歐" in the feminine market, and TCL mainly in the mass consumer market. The Group will step up efforts to roll out new colour display models to enhance profitability and margins. Currently a majority of the Group's resources are allocated to the manufacture of GSM handsets. But in future, the proportion of CDMA handsets in the total product mix will increase. To accelerate new product rollouts, the Group will be devoting additional resources to R&D, strategically increasing the number of R&D staff from 500 to 800.



"In 2004, the Group will continue to impose stringent cost control to maintain margins."

MANAGEMENT DISCUSSION AND ANALYSIS

PC BUSINESS

The SARS epidemic, which broke out last spring and reached its peak towards the end of April 2003, did not impact the IT market much. However, the addition of new market players resulted in more competition and price pressure.

Under this unfavourable operating backdrop in 2003, the sales of TCL PCs still posted record highs in its history, amounting to 527,000 units, an increase of 40% over the previous year, well exceeding the overall industry growth rate.

The sales of Home PCs accounted for 48% of total units sold and increased 22% to 251,000, which demonstrated higher than industry growth rate .

The sales of commercial PCs which accounted for 52% of the total PC units sold, surged 75% to 276,000 units.

According to a report by CCID, TCL PCs are ranked fifth in terms of overall sales in the PC market with a market share of 4% in 4Q 2003.

With respect to Home PCs, we further increased our investment in distribution channels and enhanced channel capacities. The number of distributor points-of-sale increased to 2,875, a surge of 65% year-on-year. In increasing the number of shops, the Group also placed emphasis on raising the quality of the distributors and their management capabilities. Reasonable reward mechanisms were in place to effectively motivate our distributors.

The sales surge in commercial PCs is attributable to the breakthrough in the education sector, government purchasing and the increased computerization of SMEs. The education sector, in particular, recorded strong growth of 300% in terms of unit sales. At the same time, our performance in various government tenders was also favorable.

The Group rolled out three home PC series, "Rui Li 6", "Rui Xiang T" and "Rui Xiang A", as well as a commercial PC series " 精鼎 A" in 2003. We also introduced a range of TCL wireless AV products which not only connect IT products to home electronic appliances but also allow users to view photos stored in their PCs, download MP3, view DVDs, etc. These products are also equipped with storage functions, which are well received by the market .

In 2004, the Group will continue to impose stringent cost control to maintain margins. We will also segment product lines, expand our high-end market and increase our market share.

AV BUSINESS

The AV business underwent restructuring in 2003.

The Group commenced a channel restructuring in March 2003 to implement a "professional sales agent model". As a result, sales were affected to some extent. Also, as the Group gradually cleared its inventory at the channel, the performance of this business was below expectation.

In cooperation with Philips, the Group launched the first DVD player with recording functions in November 2003. The rollout of this new product was 3-6 months ahead of its rivals. This is the first time our DVD player has truly surpassed other competitors on the technology front, marking a milestone in its history.

The Group believes that the restructuring in 2003 will set a solid base for the development of AV business in 2004. Through a series of marketing activities that focus on high-end products, the Group will establish a foothold in the high-end market and build a unique brand image. At the same time, we will also increase the competitiveness of our products, strengthen the sales terminal, speed up the consolidation and improvement of the professional sales channels.

IT BUSINESS

In order to further streamline our IT business, the Group disposed of its interests in TCL Network Equipment (Shenzhen) Limited to TCL Communication Equipment at a consideration of HK$12.5 million in September 2003. The IT business showed an improvement in 2003, with substantial reduction in loss.

The Group strategically adjusted the focus of its distance learning business in 2003, moving from offering network education services for the China Central Radio Television University (CCRTU), to a self-developed open distance-learning educational platform for the community as a part of the public services. In addition, the Group also established a solid business network for expansion through direct online recruitment on the Internet together with a nationwide branch network for educational institutions and distance learning.

As the job market in China becomes increasingly competitive, the demand and acceptance for flexible network distance education are emerging. The market offers ample room for expansion. Looking to 2004, overseas-funded or overseas distance education service providers are expected to create a new wave of competition. The key differential to success or failure remains service quality. The Group will consolidate resources to strengthen areas where synergies can be generated, elevating its market position, actively exploring new growth opportunities, enhancing its service quality, to increase the overall competitiveness and profitability of this business.

SALES OVERVIEW
For the Year ended 31st December 2003

	Sales Volume ('000)		Change
	2003	2002	
TVs — Domestic sales	**7,826**	6,753	**+16%**
— Overseas exports	**3,828**	1,299	**+195%**
Mobile Handsets	**9,817**	6,236	**+57%**
PCs	**527**	376	**+40%**

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

OVERALL PERFORMANCE

Benefiting from China's continuous economic growth, together with the Group's pro-active business development strategy in overseas markets which proved to be a stunning success, the Group was able to sustain good growth in its financial results. The consolidated turnover for the year ended 31 December 2003 amounted to HK$15,149 million, representing an increase of 24% as compared to the previous year. Profit attributable to shareholders during the year under review rose to HK$642 million, an increase of 12%. Basic earnings per share also went up to HK24.2 cents (2002: HK22.5 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.

TURNOVER AND GROSS MARGIN

Turnover in every business division experienced satisfactory growth and have all surpassed their original sales target set at the beginning of the year. Even more impressive performance was recorded in the Group's overseas business. Despite annoyance on anti-dumping case in the US, overseas sales surged enormously. The proportion of overseas sales to total sales increased from 10% in 2002 to 20% in 2003.

Overall gross margin declined slightly, from 18% to 16%, which was largely attributed to the margin erosion of TV business.

Ferocious market competition in China which led to continuous decline in selling prices, together with the increase in component cost in 2003 put pressure on gross margin of the Group's domestic TV sales.

In addition, as a result of the higher proportion of overseas TV sales which normally commands a lower gross margin, overall consolidated gross margin for TV was diluted from 21% to 18%.

EXPENSES

With the Group's efficient cost control policies, coupled with the benefits of economies of scale, expenses were controlled at a satisfactory level. Selling & distribution expenses and administration expenses constituted 9% and 4% of consolidated turnover, respectively (2002: 11% and 4%, respectively).

PERFORMANCE INDICATORS OF TCL INTERNATIONAL

	2003	2002
Gross Margin	**16%**	18%
Net Margin	**4%**	5%
Return on Equity	**16%**	16%
Current Ratio	**1.5**	1.5
Interest Cover	**21**	45
Debt/Equity Ratio	**0.18**	0.21
Inventory Turnover (days)	**72**	84
Trade Receivable Turnover (days)	**36**	29

In 2002, a total of HK$400 million term loan was raised and HK$350 million convertible notes were issued as consideration for the acquisition of additional interest in TCL Mobile. As a result, financial expenses increased substantially. Interest cover is still maintained at a healthy level of 21 times.

TAX

During the year, the Group changed its accounting policy to comply with the SSAP12 (Revised) "Income tax" issued by the HKSA, which is effective for accounting period commencing on or after 1 January 2003. The principal impacts of the revision are that the opening retained profits at 1 January 2003 and 1 January 2002 have been increased by approximately HK$8.0 million and HK$4.5 million respectively and the tax charge for the current and prior year decreased by approximately HK$0.9 million and HK$3.5 million respectively.

Effective tax rate increased from 13% in 2002 to 16% in 2003. It is mainly due to the reduction of the number of loss-making subsidiaries and the increase of Hong Kong profits tax rate.

WORKING CAPITAL

One of the Group's competitive strengths is its efficient utilization of working capital. Inventory turnover decreased from 84 days in 2002 to 72 days in 2003. Over 90% of the inventory was of age less than 6 months. As a result of the outstanding overseas performance, the proportion of overseas sales increased. These sales were mainly made with large strategic OEM customers with credit terms from 60 days to 180 days. As a result, receivables turnover increased from 29 days in 2002 to 36 days in 2003. We do not foresee any recovery problems on these receivables as most of the overseas receivables were either in the form of bills or covered by credit insurance or advance deposits.

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 ("TCL Mobile Group"), a group mainly engaged in the manufacture and the sales of mobile phones.

The handset market experienced fierce competition in the year under review. Most of the increase in revenue resulting from substantial growth in sales quantity was offset by the decrease in average selling prices. Sales turnover increased by a modest 15%. Gross margin shrunk from 27% in 2002 to 20% in 2003. Operational expenses in 2003 were higher than that of 2002, reflecting higher advertising expenses. Net profit shared by the Group decreased from HK$353 million last year to HK$319 million in 2003. Together with a higher goodwill amortization expense in 2003, the proportion of net contribution from the Mobile business decreased from 50% in 2002 to 35% in 2003.

TURNOVER

(HK$ million)	**2003**	2002	Change
TV — Domestic	**9,722**	8,336	**+17%**
— Overseas	**2,700**	1,058	**+155%**
PC	**1,776**	1,389	**+28%**

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT ACQUISITIONS AND DISPOSALS

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

TCL-Thomson will combine and consolidate the resources of the two groups. It is estimated that the combined net asset value of the TCL-Thomson will be in excess of Euro 450 million (approximately HK$4.41 billion) and it is the Directors' belief that TCL-Thomson will become a major global company with long term competitiveness in the businesses of TV R&D, manufacturing, 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 allocations, and strengthen the Group's competitiveness globally. The partnership will not only enhance our competitive edge in the domestic market and improve our international corporate image, 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 the Group's business to new growth era.

Further details of the joint venture are set out in the Company's announcements dated 3 November 2003 and 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 reduce 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 0.18 which is calculated based on the Group's total interest-bearing borrowings at approximately HK$743

PERFORMANCE INDICATORS OF TCL MOBILE GROUP

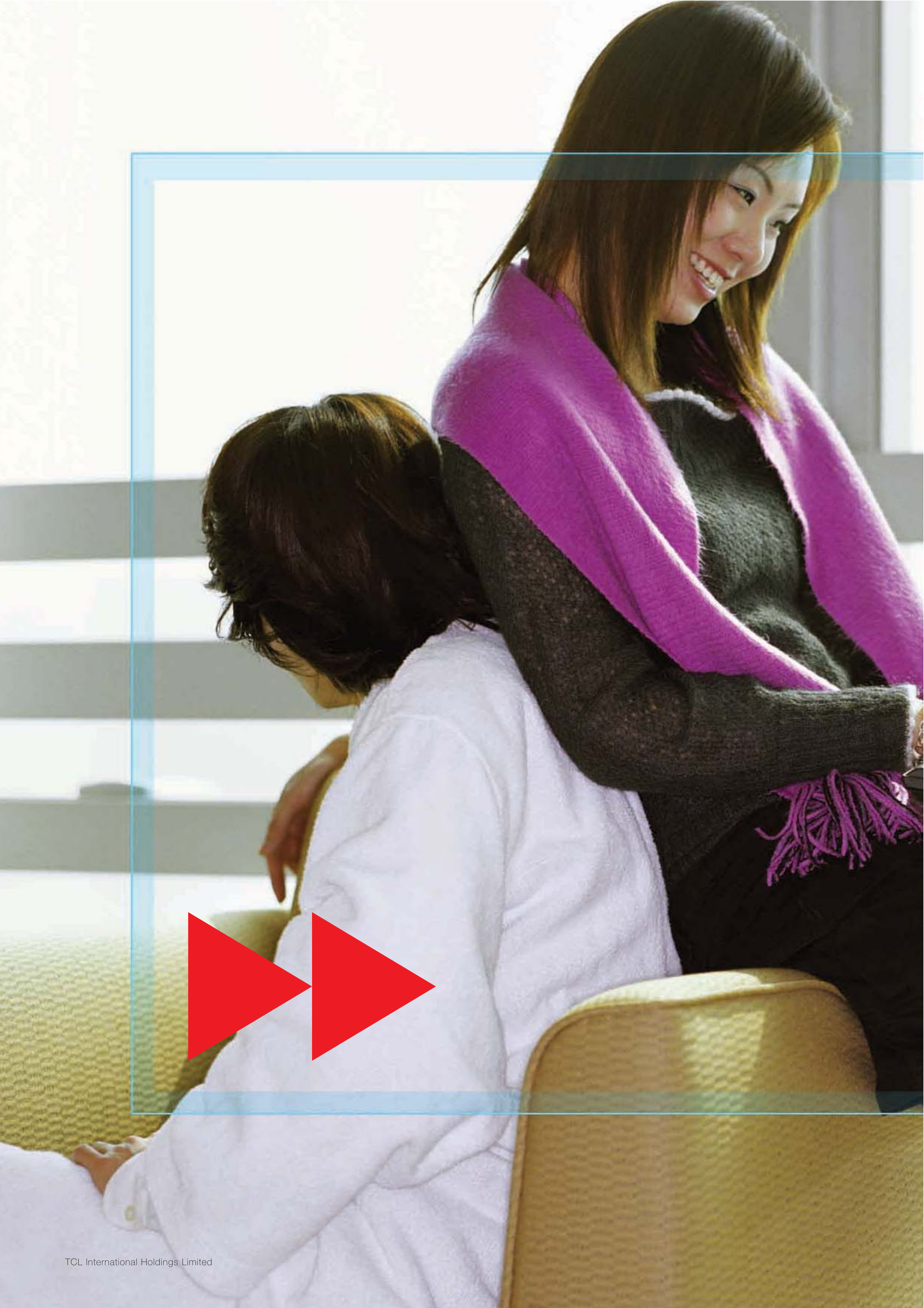
	2003	2002
Gross Margin	**20%**	27%
Net Margin	**9%**	15%
Return on Equity	**39%**	75%
Current Ratio	**1.8**	1.5
Interest Cover	**81**	76
Debt/Equity Ratio	**0.01**	0.04
Inventory Turnover (days)	**55**	56
Trade Receivable Turnover (days)	**9**	3

