TCL International Holdings Limited

GROWING GLOBAL

Annual Report 2002

CORPORATE PROFILE

TCL International Holdings Limited ("TCL International" or "the Company") and its subsidiaries ("the Group") are principally engaged in the design, manufacture and sale of a diverse range of products in multimedia consumer electronics, information technology and mobile communications. Its major products include televisions, mobile handsets and personal computers.

TCL is the most distinguished television brand in China. It outranked its peers in terms of sales with a market share of approximately 20%. In addition, TCL mobile handsets are well sought after by consumers, making it one of the most popular handset brands in China. With a determination to develop its multimedia business in recent years, the Group's computer business also sees steadfast development. These three core businesses, namely TVs, mobile handsets and personal computers, all enjoy a good market position.

Leveraged upon its extensive nationwide sales networks, high quality products, excellent after-sales services and enormous research and product development capacity, TCL International has become one of the most valuable brand names in the PRC. Besides the PRC market, the Group has made strenuous efforts in overseas markets by gradually establishing production bases in the Asian region as well as its first production base in Europe. The Group is striding towards internationalisation in full speed.

2002
Year in Review

January

- Increased stake in TCL Mobile to 30%*

April

- Signed letter of intent with Matsushita Electric Industrial Co. Ltd. Both parties agreed to explore co-operation opportunities in certain identified areas

May

- Agree to set up joint venture with TCL Corporation, the parent company to boost R&D capabilities. The joint venture focuses on the research and development of digital TVs, projection TVs and high resolution TVs

June

- Launched TCL's first major outdoor billboard in Hong Kong

July

- TCL Mobile signed cooperative agreement with Ericsson to co-develop a platform for producing GPRS mobile handsets

August

- TCL received the sole distributorship for Philips TVs in five provinces in the PRC

September

- Set up strategic OEM business unit to fully explore OEM markets in the US, Japan and Korea
- Set up joint venture with Great Wall Cybertech Limited for the development of overseas OEM markets

October

- Acquired the brand names, stock, and production facilities of Schneider, a Germany-based company. Established the first R&D, sales and production base in Europe - Tuerkheim, Germany

November

- Further increased stake in TCL Mobile to 40.8%
- TCL Mobile signed cooperation agreement with Motorola for joint development of platform for producing GSM/GPRS mobile handset

December

- TCL Mobile ranked Number 1 as fastest growing technology company, in the first "Asia Pacific Technology Fast 500" Program run by Deloitte Touche Tohmatsu
- Recognized by the international magazine "*Asiamoney*" as a company with "Overall Best Management (China)", "Overall Best Investor Relations Company (China)", "Best Operation Efficiency (China)", "Easy to Reach High Ranked Management Company (China)", and "Best Communication with Shareholders and Investors (China)"
- Disposed the White Goods manufacturing business to TCL Corporation

* In May, with the 10 % share bought by management of TCL Mobile, TCL International's stake in TCL Mobile was diluted from 30% to 27%.

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GROWING

GLOBAL

FINANCIAL HIGHLIGHTS

Financial Performance

	2002 (HK$ mil)	2001 (HK$ mil)	Growth
Turnover	**12,188**	9,610	+27%
Gross profit	**2,190**	1,719	+27%
Gross profit margin (%)	**18%**	18%	—
Net profit	**570**	292	+95%
Net profit margin (%)	**4.7%**	3.0%	+1.7%
Basic EPS (HK cents)	**22.3**	11.7	+91%
Dividend per share (HK cents)	**7.0**	3.0	+133%

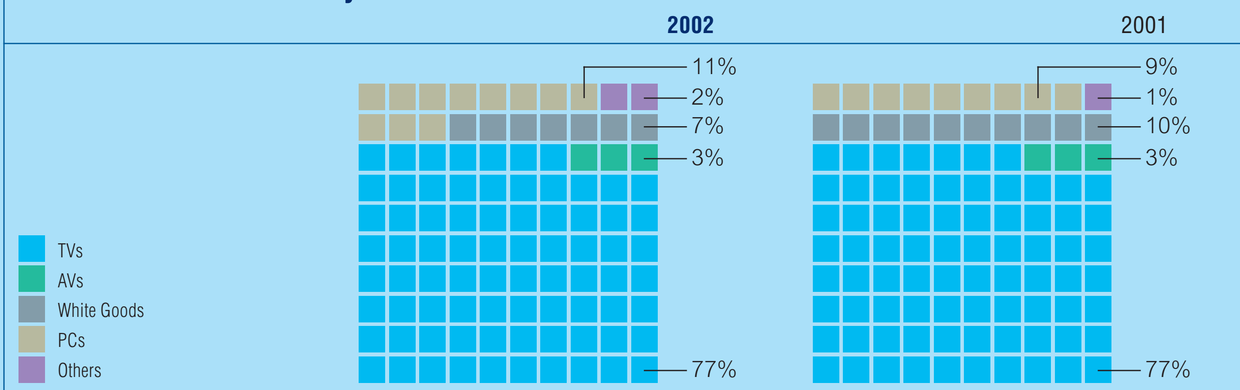
Operation Indicators

	2002	2001
Return on equity	**16%**	10%
Current ratio	**1.5**	1.6
Debt/Equity ratio	**21%**	1%
Interest cover (times)	**45**	