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

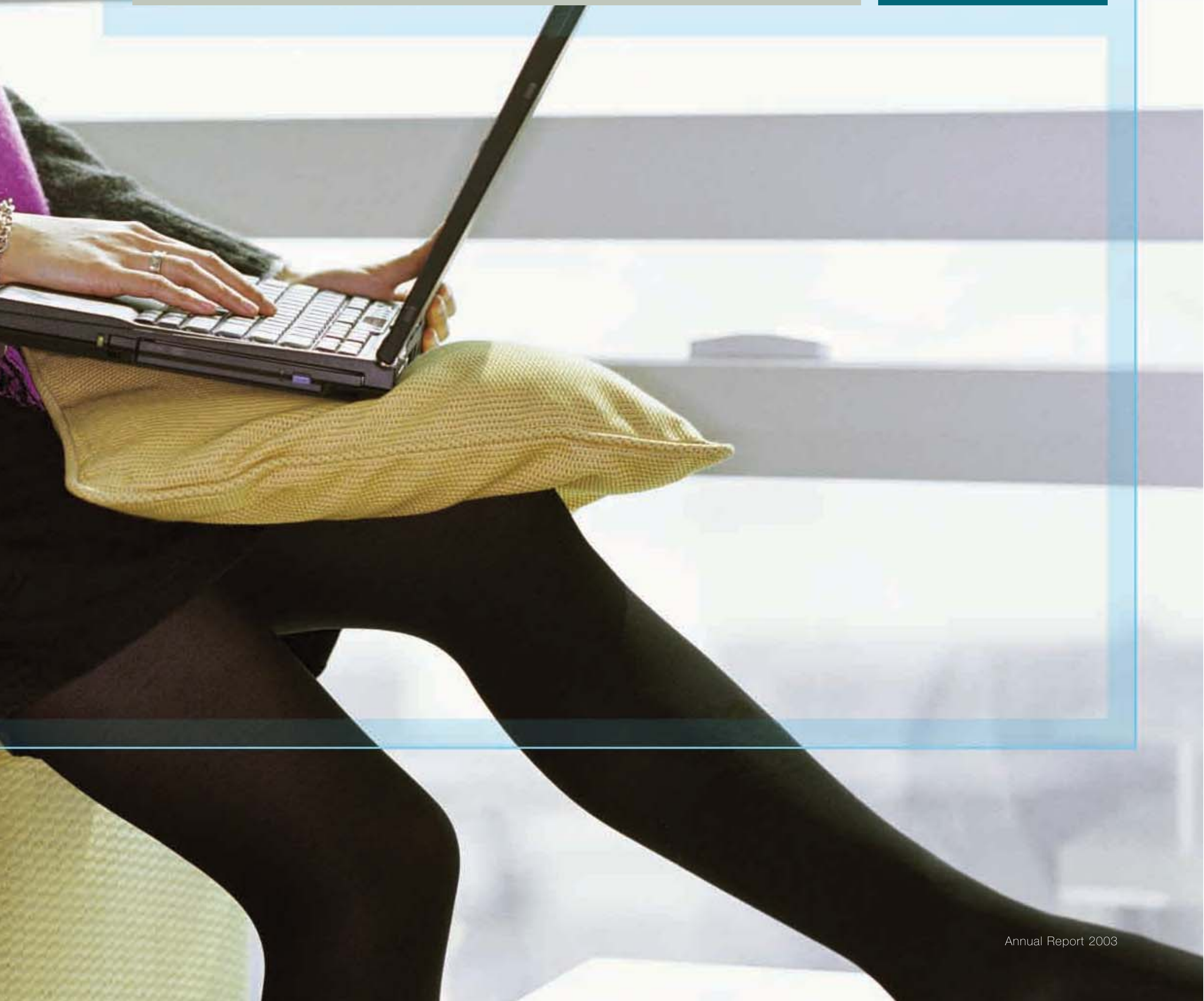
Since most business transactions conducted by the Group and payments made to suppliers are made in either Hong Kong Dollars, US Dollars or Renminbi, use of financial instruments for hedging purposes is considered unnecessary.



COMPUTERS

The sales of TCL PCs reached new highs, ascending to 527,000 units for the year, representing a rise of 40%. Sales surged substantially among commercial PCs, especially in the education sector.

40%



▶▶ Mr Li Dong Sheng

▶▶ Mr Yuan Xin Cheng

▶▶ Ms Lu Zhong Li

▶▶ Mr Hu Qiu Sheng

▶▶ Mr Yan Yong

▶▶ Mr Suen Hay Wai

▶▶ Dr Hon Fong Ming

▶▶ Mr Albert Thomas da Rosa, Junior

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr Li Dong Sheng, Tomson, 46, is the founder and Chairman of the Group. He is responsible for formulating corporate strategy and heads the Group's management. He was awarded the following titles: 1994, "Distinguished Contributor to Development of PRC Electrical Appliance Industry"; 1995, "National Excellent Young Entrepreneur"; 2000, "Model of National Work Force"; 2002, representative of the 16th Central Committee of the Communist Party, "2002 CCTV Man of the Year in the Chinese Economy", and the "Annual Innovation Award"; 2003, delegate of the 10th National People's Congress and was awarded one of the most influential entrepreneurs by magazine "China Entrepreneur". Mr Li has the ability to come up with innovative solutions and ideas and also has a knack for finding the right talent for the right job. Mr Li has more than 20 years of experience in various aspects of the electronics industry particularly in the manufacture and sales of electronic products. An engineer, Mr. Li holds a Bachelor of Science Degree from Huanan Polytechnic University.

Mr Yuan Xin Cheng, 52, is responsible for the Group's brand, marketing and information management functions. He is Vice Chairman and Vice President of TCL Corporation. He joined the Group in 1991 and has some 20 years of management experience in the production, sales and marketing of electronic consumer products. He also has extensive business connections in China. In 1985, Mr Yuan had the great distinction of receiving the May Labour Day award of "Excellent Manager in State-Run Enterprise". Mr Yuan is an economist and graduated from the Institute of Beijing Economics and Management.

Ms Lu Zhong Li, 58, is Director and Vice President of TCL Corporation. Ms Lu has over 38 years of experience in financing, taxation, accounting and financial management. Ms Lu is an accountant, having graduated from Hubei University.

Mr Hu Qiu Sheng, 44, is responsible for the overall management of the Group's TV business. Mr Hu has over 20 years of experience in production technology development, product research, development and sales. He joined the Group in 1993 and became the first General Manager of the TV business in 1999. He was then appointed the President of Multi-Media Unit in 2002 and has held the position as Vice President of TCL Corporation since October 2002. He is an engineer and graduated with a Bachelor of Science Degree from Huanan Polytechnic University.

Mr Yan Yong, Vincent, 41, joined the Group in March 1999 and was appointed Executive Director, Chief Financial Officer in October 2000. He is responsible for all facets of finance and accounting, tax, legal and compliance functions for the Group, as well as strategic planning and business development. Prior to joining TCL, he was Vice President and PRC Country Manager at Tulip Computers (Asia) Limited. He holds an MBA from Stanford University and a MS in Computer Science from Beijing University. He has over ten years of management and finance experience in the United States and China.

Mr Suen Hay Wai, Felipe, 48, holds the position of General Manager of Operations at the Group and is also Vice President of the TCL Overseas Strategic Business Unit. In his present capacity, Mr Suen is responsible for general management, overseas markets and business activities. He has more than 20 years' management experience with multinational and public-listed companies. Prior to joining TCL, he was General Manager of AST Computers, a US corporation. He graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Business Administration.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr Hon Fong Ming, Perry, 38, graduated from Beijing University and is currently a post-doctorate fellow at Harvard University. Dr Hon is the founder and major shareholder of the Dragoncom group and also holds directorships in many other listed companies, banks and financial institutions, with more than ten years' experience in the capital market as well as mergers and acquisition operation in both China and overseas. Dr Hon is a member of the National Committee of the Chinese People's Political Consultative Conference.

Mr Albert Thomas da Rosa, Junior, 50, is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He is also a fellow of the Chartered Institute of Arbitrators and a member of the Hong Kong Securities Institute. He graduated with a Bachelor's Degree in laws from the University of Hong Kong and also obtained a Master's Degree in laws from the same university. He is also a non-executive director and company secretary of certain other companies listed on The Stock Exchange of Hong Kong Limited. He also serves as a member of the Solicitors Disciplinary Tribunal Panel and as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission.

SENIOR MANAGEMENT

Mr Ahn Myung Jun, 48, President of TCL Integrated Marketing Inc., USA, joined the Group in October 2000 and is responsible for the Group's international business. Previously, Mr Ahn worked with LG Electronics Inc ("LGE") of Korea for more than 22 years, where he was primarily responsible for international sales and the management of subsidiaries in countries other than Korea. He has worked in various countries, including Germany, Italy, China, Russia and Ukraine. He established the joint venture between TCL and LGE in Huizhou and worked as General Manager of the joint venture between 1994 and 1996. Mr Ahn graduated from Hankuk University of Foreign Studies with a Bachelor's Degree in Arts.

Mr Ren Jian, Bruce, 41, Vice President of Operations of Schneider Electronic GmbH, a TCL subsidiary in Germany, joined the Group in November 2000, bringing with him more than 14 years of experience in engineering and management in both China and the United States. Previously, he worked for seven years with Microsoft Corporation, with responsibilities ranging from the development of the Windows 95 team to project manager for Chinese Windows NT, to Deputy Director of the Microsoft China R&D Centre. He managed the Venus team during his tenure in Beijing with the Microsoft China R&D Centre. Mr Ren graduated from Beijing University with both a Master's and a Bachelor's Degree in Computer Science and Engineering.

Ms Zeng Yan Ling, 41, Vice President of the TCL Multi-Media Business Unit and Overseas Business Unit, is responsible for the Group's financial, administrative and back office management. Ms Zeng graduated from the Jiangxi University of Finance & Economics with a Bachelor's degree in Economics and is an experienced accountant. Ms Zeng was the Head of and a Lecturer in the Finance Department of Jiangxi Univeristy before she joined TCL in 1993. She worked as the Assistant Officer of Finance and Clearing Centre and the Head of Finance Department of TCL Corporation. She has almost 20 years of experience in accounting, taxation, finance and capital management.

Dr Yi Chun Yu, 37, Vice President - Overseas TCL Brand Business and General Manager of TCL Overseas Marketing Limited, joined TCL Corporation in 1996. Mr Yi is mainly responsible for managing and developing overseas business. He has more than nine years of experience in international expansion and overseas business management. Dr Yi graduated from Huazhong Agricultural University and majored in investment analysis.

Mr Yu Guang Hui, 35, Vice President of TCL Multi-Media Business Unit and Overseas Business Unit, joined the Group in 1993. Mr Yu worked in the Joint Venture between TCL and LGE and has more than ten years of experience in production planning and materials procurement and management. He was one of the persons-in-charge in the early construction and management of the TCL King colour television's production base and is now overseeing the whole purchasing and manufacturing function of the Group's TV and AV business and strategic OEM businesses. He graduated from the Shaanxi Normal University with a MS in Physics and is currently pursuing a MBA at Beijing University.

Mr Chikao Yamane, 64, Production Technology Director of the Group, joined the Group in 2000. Mr Yamane has a wealth of experience in the design and improvement of production process, productivity enhancement, product quality enhancement, product safety and reliability. He was with Toshiba Corporation for more than 40 years and was Assistant General Manager of Toshiba Dalian Co., Ltd.

Mr Wong Hoi Wah, 60, Chief Engineer of the Group, is responsible for the research and development of the Group's products. Prior to joining the Group in 1996, he served Rediffusion, Television Broadcasting Company Limited, SYLVANIA Far East Company Limited, and Luks Industrial Company Limited and has gained more than 30 years of experience in electronics engineering. He is also a holder of a number of patent rights.

Ms Lam Man Ying, 37, Financial Controller, joined the Group in September 2000 and has more than ten years of experience in auditing, accounting and finance. Prior to joining the Group, she was a manager of Ernst & Young. Ms Lam is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

CORPORATE GOVERNANCE

On the road to further business globalization, the Board of Directors is committed to raising the Group's corporate governance standards. It aims to raise operational efficiencies by strengthening internal management, while at the same time, increasing corporate transparency and promoting openness through different channels of information disclosure to uphold its responsibilities to shareholders.

BOARD OF DIRECTORS

The Board is responsible for formulating the overall business development targets and long-term strategies of the Group, assessing the results of management policies and monitoring the performance of the management on a regular basis. Leading the Group with commitment and responsibility, the Board takes shareholder interests as the basis for all its decision-making.

The Board consists of eight directors, including six executive directors and two independent non-executive directors. Independent non-executive directors make up a quarter of the total number of Board members. The Group's independent non-executive directors possess the highest professional management standards — Mr Albert Thomas da Rosa, Jr. is a practising solicitor, and Dr Hon Fong Ming is the chairman and chief executive officer of another listed company in Hong Kong as well as a post-doctorate research student of Harvard University. Their insights and extensive experience in their respective business sectors contribute to the Group's continuing success.

The Board meets regularly to review the financial and operational performances of the Group and its businesses, and to discuss and formulate future development plans.

AUDIT COMMITTEE

The Board has established an audit committee which meets at least four times a year. Consisting of two independent non-executive directors, the audit committee is responsible for reviewing the truthfulness, completeness, and accuracy of the Group's financial statements, and for assessing the scope of work of internal and external auditors and the efficiency of the internal control systems. It strives to ensure that the Group can provide accurate and reliable financial information to its shareholders and investors in a timely manner.

CORPORATE TRANSPARENCY

As a listed company on the Main Board of the Hong Kong Stock Exchange, apart from interim and annual results announcements in accordance with the Listing Rules of the Main Board, the Group has taken the initiatives to increase the frequency of results announcements from half-yearly to quarterly reports in order to enhance its transparency.

Furthermore, the Group proactively added in its results announcement, certain operational and financial information on TCL Mobile, an associated company of the Group engaged in mobile communication business, for investor and the public.

INVESTOR RELATIONS

The Group has set up a department specifically handling investor relations. Headed by an executive director, the department is responsible for keeping close contacts with investors. Regular meetings with investors and the media are held to exchange views. This kind of interaction not only enables investors to better understand the Group's business development but also allows the management to gain feedback and understand expectations in its business development from the investment community.

With regard to the announcement of interim and annual results as well as other significant transactions, the Group proactively releases information on its latest development via analyst meetings, media conferences, investor teleconferences, etc. We also post announcements, financial reports,

press releases, etc., on our corporate website www.tclhk.com, keeping shareholders and the public abreast of the Group's latest development.

We received the honourable awards "The Best IR Company" in Hong Kong and "Most Improved IR Company" in the technology category of the Reuters Institutional Investors Report 2003, in June 2003.

Looking ahead, the Group will continue to strengthen its internal governance mechanisms. Considering shareholders' interests as one of our key concerns, we will keep on streamlining management systems and enhancing transparency.

HUMAN RESOURCES

Human resources are among the most valuable assets of the Group. Today, the Group employs approximately 21,000 employees who possess the initiative, competence and talent in their respective areas.

"Establishing an Internationally Competitive World-Class Enterprise" is our mission, the Group has a competitive remuneration and welfare system in place, aiming to recruit and retain world-class talent with expertise in management and technology. Based on our philosophy of "Creating Opportunities for Employees", the Group is committed to offering personal career development opportunities to employees. We cultivate a learning culture and promote life-long learning through the organization of training courses together with the provision of educational subsidies to encourage employees to take part in programmes that enhance their professional skills. The Group has also established a Post-Doctorate Research Center, attracting post-doctorate candidates to contribute their research findings, integrating them with the Group's practical research results. Raising our R&D capabilities and enhancing our competitiveness on the one hand, we aim to attract highly competent and talented individuals to work for the Group on the other.

With "Trust" and "Teamwork" as two major principles, we promote teamwork across the entire organisation, establishing trust and sense of belonging among our employees. The Group is committed to developing excellent relationships with all employees. The management places

CORPORATE GOVERNANCE

strong emphasis on mutual communication and encourages employees to express their views.

As the management fully appreciates the importance of human resources in the development of the Group, employees' health, safety, welfare, and career planning are major considerations in the formulation of staff-related policies.

SOCIAL AND COMMUNITY COMMITMENT

We adhere to the principle of "Contributing to Society with the Wealth Gained Therein". Running in parallel with our business development is our enthusiasm to reward the community. TCL International joins hands with TCL Corporation, its parent company, to actively participate in a range of social welfare activities. Education and poverty relief were the two areas of focus last year.

The Group is particularly keen to nurture the next generation in China. As such we are fully supportive of the groundwork development for a quality education. So far, TCL Group has contributed towards the construction of 15 primary schools in the "Schools of Hope" project throughout the nation.

At the same time, to avoid talented students being deprived of the right to receive education due to poverty, the Group provides financial assistance to high school students who demonstrate brilliant academic results, offering them the opportunity to receive good tertiary education. This serves as motivation for the students and contributes to the accelerated development of the Chinese community.

Following our corporate philosophy of "Creating Benefits to Society", we will continue to shoulder our responsibilities. In addition to improving people's quality of life with our premier consumer electronics products, we are also paying attention to community development and participating actively in social and community services to contribute a valid part in the building of a harmonious community.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN
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VICE CHAIRMAN
Mr YUAN Xin Cheng

EXECUTIVE DIRECTOR
Ms LU Zhong Li
Mr HU Qiu Sheng
Mr YAN Yong, Vincent
Mr SUEN Hay Wai, Felipe

INDEPENDENT NON-EXECUTIVE DIRECTORS
Dr HON Fong Ming, Perry
Mr Albert Thomas DA ROSA, Junior

COMPANY SECRETARY

Ms PANG Siu Yin, Solicitor, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd
China Construction Bank
CITIC Ka Wah Bank Ltd
DBS Bank Ltd
Hang Seng Bank Ltd
The Hongkong and Shanghai Banking Corporation Ltd
Industrial and Commercial Bank of China (Asia) Ltd
Nanyang Commercial Bank, Ltd
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation

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REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 111.

The directors recommend the payment of a final dividend of 10 HK cents per share in respect of the year to shareholders on the register of members on 18 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Five years financial summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and adjusted as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 29 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

Distributable reserves

At 31 December 2003, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$2,458,464,000, of which HK$272,000,000 has been proposed as a final dividend for the year. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

Major customers and suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	8%
— the five largest suppliers combined	32%
Sales	
— the largest customer	6%
— the five largest customers combined	9%

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

REPORT OF THE DIRECTORS

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Li Dong Sheng, Tomson (Chairman)	
Yuan Xin Cheng (Vice-chairman)	
Lu Zhong Li	
Hu Qiu Sheng	
Yan Yong	(designated as Managing Director on 2 March 2004)
Suen Hay Wai	(appointed on 10 January 2003)

Non-executive directors:

Wong Toe Yeung	(resigned on 19 July 2003)
Hon Fong Ming*	
Albert Thomas da Rosa, Junior*	

* Independent non-executive directors

In accordance with article 116 of the Company's articles of association, Madam Lu Zhong Li and Mr. Yan Yong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors will cease to hold such office at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 28 to 31 of the annual report.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

At 31 December 2003, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in ordinary shares of the Company

Name of directors	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Li Dong Sheng, Tomson	Directly beneficially owned	21,206,000	0.8

(ii) Long positions in underlying shares of the Company — share options

Name of directors	Capacity and nature of interest	Number of underlying shares held
Li Dong Sheng, Tomson	Directly beneficially owned	6,950,000
Yan Yong	Directly beneficially owned	134,000
Suen Hay Wai	Directly beneficially owned	700,000

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures (continued)

(iii) Long positions in ordinary shares of associated corporations of the Company

Name of directors	Name of associated corporation (Note)	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Li Dong Sheng, Tomson	TCL Corporation	Controlling shareholder of the Company	144,547,698	Directly beneficially owned	9.08
Yuan Xin Cheng	TCL Corporation	Controlling shareholder of the Company	24,834,186	Directly beneficially owned	1.56
Lu Zhong Li	TCL Corporation	Controlling shareholder of the Company	23,560,638	Directly beneficially owned	1.48
Hu Qiu Sheng	TCL Corporation	Controlling shareholder of the Company	18,944,027	Directly beneficially owned	1.19

Note: TCL Corporation held 1,461,685,289 shares in the Company through its wholly-owned subsidiary, T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries"). TCL Corporation is an associated corporation by virtue of its being a controlling shareholder of the Company.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures (continued)

In addition to the above, a director has non-beneficial personal equity interest in a subsidiary held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2003, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

Directors' rights to acquire shares or debentures

Apart from as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and notes 27 and 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option schemes

Concerning the share options granted during the year, as detailed in note 29 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful.

REPORT OF THE DIRECTORS

Substantial shareholders' interests and short positions in shares and underlying shares

At 31 December 2003, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
TCL Industries	Directly beneficially owned	1,461,685,289 (Note 1)	54.51
TCL Corporation	Through a controlled corporation	1,461,685,289 (Note 1)	54.51
Huizhou Investment Holdings Limited	Through a controlled corporation	1,461,685,289 (Note 2)	54.51
J.P. Morgan Chase & Co.	Directly beneficially owned	217,463,900	8.11
Templeton Asset Management Limited	Directly beneficially owned	160,446,000	5.98

Note 1: TCL Industries is a direct wholly-owned subsidiary of TCL Corporation and accordingly, the shares in which TCL Industries is shown to be interested are also the shares in which TCL Corporation is interested.

Note 2: Huizhou Investment Holdings Limited held a 40.97% interest in TCL Corporation and accordingly, the shares in which TCL Corporation is shown to be interested are also the shares in which Huizhou Investment Holdings Limited is interested.

Save as disclosed above, as at 31 December 2003, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the share or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

Connected transactions

The connected transactions undertaken by the Group with companies controlled by the ultimate holding company during the year are as follows:

	HK$
Contract fee paid to:	
TCL Digital Science and Technology (Wuxi) Co., Ltd.	16,218,000
Inner-Mongolia TCL Electrical Appliance Company Limited	13,337,000
Purchases of raw materials from:	
Chinaway Paper Production (Huizhou) Co., Ltd.	38,926,000
Chinaway Polyfoam Plastics (Huizhou) Co., Ltd.	45,680,000
Huizhou TCL-Sumisho Electronics Co., Ltd.	6,850,000
Shenzhen Axic Micro-electronics Ltd.	5,557,000
Huizhou Shenghua Industry Co., Ltd.	67,193,000
Huizhou TCL King High Frequency Electronics Co., Ltd.	15,557,000
Purchases of finished goods from:	
Huizhou TCL Mobile Communication Co., Ltd. and its subsidiaries	533,000
TCL Air Conditioner (Zhongzhan) Co., Ltd.	25,434,000
Sales of raw materials to:	
Huizhou TCL King High Frequency Electronics Co., Ltd.	6,315,000
Subcontracting fee paid to:	
Huizhou TTK Household Electrical Appliances Company Limited	4,301,000
Sales handling fee income from:	
TCL Household Appliances (Huizhou) Co., Ltd.	8,247,000
TCL Electric Appliances (Shaanxi) Co., Ltd.	281,000
TCL Air Conditioner (Zhongzhan) Co., Ltd.	842,000

Connected transactions (continued)

Further details of the terms of the above connected transactions are set out in note 35 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the above connected transactions were: (i) entered into in the ordinary and usual course of the Group's business; (ii) entered into on terms that were fair and reasonable so far as the shareholders of the Company are concerned; (iii) either carried out in accordance with the terms of the respective agreements governing such transactions, or where there were no such agreements, on terms no less favourable than those available to or from independent third parties; and (iv) within the maximum expected extent or amounts as stated in the Company's announcements.

The Group also entered into other connected transactions during the year as follows:

(a) On 4 March 2003, TCL Holdings (BVI) Limited, a wholly-owned subsidiary of the Company, acquired from Great Wall Cybertech Limited the remaining 30% interest in Team Way Limited (subsequently renamed as TCL Overseas Consumer Electronics Limited), a 70% owned subsidiary of the Company, at a total consideration of HK$3,000,000, which was determined by reference to the vendor's share of the total paid-up capital of Team Way Limited.

(b) On 18 June 2003, TCL Information Technology Industrial (Group) Company Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to dispose of its 100% interest in TCL 網絡設備深圳有限公司 ("TCL Network") to TCL Communication Equipment Share Company Limited ("TCL Communication") and a wholly-owned subsidiary of TCL Communication at a cash consideration of RMB13,231,500 (equivalent to approximately HK$12,483,000), which was determined by reference to the net asset value of TCL Network as at 30 April 2003. TCL Communication is a non-wholly-owned subsidiary of TCL Corporation, the ultimate holding company of the Company. The transaction was completed on 29 September 2003.

(c) On 22 August 2003, the parties to the subscription agreement for the issue of the 3% convertible notes due 2005 in the aggregated principal amount of HK$350,000,000 (the "Notes") dated 26 September 2002, namely the Company, United Asset Investments Limited, Nam Tai Electronics, Inc. and Go-Win Limited, entered into an amendment agreement (the "Amendment Agreement") to amend the terms and conditions of the Notes. The Amendment Agreement created global notes (the "Global Notes") representing the Notes, which are admitted to the global electronic clearing and settlement systems of Euroclear and Clearstream. As a result of the Amendment Agreement, the Global Notes became more freely tradable. However, the basic economic terms of the Notes, including interest, maturity and currency of payment as well as the conversion features of the Notes are unaffected by the Amendment Agreement.

REPORT OF THE DIRECTORS

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 36 to the financial statements.

Code of Best Practice

In the opinion of the directors, the Company 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, throughout the accounting period covered by the annual report.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

Auditors

Ernst & Young retire and, being eligible, offer themselves for reappointment as auditors of the Company.

ON BEHALF OF THE BOARD

Li Dong Sheng, Tomson
Chairman

Hong Kong
2 March 2004

REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
TCL International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 48 to 111 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
2 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
TURNOVER	5	**15,148,652**	12,187,549
Cost of sales		**(12,671,516)**	(9,997,175)
Gross profit		**2,477,136**	2,190,374
Other revenue and gains		**86,675**	96,733
Selling and distribution costs		**(1,397,841)**	(1,294,356)
Administrative expenses		**(552,617)**	(504,325)
Other operating expenses		**(107,307)**	(135,214)
Gain on disposal of subsidiaries		**1,331**	4,062
PROFIT FROM OPERATING ACTIVITIES	6	**507,377**	357,274
Finance costs	7	**(32,929)**	(12,159)
Share of profits and losses of:			
Jointly-controlled entities		**337,675**	373,325
Associate		**—**	(53)
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities	18	**(78,433)**	(29,642)
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		**—**	3,985
PROFIT BEFORE TAX		**733,690**	653,905
Tax	10	**(84,093)**	(61,213)
PROFIT BEFORE MINORITY INTERESTS		**649,597**	592,692
Minority interests		**(7,748)**	(19,041)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**641,849**	573,651
DIVIDEND	12		
Proposed final		**272,000**	184,555
EARNINGS PER SHARE	13		
Basic		**24.21 cents**	22.46 cents
Diluted		**23.28 cents**	21.87 cents

CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	**868,919**	734,262
Trademarks	15	**27,744**	25,910
Goodwill	16	**244,539**	277,949
Interests in jointly-controlled entities	18	**1,653,375**	1,543,143
Long term investments	19	**1,682**	1,682
Prepayment for the acquisition of a subsidiary		**47,815**	—
Deferred tax assets	28	**8,855**	8,098
		2,852,929	2,591,044
CURRENT ASSETS			
Inventories	20	**2,441,500**	2,579,118
Trade and bills receivables	21	**1,941,137**	1,029,005
Other receivables	23	**359,569**	408,413
Pledged bank deposits	24	**5,199**	89,340
Cash and bank balances		**1,069,562**	1,093,187
		5,816,967	5,199,063
CURRENT LIABILITIES			
Trade and bills payables	25	**2,966,659**	2,769,271
Tax payable		**53,543**	23,056
Other payables and accruals		**684,235**	612,751
Bank borrowings	26	**113,929**	23,845
		3,818,366	3,428,923
NET CURRENT ASSETS		**1,998,601**	1,770,140
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,851,530**	4,361,184

CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Bank borrowings	26	**282,353**	382,785
Convertible notes	27	**347,000**	350,000
Deferred tax liabilities	28	**1,847**	2,031
		631,200	734,816
MINORITY INTERESTS		**100,079**	60,378
		4,120,251	3,565,990
CAPITAL AND RESERVES			
Issued capital	29	**268,133**	263,100
Reserves	30	**3,580,118**	3,118,335
Proposed final dividend	12	**272,000**	184,555
		4,120,251	3,565,990

Li Dong Sheng, Tomson
Director

Yan Yong
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
Total equity at 1 January:			
As previously reported		**3,558,008**	2,933,938
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	28	**7,982**	4,458
As restated		**3,565,990**	2,938,396
Net gains not recognised in the profit and loss account:			
Exchange differences on translation of the financial statements of foreign entities	30	**24,891**	16,136
Net profit for the year attributable to shareholders		**641,849**	573,651
Dividend	30	**(185,483)**	(75,869)
Issue of shares, including share premium	29	**73,117**	112,585
Goodwill in capital reserve recognised in the profit and loss account	30	**—**	1,070
Release of goodwill on deemed disposal of a jointly-controlled entity	30	**—**	219
Exchange reserve realised on disposal of subsidiaries, jointly-controlled entities and an associate	30	**(113)**	(677)
Write off of exchange reserve	30	**—**	479
Total equity at 31 December		**4,120,251**	3,565,990

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**733,690**	653,905
Adjustments for:			
Finance costs		**32,929**	12,159
Share of profits and losses of:			
Jointly-controlled entities		**(337,675)**	(373,325)
Associate		**—**	53
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities		**78,433**	29,642
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		**—**	(3,985)
Depreciation	6	**161,363**	159,335
Goodwill amortisation	6	**33,410**	33,409
Negative goodwill recognised as income	6	**(654)**	(1,090)
Loss on disposal of fixed assets	6	**1,416**	24,029
Interest income	6	**(9,188)**	(17,227)
Amortisation of trademarks	6	**2,892**	639
Impairment of a long term investment	6	**—**	643
Gain on disposal of subsidiaries	31(a)	**(1,331)**	(4,062)
Loss on cessation of a subsidiary		**1,987**	—
Operating profit before working capital changes		**697,272**	552,950
Decrease/(increase) in inventories		**128,400**	(661,267)
Increase in trade and bills receivables from third parties		**(929,860)**	(218,642)
Decrease/(increase) in prepayments, deposits and other receivables		**38,332**	(207,462)
Increase/(decrease) in net amounts due to related parties		**148,451**	(110,746)
Decrease in net amounts due to jointly-controlled entities		**(11,120)**	(96,774)
Increase in trade and bills payables to third parties		**115,989**	1,253,547
Increase in other payables and accruals		**71,986**	78,902
Increase in net amount due from the ultimate holding company		**(24,343)**	(935)
Cash generated from operations		**235,107**	589,573
Interest paid		**(32,682)**	(10,634)
Income taxes paid		**(46,967)**	(46,536)
Net cash inflow from operating activities		**155,458**	532,403

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	14	**(324,666)**	(213,321)
Purchases of trademarks		**—**	(24,798)
Proceeds from disposal of fixed assets		**28,748**	88,758
Decrease/(increase) in pledged bank deposits		**84,141**	(26,228)
Prepayment for the acquisition of a subsidiary		**(47,815)**	—
Acquisition of subsidiaries	31(b)	**—**	(2,440)
Acquisition/formation of jointly-controlled entities		**(14,282)**	(700,061)
Acquisition of minority interests of a subsidiary		**(3,000)**	—
Disposal of subsidiaries	31(a)	**7,251**	(71,277)
Disposal of an associate		**—**	15,039
Disposal of jointly-controlled entities		**—**	35,786
Interest received		**9,188**	17,227
Dividend received from jointly-controlled entities		**157,184**	—
Net cash outflow from investing activities		**(103,251)**	(881,315)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**19,811**	400,000
Repayment of bank loans		**(30,159)**	(23,665)
Proceeds from issue of share capital upon exercise of share options	29	**70,117**	112,585
Contribution from minority shareholders		**33,962**	3,000
Dividend paid	30	**(185,483)**	(75,869)
Dividend paid to minority shareholders		**(472)**	—
Net cash inflow/(outflow) from financing activities		**(92,224)**	416,051
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(40,017)**	67,139
Cash and cash equivalents at beginning of year		**1,093,187**	1,021,009
Effect of foreign exchange rate changes, net		**16,392**	5,039
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,069,562**	1,093,187
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,069,562**	1,093,187

BALANCE SHEET

31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**2,957,667**	2,908,574
CURRENT ASSETS			
Other receivables	23	**10,646**	1,277
Cash and bank balances		**115,021**	51,848
		125,667	53,125
CURRENT LIABILITIES			
Tax payable		**2,018**	1,896
Other payables and accruals		**7,719**	10,071
		9,737	11,967
NET CURRENT ASSETS		**115,930**	41,158
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,073,597**	2,949,732
NON-CURRENT LIABILITIES			
Convertible notes	27	**(347,000)**	(350,000)
		2,726,597	2,599,732
CAPITAL AND RESERVES			
Issued capital	29	**268,133**	263,100
Reserves	30	**2,186,464**	2,152,077
Proposed final dividend	12	**272,000**	184,555
		2,726,597	2,599,732

Li Dong Sheng, Tomson
Director

Yan Yong
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

— manufacture and sale of colour television sets, and trading of related components

— manufacture and sale of other audio-visual products

— manufacture and sale of computer related products

In the opinion of the directors, the ultimate holding company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised below.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax asset has been recognised for the elimination of unrealised profits arising from intragroup transactions; and

NOTES TO FINANCIAL STATEMENTS

31 December 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

- a deferred tax asset has been recognised for general provisions.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 28 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 28 to the financial statements.

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 these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combination" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2%–4.5%
Leasehold improvements	25%–50%
Plant and machinery	9%–20%
Furniture, fixtures and equipment	18%–25%
Motor vehicles	18%–25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and plant and machinery in the process of installation, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction and installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Trademarks

Purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Company's subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to the profit and loss account as they become payable in accordance with the rules of the pension schemes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) dividend income, when the shareholders' right to receive payment has been established; and

(d) sales commission income, when the sale has been completed.

Research and development costs

All research costs are charged to the profit and loss account as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the television segment manufactures colour television sets and trades related components;

(b) the audio-visual segment manufactures audio-visual products;

(c) the computer segment manufactures personal computers and peripheral products;

(d) the others segment comprises the information technology and other businesses; and

(e) the discontinued white goods segment manufactured and traded home electrical appliances.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION (continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Continuing operations:								Discontinued operations:					
	Television		Computer		Audio-visual		Others		White goods		Eliminations		Consolidated	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000 (Restated)
Segment revenue:														
Sales to external customers	12,422,446	9,393,956	1,775,583	1,388,554	374,846	350,221	575,777	260,865	—	793,953	—	—	15,148,652	12,187,549
Intersegment sales	96,064	75,030	937	6,740	192,478	112,969	16,262	16,053	—	—	(305,741)	(210,792)	—	—
Total	12,518,510	9,468,986	1,776,520	1,395,294	567,324	463,190	592,039	276,918	—	793,953	(305,741)	(210,792)	15,148,652	12,187,549
Segment results	573,685	565,497	31,241	17,244	(28,506)	(46,165)	(14,613)	(51,401)	—	(72,217)	—	—	561,807	412,958
Interest income													9,188	17,227
Corporate expenses													(31,539)	(43,564)
Amortisation of goodwill	(8,475)	(8,475)	(24,661)	(24,661)	—	—	(274)	(273)	—	—	—	—	(33,410)	(33,409)
Gain on disposal of subsidiaries	—	—	—	—	—	—	1,331	—	—	4,062	—	—	1,331	4,062
Finance costs													(32,929)	(12,159)
Share of profits less losses of:														
Jointly-controlled entities	8,193	9,512	—	—	—	—	329,482	368,946	—	(5,133)	—	—	337,675	373,325
Associate	—	—	—	—	—	—	—	—	—	(53)	—	—	—	(53)
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities	—	—	—	—	—	—	(78,433)	(29,642)	—	—	—	—	(78,433)	(29,642)
Loss on deemed disposal of interest in a jointly-controlled entity	—	—	—	—	—	—		(38,825)	—	—	—	—	—	(38,825)
Gain on disposal of discontinued operations of jointly-controlled entities and an associate	—	—	—	—	—	—	—	—	—	3,985	—	—	—	3,985
Profit before tax													733,690	653,905
Tax													(84,093)	(61,213)
Profit before minority interests													649,597	592,692
Minority interests													(7,748)	(19,041)
Net profit from ordinary activities attributable to shareholders													641,849	573,651

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Continuing operations:								Discontinued operations:					
	Television		Computer		Audio-visual		Others		White goods		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment assets	**6,386,559**	5,532,219	**715,576**	701,339	**73,135**	129,959	**551,334**	568,091	**—**	—	**(923,102)**	(781,189)	**6,803,502**	6,150,419
Interests in jointly-controlled entities	**107,977**	102,383	**—**	—	**—**	—	**1,545,398**	1,440,760	**—**	—	**—**	—	**1,653,375**	1,543,143
Unallocated assets													**213,019**	96,545
Total assets													**8,669,896**	7,790,107
Segment liabilities	**7,001,970**	4,159,046	**294,549**	389,077	**75,287**	133,771	**282,979**	646,486	**—**	—	**(4,013,668)**	(1,958,237)	**3,641,117**	3,370,143
Unallocated liabilities													**808,449**	793,596
Total liabilities													**4,449,566**	4,163,739
Other segment information:														
Depreciation and amortisation	**166,434**	155,567	**26,175**	27,285	**2,058**	2,285	**81,431**	31,652	**—**	5,166	**—**	—	**276,098**	221,955
Impairment losses recognised in the profit and loss account	**—**	643	**—**	—	**—**	—	**—**	1,070	**—**	—	**—**	—	**—**	1,713
Capital expenditure	**140,783**	203,147	**30,482**	2,492	**409**	4,048	**152,992**	10,937	**—**	20,469	**—**	—	**324,666**	241,093

(b) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group

	Mainland China		Hong Kong		Others		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**12,116,567**	11,013,422	**160,398**	120,484	**2,871,687**	1,053,643	**15,148,652**	12,187,549
Other segment information:								
Segment assets	**5,263,922**	5,228,841	**1,125,185**	743,252	**414,395**	178,326	**6,803,502**	6,150,419
Capital expenditure	**306,019**	186,486	**1,287**	9,642	**17,360**	44,965	**324,666**	241,093

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2003	2002
	HK$'000	HK$'000
Cost of inventories sold	12,671,516	9,997,175
Depreciation	161,363	159,335
Research and development costs	72,320	61,289
Less: Government grants released*	(15,425)	—
Net research and development costs **	56,895	61,289
Amortisation of trademarks***	2,892	639
Amortisation of goodwill of subsidiaries**	33,410	33,409
Negative goodwill recognised as income****	(654)	(1,090)
Impairment of a long term investment	—	643
Minimum lease payments under operating leases for land and buildings	52,006	51,405
Auditors' remuneration	3,556	2,924
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	502,809	355,649
Pension scheme contributions	26,113	19,896
	528,922	375,545
Loss on disposal of fixed assets	1,416	24,029
Bad debt provision	15,586	17,557
Exchange losses/(gains), net	(2,750)	1,576
Interest income	(9,188)	(17,227)
Commission income	—	(20,695)

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6. PROFIT FROM OPERATING ACTIVITIES (continued)

* Certain government grants have been received for carrying out research activities within the Guangdong Province, Mainland China. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** These are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** The amortisation of trademarks is included in "Selling and distribution costs" on the face of the consolidated profit and loss account.

**** The negative goodwill recognised in the consolidated profit and loss account is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans and facilities	**22,439**	10,634
Interest on convertible notes	**10,490**	1,525
	32,929	12,159

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Fees	**270**	220
Other emoluments:		
Salaries, allowances and benefits in kind	**3,429**	3,234
Performance related bonuses	**394**	122
Pension scheme contributions	**31**	12
	4,124	3,588

Fees include HK$200,000 (2002: HK$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2003	2002
Nil to HK$1,000,000	**8**	9
HK$1,000,001 to HK$1,500,000	**1**	—
	9	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 23,900,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2002: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: five) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,349**	5,120
Performance related bonuses	**487**	410
Pension scheme contributions	**12**	36
	4,848	5,566

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil to HK$1,000,000	**—**	2
HK$1,000,001 to HK$1,500,000	**4**	3
	4	5

During the year, 1,080,000 share options were granted to the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above highest paid employees' remuneration disclosures.

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10. 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. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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 **HK$'000**	2002 HK$'000 (Restated)
Group:		
Current — Hong Kong		
Charge for the year	**17,685**	10,000
Overprovision in prior years	**(31)**	—
Current — Elsewhere	**59,800**	38,697
Deferred (note 28)	**(941)**	(3,524)
	76,513	45,173
Share of tax attributable to:		
Jointly-controlled entities	**7,580**	16,040
Total tax charge for the year	**84,093**	61,213

10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	674,841		101,088		(42,239)		733,690	
Tax at the statutory tax rate	222,697	33.0	17,690	17.5	(15,544)	36.8	224,843	30.6
Lower tax rate for specific provinces or local authority	(197,195)	(29.2)	—	—	(173)	0.4	(197,368)	(26.9)
Effect on opening deferred tax of increase in rates	—	—	(190)	(0.2)	—	—	(190)	—
Adjustments in respect of current tax of previous periods	—	—	31	—	—	—	31	—
Income not subject to tax	(8,982)	(1.3)	(1,051)	(1.0)	(379)	0.9	(10,412)	(1.4)
Expenses not deductible for tax	41,043	6.0	6,465	6.4	2,362	(5.6)	49,870	6.8
Tax losses utilised from previous periods	(695)	(0.1)	(3,750)	(3.7)	—	—	(4,445)	(0.6)
Tax losses not recognised as deferred tax assets	4,098	0.6	—	—	17,666	(41.8)	21,764	3.0
Tax charge at the Group's effective rate	60,966	9.0	19,195	19.0	3,932	(9.3)	84,093	11.5

10. TAX (continued)

Group — 2002

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	645,954		13,584		(5,633)		653,905	
Tax at the statutory tax rate	213,165	33.0	2,173	16.0	(1,972)	35.0	213,366	32.6
Lower tax rate for specific provinces or local authority	(183,979)	(28.5)	—	—	130	(2.3)	(183,849)	(28.1)
Income not subject to tax	(23,856)	(3.7)	(1,072)	(7.9)	(112)	2.0	(25,040)	(3.8)
Expenses not deductible for tax	33,817	5.2	8,548	62.9	1,065	(18.9)	43,430	6.6
Tax losses utilized from previous periods	—	—	(201)	(1.5)	—	—	(201)	—
Tax losses not recognised as deferred tax assets	11,092	1.8	195	1.4	2,220	(39.4)	13,507	2.1
Tax charge at the Group's effective rate	50,239	7.8	9,643	70.9	1,331	(23.6)	61,213	9.4

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%.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$239,231,000 (2002: HK$293,486,000) (note 30).

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12. DIVIDEND

	2003 HK$'000	2002 HK$'000
Proposed final — 10 (2002: 7) HK cents per share	**272,000**	184,555

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

13. 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 (restated): 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 (restated): HK$573,651,000), adjusted by the reduction of interest expense 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 the 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.

14. FIXED ASSETS

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At beginning of year	412,779	64,194	438,040	177,888	48,314	54,820	1,196,035
Additions	6,947	29,478	71,765	28,013	7,934	180,529	324,666
Disposal of a subsidiary (note 31(a))	—	—	—	(2,707)	(436)	—	(3,143)
Disposals	(3,773)	(372)	(12,872)	(21,142)	(8,438)	(284)	(46,881)
Transfers	1,340	227	55,862	4,294	—	(61,723)	—
Exchange realignment	—	—	4,350	126	19	—	4,495
At 31 December 2003	417,293	93,527	557,145	186,472	47,393	173,342	1,475,172
Accumulated depreciation:							
At beginning of year	77,371	47,223	223,968	86,980	26,231	—	461,773
Provided during the year	21,575	22,191	83,416	27,958	6,223	—	161,363
Disposal of a subsidiary (note 31(a))	—	—	—	(828)	(43)	—	(871)
Disposals	(294)	(214)	(2,801)	(8,514)	(4,894)	—	(16,717)
Exchange realignment	—	—	661	39	5	—	705
At 31 December 2003	98,652	69,200	305,244	105,635	27,522	—	606,253
Net book value:							
At 31 December 2003	318,641	24,327	251,901	80,837	19,871	173,342	868,919
At 31 December 2002	335,408	16,971	214,072	90,908	22,083	54,820	734,262

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14. FIXED ASSETS (continued)

An analysis of the Group's land and buildings, which are held under medium term leases, is as follows:

	2003 HK$'000	2002 HK$'000
Hong Kong	**29,845**	29,845
Elsewhere	**387,448**	382,934
	417,293	412,779

15. TRADEMARKS

Group

	HK$'000
Cost:	
At beginning of year	26,574
Exchange realignment	5,133
At 31 December 2003	31,707
Accumulated amortisation:	
At beginning of year	664
Provided during the year	2,892
Exchange realignment	407
At 31 December 2003	3,963
Net book value:	
At 31 December 2003	27,744
At 31 December 2002	25,910

The trademarks were acquired with the obligation of a subsidiary of the Company to maintain certain production in Germany for two years starting from September 2002.

16. GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK$'000	HK$'000
Cost:		
At beginning of year	336,670	—
Acquisition of an additional interest in a subsidiary	—	(654)
At 31 December 2003	336,670	(654)
Accumulated amortisation/(recognised as income):		
At beginning of year	58,721	—
Amortisation provided/(recognised as income) during the year	33,410	(654)
At 31 December 2003	92,131	(654)
Net book value:		
At 31 December 2003	244,539	—
At 31 December 2002	277,949	—

At 31 December 2003, the amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2002: HK$1,819,000), representing its cost.

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17. INTERESTS IN SUBSIDIARIES

	Company 2003 HK$'000	Company 2002 HK$'000
Unlisted shares, at cost	**1,148,255**	1,148,255
Due from subsidiaries	**1,951,270**	1,760,319
Due to subsidiaries	**(141,858)**	—
	2,957,667	2,908,574

The balances with the subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company 2003 %	2002 %	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.†	PRC	RMB120,000,000	70	—	Manufacture and sale of audio-visual products
Schneider Electronics GmbH	Germany	EUR2,000,000	100	100	Manufacture and sale of audio-visual products
Shenzhen TCL New Technology Co., Ltd.	PRC	HK$10,000,000	100	100	Manufacture and sale of audio-visual products
TCL Computer Technology Co., Ltd.*	PRC	RMB100,000,000	100	100	Manufacture and sale of personal computers and peripheral products

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company 2003 %	2002 %	Principal activities
TCL Electrical Appliance Sales Co., Ltd.	PRC	RMB30,000,000	51	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited@	Hong Kong	Ordinary HK$30,000,000	100	100	Trading of audio-visual products and components
TCL Electronics (Singapore) Pte Ltd.	Singapore	S$900,000	85	85	Trading of audio-visual products
TCL Holdings (BVI) Limited@	British Virgin Islands	US$25,000	100	100	Investment holding
TCL Information Technology Industrial (Group) Co., Ltd.@*	British Virgin Islands	US$4,500,000	100	100	Investment holding
TCL King Electrical Appliances (Huhehaote) Co., Ltd.	PRC	HK$20,000,000	100	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Co., Ltd.	PRC	HK$256,000,000	100	100	Manufacture and sale of audio-visual products and trading of components

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company 2003 %	2002 %	Principal activities
TCL King Electrical Appliances (Nanchang) Co., Ltd.†	PRC	HK$20,000,000	100	—	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Co., Ltd.	PRC	HK$10,000,000	70	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Co., Ltd.	PRC	HK$100,000,000	100	100	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	Ordinary HK$2	100	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited (formerly known as Team Way Limited)	Hong Kong	Ordinary HK$100	100	70	Trading of audio-visual products and components
TCL Overseas Holdings Limited@	British Virgin Islands	US$1	100	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands	US$1	100	100	Trading of audio-visual products and components

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company 2003 %	2002 %	Principal activities
TCL Retail (HK) Limited	Hong Kong	Ordinary HK$10,000	100	100	Trading of audio-visual products
TCL Technology Electronics (Huizhou) Co., Ltd.	PRC	HK$43,000,000	100	100	Manufacture and sale of audio-visual products
TCL (Vietnam) Corporation Ltd.	Vietnam	VND37,135,000,000	100	100	Manufacture and sale of audio-visual products

@ Direct subsidiaries of the Company.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

† Established during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets	**983,773**	795,108
Goodwill on acquisition	**678,216**	756,649
Provision for impairment	**(8,614)**	(8,614)
	1,653,375	1,543,143

The amounts of goodwill capitalised as an asset and the amount of goodwill remaining in consolidated reserves arising from the acquisition of jointly-controlled entities prior to the adoption of SSAP 30 in 2001 are as follows:

	Group	
	Goodwill capitalised as an asset	**Goodwill debited to capital reserve**
	HK$'000	HK$'000
Cost:		
At beginning of year and 31 December 2003	784,327	3,047
Accumulated amortisation and impairment:		
At beginning of year	27,678	1,070
Amortisation provided during the year	78,433	—
At 31 December 2003	106,111	1,070
Net book value:		
At 31 December 2003	678,216	1,977
At 31 December 2002	756,649	1,977

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the principal jointly-controlled entities, all of which are indirectly held by the Company, are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Corporate	PRC	52	57	52	Manufacture and sale of audio-visual products
Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile")	Corporate	PRC	40.8	33.3	40.8	Manufacture and sale of mobile phones
TCL Sun, Inc.	Corporate	Philippines	49	49	49	Trading of audio-visual products
電大在線遠程教育技術有限公司 *	Corporate	PRC	50	45	50	Provision of remote education services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

The above table lists the jointly-controlled entities of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

More than 90% of the Group's share of the results of its jointly-controlled entities was derived from TCL Mobile. The condensed summary of certain additional financial information of TCL Mobile is as follows:

Results for the year:

	2003 HK$'000	2002 HK$'000
TURNOVER	9,019,503	7,875,762
Cost of sales	(7,237,547)	(5,724,279)
Gross profit	1,781,956	2,151,483
Other revenue and gains	27,493	26,099
Selling and distribution costs	(843,115)	(655,267)
Administrative and other operating expenses	(155,704)	(254,156)
PROFIT FROM OPERATING ACTIVITIES	810,630	1,268,159
Finance costs	(10,657)	(17,053)
PROFIT BEFORE TAX	799,973	1,251,106
Tax	(18,220)	(52,733)
NET PROFIT	781,753	1,198,373

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Financial position:

	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS	**259,598**	194,020
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	**610,280**	840,584
	3,978,291	4,227,840
CURRENT LIABILITIES		
Trust receipt loans	**13,851**	67,643
Trade and bills payables	**1,340,978**	1,409,207
Other payables and accruals	**776,223**	1,260,498
Other current liabilities	**92,610**	73,944
	2,223,662	2,811,292
NET CURRENT ASSETS	**1,754,629**	1,416,548
NON-CURRENT LIABILITIES	**—**	2,456
	2,014,227	1,608,112
CAPITAL AND RESERVES		
Paid-up capital	**232,215**	232,215
Reserves	**1,782,012**	1,375,897
	2,014,227	1,608,112

* 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).

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19. LONG TERM INVESTMENTS

	Group	
	2003	2002
	HK$'000	HK$'000
Unlisted equity investments, at cost	**1,682**	2,325
Provision for impairment	**—**	(643)
	1,682	1,682

20. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**513,026**	901,641
Work in progress	**170,992**	286,208
Finished goods	**1,757,482**	1,391,269
	2,441,500	2,579,118

The carrying amount of inventories carried at net realisable value included in the above balance was HK$209,600,000 (2002: Nil) as at the balance sheet date.

21. TRADE AND BILLS RECEIVABLES

		Group	
		2003	2002
	Notes	**HK$'000**	HK$'000
Due from third parties:			
Trade receivable		**757,822**	359,866
Bills receivable		**1,145,596**	624,006
		1,903,418	983,872
Due from related parties	22	**6,825**	38,499
Due from jointly-controlled entities	22	**6,551**	6,634
Due from the ultimate holding company	22	**24,343**	—
		1,941,137	1,029,005

The majority of the Group's sales in the PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letter of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were also made on the open-account basis with credit terms of no more than 180 days. An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 90 days	**1,779,018**	543,311
91 to 180 days	**130,542**	454,415
181 to 365 days	**22,606**	21,690
Over 365 days	**8,971**	9,589
	1,941,137	1,029,005

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22. DUE FROM/TO RELATED PARTIES/JOINTLY-CONTROLLED ENTITIES/ULTIMATE HOLDING COMPANY

The amounts are unsecured, interest-free and are repayable within one year.

23. OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other receivables	**357,116**	404,488	**10,646**	1,277
Dividend receivable	**2,453**	3,925	**—**	—
	359,569	408,413	**10,646**	1,277

24. PLEDGED BANK DEPOSITS

At 31 December 2003, the Group's bank deposits of HK$5,199,000 (2002: HK$89,340,000) were pledged to secure certain bank loans (note 26) and general banking facilities granted by the banks in the PRC.

25. TRADE AND BILLS PAYABLES

		Group	
		2003	2002
	Notes	**HK$'000**	HK$'000
Due to third parties:			
Trade payable		**1,788,972**	1,655,730
Bills payable		**985,806**	1,027,234
		2,774,778	2,682,964
Due to related parties	22	**191,881**	75,104
Due to jointly-controlled entities	22	**—**	11,203
		2,966,659	2,769,271

25. TRADE AND BILLS PAYABLES (continued)

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 90 days	**2,211,432**	2,391,738
91 to 180 days	**701,627**	344,983
181 to 365 days	**47,095**	17,780
Over 365 days	**6,505**	14,770
	2,966,659	2,769,271

26. BANK BORROWINGS

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans:		
Secured	**943**	6,630
Unsecured	**395,339**	400,000
	396,282	406,630

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26. BANK BORROWINGS (continued)

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans repayable:		
Within one year	**113,929**	23,845
In the second year	**94,118**	94,443
In the third to fifth years, inclusive	**188,235**	283,389
After five years	**—**	4,953
	396,282	406,630
Portion classified as current liabilities	**(113,929)**	(23,845)
Long term portion	**282,353**	382,785

The secured bank loans were secured by the Group's bank deposits and land and buildings with a net book value amounting to HK$472,000 (2002: Nil) and Nil (2002: HK$10,309,000), respectively.

27. CONVERTIBLE NOTES

Group and Company

	HK$'000
At beginning of year	350,000
Converted to shares during the year	(3,000)
At 31 December 2003	347,000

On 8 November 2002, the Company issued convertible notes of principal amounts of HK$210 million, HK$40 million and HK$100 million to United Asset Investments Limited, Nam Tai Electronics, Inc. and Go-Win Limited, respectively. Both Go-Win Limited and United Asset Investments Limited are wholly-owned by Mr. Wong Toe Yeung, who resigned as a non-executive director of the Company on 19 July 2003.

27. CONVERTIBLE NOTES (continued)

On 22 August 2003, the Company, United Asset Investments Limited, Nam Tai Electronics, Inc. and Go-Win Limited entered into an amendment agreement (the "Amendment Agreement") to amend the terms and conditions of the convertible notes. The Amendment Agreement created global notes (the "Global Notes") representing the convertible notes, which are admitted to the global electronic clearing and settlement systems of Euroclear and Clearstream. As a result of the Amendment Agreement, the Global Notes became more freely tradable. However, the basic economic terms of the convertible notes, including interest, maturity and currency of payment as well as the conversion features of the convertible notes are unaffected by the Amendment Agreement.

The principal terms of the convertible notes are as follows:

Issue price

The aggregate principal amount of the convertible notes is HK$350,000,000, issued at par on 8 November 2002.

Term and maturity date

Unless previously redeemed, converted or purchased and cancelled, the convertible notes will be redeemed in Hong Kong dollars at 100% of their principal amounts, plus accrued interest on 8 November 2005.

Interest

The convertible notes bear interest at the rate of 3% per annum, which is payable semi-annually in arrears.

Conversion period

The conversion period commenced on 8 November 2002 and will end on 8 November 2005.

Conversion rights

The noteholders have the right at any time during the conversion period to convert the convertible notes in whole or in part in the principal amount of not less than HK$10,000 (2002: HK$10 million) into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment).

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27. CONVERTIBLE NOTES (continued)

Conversion shares

During the year, convertible notes amounting to HK$3,000,000 were converted into 1,173,708 new shares of the Company. As at 31 December 2003, assuming full conversion of the convertible notes at the initial conversion price, the number of shares to be issued will be 135,758,999 (2002: 136,932,707), representing approximately 5.1% (2002: 5.2%) of the existing issued share capital of the Company and approximately 4.8% (2002: 4.9%) of the issued share capital of the Company as enlarged by the issue of such shares.

Redemption at the option of the Company

The Company has an option to redeem, in whole or any part, the convertible notes (being HK$10,000 in principal amount or an integral multiple thereof) at 100% of their principal amount plus interest accrued to but excluding the date of redemption, after 18 months from 8 November 2002 if the closing price of the Company's shares on the Stock Exchange for at least 20 dealing days in a period of 30 consecutive dealing dates on the Stock Exchange is at least 130% of the conversion price in effect on such dealing day.

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	2003		
	Accelerated tax depreciation HK$'000	**Others HK$'000**	**Total HK$'000**
At 1 January 2003			
As previously reported	**1,915**	**—**	**1,915**
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	**116**	**—**	**116**
As restated	**2,031**	**—**	**2,031**
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	**(615)**	**431**	**(184)**
Gross deferred tax liabilities At 31 December 2003	**1,416**	**431**	**1,847**

Deferred tax assets

Group

	2003		
	Elimination of unrealised profits arising from intragroup transactions HK$'000	**General provisions HK$'000**	**Total HK$'000**
At 1 January 2003			
As previously reported	**—**	**—**	**—**
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	**6,316**	**1,782**	**8,098**
As restated	**6,316**	**1,782**	**8,098**
Deferred tax credited/(charged) to the profit and loss account during the year (note 10)	**(1,691)**	**2,448**	**757**
Gross deferred tax assets at 31 December 2003	**4,625**	**4,230**	**8,855**

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28. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2002
	Accelerated tax depreciation HK$'000
At 1 January 2002	
As previously reported	1,915
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	473
As restated	2,388
Deferred tax credited to the profit and loss account during the year (note 10)	(357)
Gross deferred tax liabilities at 31 December 2002	2,031

Deferred tax assets

Group

	2002		
	Elimination of unrealised profits arising from intragroup transactions HK$'000	General provisions HK$'000	Total HK$'000
At 1 January 2002			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	4,931	—	4,931
As restated	4,931	—	4,931
Deferred tax credited to the profit and loss account (note 10)	1,385	1,782	3,167
Gross deferred tax assets at 31 December 2002	6,316	1,782	8,098

28. DEFERRED TAX (continued)

The Group has tax losses of HK$140,187,000 (2002: HK$93,959,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK$8,855,000 and HK$8,098,000, respectively, and increase/(decrease) in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by (HK$68,000) and HK$116,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased by HK$941,000 and HK$3,524,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been increased by HK$7,982,000 and HK$4,458,000, respectively.

29. SHARE CAPITAL

Shares

	Company	
	2003	2002
	HK$'000	HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,681,328,559 (2002: 2,630,998,852) shares of HK$0.10 each	**268,133**	263,100

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29. SHARE CAPITAL (continued)

During the year, the movements in share capital were as follows:

(a) The subscription rights attaching to 49,155,999 share options were exercised, resulting in the issue of 49,155,999 shares of HK$0.10 each for a total cash consideration of HK$70,117,000.

(b) 1,173,708 shares of HK$0.10 each were issued pursuant to the conversion of the Company's convertible notes amounting to HK$3,000,000 at a conversion price of HK$2.556 per share.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Numbers of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2002	2,511,219,289	251,122	1,105,063	1,356,185
Share option exercised	119,779,563	11,978	100,607	112,585
At 31 December 2002	2,630,998,852	263,100	1,205,670	1,468,770
Share options exercised (a)	49,155,999	4,916	65,201	70,117
Conversion of convertible notes (b)	1,173,708	117	2,883	3,000
At 31 December 2003	2,681,328,559	268,133	1,273,754	1,541,887

Share options

On 12 May 2003, the share option scheme adopted by the Company on 30 August 2001 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted by the Company. As a result, the Company can no longer grant any further options under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. Unless otherwise terminated or amended, the New Scheme will remain in force for three and a half years from the date of adoption.

The purpose of the New Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employee (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

29. SHARE CAPITAL (continued)

Share options (continued)

The eligible participants of the New Scheme include any Employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the board of directors in its sole discretion considers may contribute or have contributed to the Group.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted under the New Scheme is such number of the shares, when aggregated with shares subject to any other scheme (including the Old Scheme), representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the New Scheme and any other scheme (including the Old Scheme)).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than three and a half years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of the offer; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

At 31 December 2003, the number of shares issuable under share options granted under the New Scheme was 73,346,438, which represented approximately 2.7% of the Company's shares in issue as at that date.

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31 December 2003

29. SHARE CAPITAL (continued)

Share options (continued)

The following share options were outstanding under the share option schemes during the year:

Name or category of participant	At 1 January 2003	Number of share options: Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003	Date of grant	Exercise price HK$	Exercise period	Price of Company's shares at date of grant # HK$	Price of Company's shares at exercise date * HK$
Directors										
Li Dong Sheng, Tomson	12,000,000	—	—	(12,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	6,950,000	—	—	6,950,000	15 May 2003	1.550	Note 7	1.590	
	12,000,000	6,950,000	—	(12,000,000)	6,950,000					
Yuan Xin Cheng	6,000,000	—	—	(6,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	5,300,000	(5,300,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.375
	6,000,000	5,300,000	(5,300,000)	(6,000,000)	—					
Lu Zhong Li	5,000,000	—	—	(5,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	4,600,000	(4,600,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.925
	5,000,000	4,600,000	(4,600,000)	(5,000,000)	—					
Hu Qiu Sheng	5,000,000	—	—	(5,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	4,600,000	(4,600,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.375
	5,000,000	4,600,000	(4,600,000)	(5,000,000)	—					
Yan Yong	300,000	—	—	(300,000)	—	1 June 2000	2.508	Note 2	3.200	
	200,000	—	(200,000)	—	—	2 May 2001	0.928	Note 3	1.130	1.480
	—	200,000	(66,000)	—	134,000	30 January 2003	2.114	Note 6	2.075	2.825
	—	1,550,000	(1,550,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.825
	500,000	1,750,000	(1,816,000)	(300,000)	134,000					
Suen Hay Wai	—	700,000	—	—	700,000	30 January 2003	2.114	Note 6	2.075	
Wong Toe Yeung@	3,000,000	—	(1,000,000)	(2,000,000)	—	3 December 1999	2.236	Note 1	3.075	2.500

29. SHARE CAPITAL (continued)

Share options (continued)

Name or category of participant	Number of share options: At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003	Date of grant	Exercise price HK$	Exercise period	Price of Company's shares at date of grant # HK$	Price of Company's shares at exercise date * HK$
Other employees	30,000	—	—	(30,000)	—	1 June 2000	2.508	Note 2	3.200	
	9,066,000	—	(8,870,000)	(196,000)	—	2 May 2001	0.928	Note 3	1.130	1.872
	23,432,437	—	(10,434,599)	—	12,997,838	29 October 2001	0.994	Note 4	0.990	1.659
	10,000,000	—	—	—	10,000,000	4 November 2002	2.305	Note 5	2.175	
	—	50,100,000	(8,235,400)	—	41,864,600	30 January 2003	2.114	Note 6	2.075	2.900
	—	5,000,000	(4,300,000)	—	700,000	15 May 2003	1.550	Note 7	1.590	2.864
	42,528,437	55,100,000	(31,839,999)	(226,000)	65,562,438					
	74,028,437	79,000,000	(49,155,999)	(30,526,000)	73,346,438					

Note 1 The exercise period for such share options commenced from the expiry of three years from the respective commencement date of services of each grantee with the Group. Such dates ranged from 3 December 1999 to 1 December 2002, and ended on 14 May 2003.

Note 2 One-third of such share options were exercisable after the expiry of 9 months from the date of grant, a further one-third was exercisable after the expiry of 18 months from the date of grant, and the remaining one-third was exercisable after the expiry of 27 months from the date of grant, up to 14 May 2003.

Note 3 Half of such share options were exercisable after the expiry of 9 months from the date of grant, and the remaining half was exercisable after the expiry of 18 months from the date of grant, up to 14 May 2003.

Note 4 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

Note 5 Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 6 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

Note 7 Such share options are exercisable at any time from the date of grant to 14 November 2006.

29. SHARE CAPITAL (continued)

Share options (continued)

The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

* The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices immediately before the exercise dates over all of the exercises of options within the disclosure category.

@ Wong Toe Yeung resigned as a non-executive director on 19 July 2003.

30. RESERVES

Group

	Share premium account	Capital reserve	Reserve funds*	Exchange fluctuation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2002:						
As previously reported	1,105,063	64,915	309,243	(1,166)	1,129,306	2,607,361
Prior year adjustment:						
SSAP 12 — restatement of deferred tax (note 28)	—	—	—	—	4,458	4,458
As restated	1,105,063	64,915	309,243	(1,166)	1,133,764	2,611,819
Issue of shares upon exercise of share options	100,607	—	—	—	—	100,607
Goodwill realised on deemed disposal	—	219	—	—	—	219
Impairment of goodwill	—	1,070	—	—	—	1,070
Exchange realignment	—	—	—	16,136	—	16,136
Realised on disposal	—	—	—	(677)	—	(677)
Write off of exchange reserve	—	—	—	479	—	479
Net profit for the year	—	—	—	—	573,651	573,651
Final 2001 dividend	—	—	—	—	(414)	(414)
Proposed final 2002 dividend (note 12)	—	—	—	—	(184,555)	(184,555)
Transfer from retained profits	—		118,078	—	(118,078)	—
At 31 December 2002	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335

30. RESERVES (continued)

Group (continued)

	Share premium account HK$'000	Capital reserve HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003:						
As previously reported	1,205,670	66,204	427,321	14,772	1,396,386	3,110,353
Prior year adjustment:						
SSAP 12 — restatement						
of deferred tax (note 28)	—	—	—	—	7,982	7,982
As restated	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335
Issue of shares upon exercise						
of share options	65,201	—	—	—	—	65,201
Issue of shares upon conversion						
of convertible notes	2,883	—	—	—	—	2,883
Exchange realignment	—	—	—	24,891	—	24,891
Realised on disposal	—	—	—	(113)	—	(113)
Net profit for the year	—	—	—	—	641,849	641,849
Final 2002 dividend	—	—	—	—	(928)	(928)
Proposed final 2003						
dividend (note 12)	—	—	—	—	(272,000)	(272,000)
Transfer from retained profits	—	—	64,884	—	(64,884)	—
At 31 December 2003	1,273,754	66,204	492,205	39,550	1,708,405	3,580,118
Reserves retained by:						
Company and subsidiaries	1,273,754	66,204	388,825	38,503	1,219,946	2,987,232
Jointly-controlled entities	—	—	103,380	1,047	488,459	592,886
At 31 December 2003	1,273,754	66,204	492,205	39,550	1,708,405	3,580,118
Reserves retained by:						
Company and subsidiaries	1,205,670	66,204	325,469	13,725	1,127,128	2,738,196
Jointly-controlled entities	—	—	101,852	1,047	277,240	380,139
At 31 December 2002	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335

30. RESERVES (continued)

* Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries and jointly-controlled entities in the PRC has been transferred to reserve funds which are restricted as to use. In addition, profits of certain jointly-controlled entities which have been capitalised are also transferred to reserve funds.

Certain amounts of goodwill arising on the acquisition of a subsidiary and jointly-controlled entities remain eliminated against the capital reserve as explained in notes 16 and 18 to the financial statements.

Company

	Share premium account HK$'000	**Capital reserve#** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2002	1,105,063	903,105	(65,215)	1,942,953
Issue of shares upon exercise of share options	100,607	—	—	100,607
Net profit for the year	—	—	293,486	293,486
Final 2001 dividend	—	—	(414)	(414)
Proposed final 2002 dividend (note 12)	—	—	(184,555)	(184,555)
At 31 December 2002	1,205,670	903,105	43,302	2,152,077
Issue of shares upon exercise of share options	65,201	—	—	65,201
Issue of shares upon conversion of convertible notes	2,883	—	—	2,883
Net profit for the year	—	—	239,231	239,231
Final 2002 dividend	—	—	(928)	(928)
Proposed final 2003 dividend (note 12)	—	—	(272,000)	(272,000)
At 31 December 2003	1,273,754	903,105	9,605	2,186,464

\# The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	2003 HK$'000	2002 HK$'000
Net assets disposed of:		
Fixed assets	**2,272**	70,686
Inventories	**9,218**	121,594
Cash and bank balances	**5,232**	77,449
Trade and bills receivables	**10,314**	107,208
Due from related companies, net	**—**	73,370
Prepayments, deposits and other receivables	**9,040**	87,037
Trade and bills payables	**(24,175)**	(478,565)
Other payables and accruals	**(749)**	(53,638)
Minority interests	**—**	(3,031)
	11,152	2,110
Gain on disposal	**1,331**	4,062
Satisfied by cash	**12,483**	6,172
An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:		
Cash consideration received	**12,483**	6,172
Cash and bank balances disposed of	**(5,232)**	(77,449)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**7,251**	(71,277)

The results of the subsidiary disposed of in the current year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	2002
	HK$'000
Net assets acquired:	
Fixed assets	2,801
Goodwill	5,312
Inventories	400
Cash and bank balances	862
Trade and bills receivables	3
Prepayments, deposits and other receivables	2,616
Trade and bills payables	(97)
Other payables and accruals	(2,873)
Minority interests	(4,632)
	4,392
Negative goodwill on acquisition	(1,090)
	3,302
Satisfied by:	
Cash	3,302

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002
	HK$'000
Cash consideration	(3,302)
Cash and bank balances acquired	862
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,440)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transaction

In the prior year, the Group acquired an additional 13.8% equity interest in TCL Mobile with a consideration of HK$764,860,000. The Group funded the acquisition partly by the issuance of convertible notes of HK$350,000,000.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from two to six years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**38,950**	37,142
In the second to fifth years, inclusive	**26,907**	40,163
After five years	**345**	727
	66,202	78,032

In addition, the Group's share of the jointly-controlled entities' own operating lease arrangements at the balance sheet date, which are not included in the above, was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**807**	—
In the second to fifth years, inclusive	**628**	—
After five years	**74**	—
	1,509	—

NOTES TO FINANCIAL STATEMENTS

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33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted, but not provided for	**187,436**	169,772
Authorised, but not contracted for	**—**	10,854
	187,436	180,626

In addition, the Group's share of the jointly-controlled entities' own capital commitments at the balance sheet date, which are not included in the above, was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted, but not provided for	**4,418**	1,522

On 3 November 2003, the Company entered into a binding memorandum of understanding ("MOU") with Thomson S.A. ("Thomson") and TCL Corporation in connection with the possible establishment of a joint venture company to combine and manage the respective television businesses and assets of the Group and Thomson. The MOU acts for the legally binding obligations of the Company to negotiate the definite agreements in respect of the joint venture, one of which was signed subsequent to the balance sheet date (note 36). Details of the MOU are set out in the Company's announcement dated 3 November 2003.

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills discounted with recourse	**64,882**	1,086,659	**—**	—
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**—**	—	**839,942**	818,240
Guarantees given to a bank in connection with banking facilities granted to a jointly-controlled entity	**—**	—	**3,673**	—
	64,882	1,086,659	**843,615**	818,240

As at 31 December 2003, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$391 million (2002: HK$421 million).

In addition, the Group's share of the jointly-controlled entities' own contingent liabilities at the balance sheet date, not included above, was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Bills discounted with recourse	**—**	341,267

NOTES TO FINANCIAL STATEMENTS

31 December 2003

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2003 HK$'000	2002 HK$'000
Jointly-controlled entity:			
Sales of raw materials	(i)	**1,356,348**	203,977
Purchases of raw materials	(ii)	**5,252**	39,377
Purchase of finished goods	(ii)	**1,469,536**	—
Sales commission income	(iii)	**—**	20,695
Subcontracting fee expense	(v)	**—**	15,087
Minority shareholders of subsidiaries:			
Sales of finished goods	(vi)	**—**	43,115
Rental expenses	(vii)	**—**	1,585
Companies controlled by the ultimate holding company:			
Sales of raw materials	(i)	**9,619**	1,287
Purchases of raw materials	(ii)	**434,641**	342,122
Purchases of finished goods	(ii)	**25,967**	3,623
Sales handling fee income	(iv)	**9,370**	3,712
Subcontracting fee expense	(v)	**4,301**	—
Contract fee expense	(viii)	**29,555**	29,004
Cash discounts	(ix)	**12,728**	—
Company controlled by a jointly-controlled entity:			
Sales of raw materials	(i)	**31,575**	28,767
Purchases of raw materials	(ii)	**77,787**	78,821

35. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The sales of raw materials were made at cost.

(ii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.

(iii) In 2002, the sales commission was calculated at 10% of the retail price of the products sold.

(iv) The sales handling fee income was calculated at 1.7% of the invoiced sales of the products distributed.

(v) The subcontracting fees were determined by reference to subcontracting fees charged by third party companies offering similar services.

(vi) In 2002, the Group sold its finished goods at an average mark-up of 2%.

(vii) The rent was determined with reference to open market rentals.

(viii) The contract fee was the sum of the following:

(1) A fee equivalent to 8% of net asset value of the contracted operation as at the end of preceding financial year; and

(2) Depreciation costs of the contracted operation for this financial year.

(ix) The cash discounts paid were calculated as follows:

(1) For amounts settled within the credit period, the cash discount was calculated at a monthly rate of 0.465%;

(2) For settlement within the credit period, the amount of settlement by cash over 70% of the total settlement attracted a cash discount calculated at a monthly rate of 0.465%.

36. POST BALANCE SHEET EVENT

On 28 January 2004, the Company entered into an agreement (the "Combination Agreement") with Thomson and TCL Corporation in relation to the establishment of a joint venture company, TCL-Thomson Electronics Limited ("TTE"). The Combination Agreement provides that:

(a) The Company and Thomson will contribute their respective TV businesses and assets to TTE.

(b) The Company is required to contribute into TTE its entire TV business including all its fixed assets and net working capital associated with its TV business. The contribution will also include TCL Corporation's 100% interest in Inner-Mongolia TCL Electrical Appliance Company Limited and 70% interest in TCL Digital Science and Technology (Wuxi) Company Limited (the "Wuxi and Inner-Mongolia Assets"). Therefore, the Company is required to acquire Wuxi and Inner-Mongolia Assets from TCL Corporation and contribute them into TTE.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. POST BALANCE SHEET EVENT (continued)

(c) Thomson is required to contribute into TTE certain of its business units engaging primarily in TV manufacturing and located in Mexico, India and Poland etc., three research and development centres located in Germany, U.S. and India, certain fixed assets including production equipment and certain current assets and liabilities relating to its TV business.

(d) In consideration of the contribution by the Company and Thomson of their respective TV businesses and assets (including the Wuxi and Inner-Mongolia Assets), TTE will issue new shares representing 67% and 33% of the enlarged issued share capital of TTE immediately following closing of the Combination Agreement ("Closing") to the Company and Thomson, respectively.

(e) The obligations of the Company and Thomson under the Combination Agreement are subject to fulfillment or waiver of a number of conditions on or prior to Closing, including the approval by the shareholders of the Company of the Combination Agreement and the transactions contemplated thereunder and execution of a number of transaction documents stipulated under the Combination Agreement (the "Transaction Documents"). The Transaction Documents include, among others, the Exchange Option Agreement and a number of operation agreements to be entered into between TTE and the Thomson group or the TCL Corporation group concerning the future operation of TTE.

(f) The Exchange Option Agreement will involve the Company granting an irrevocable option to Thomson to exchange its shares in TTE for the new shares of the Company, which will become exercisable under certain circumstances but no later than 18 months from Closing.

Details of the Combination Agreement are set out in the Company's announcement dated 30 January 2004.

37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

In addition, research and development costs of HK$ 61,289,000 in the profit and loss account for the year ended 31 December 2002 have been reclassified from administrative expenses to other operating expenses to conform with the current year's presentation. In the opinion of the directors, this classification would better reflect the results of the Group.

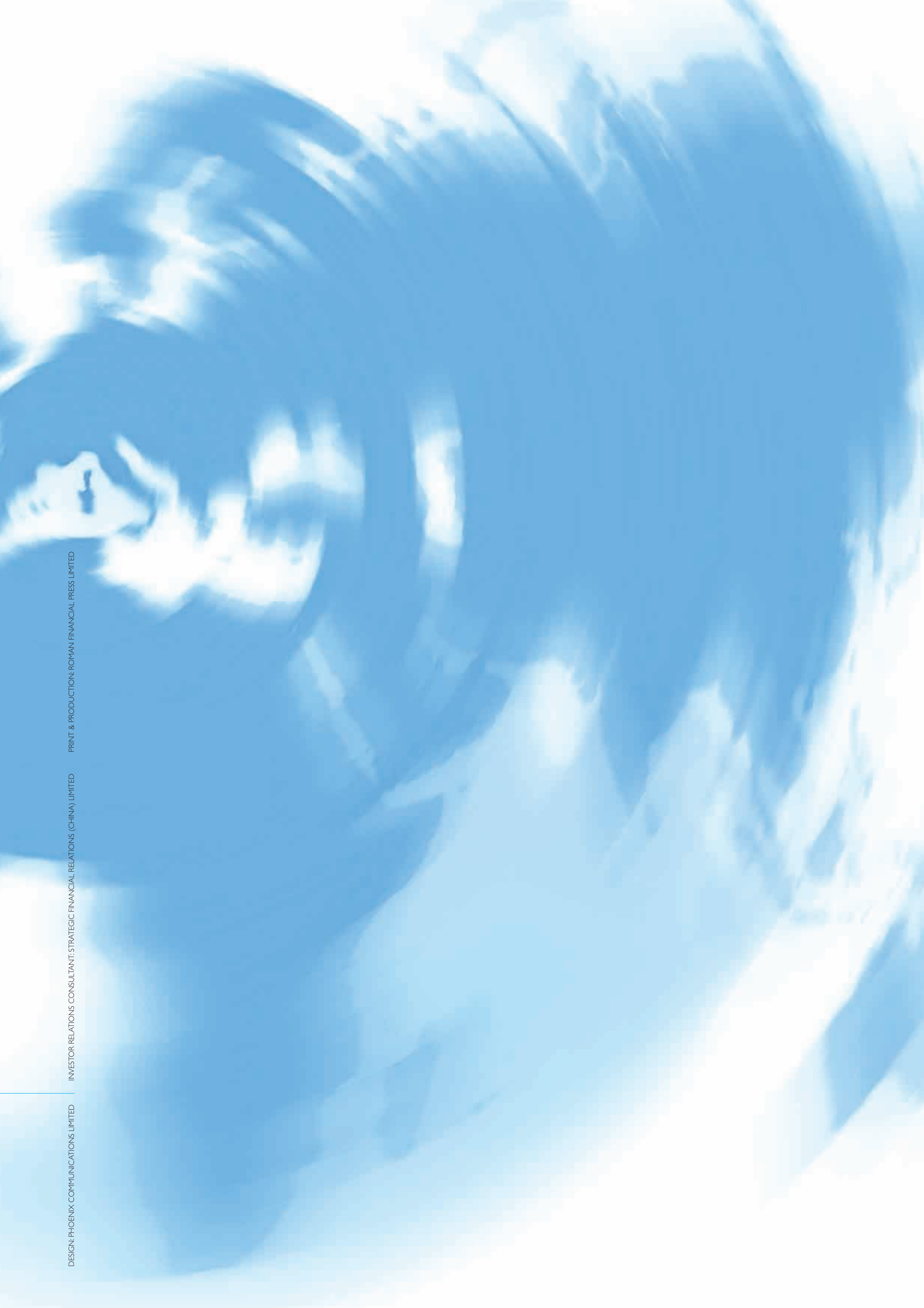
38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 2 March 2004.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The amounts for 2002 have been adjusted for the effects of the retrospective changes in accounting policy affecting income tax, as detailed in note 2 to the financial statements.

	Year ended 31 December				
	2003 HK$'000	2002 HK$'000 (Restated)	2001 HK$'000	2000 HK$'000	1999 HK$'000
RESULTS					
TURNOVER	**15,148,652**	12,187,549	9,609,735	8,569,198	6,157,874
PROFIT BEFORE TAX	**733,690**	653,905	316,712	459,197	573,070
Tax	**(84,093)**	(61,213)	(25,780)	(32,888)	(62,592)
PROFIT BEFORE MINORITY INTERESTS	**649,597**	592,692	290,932	426,309	510,478
Minority interests	**(7,748)**	(19,041)	898	1,456	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**641,849**	573,651	291,830	427,765	510,478
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**8,669,896**	7,790,107	5,775,285	5,411,321	4,948,042
Total liabilities	**(4,449,566)**	(4,163,739)	(2,804,839)	(2,827,717)	(2,816,580)
Minority interests	**(100,079)**	(60,378)	(36,508)	(16,993)	—
	4,120,251	3,565,990	2,933,938	2,566,611	2,131,462



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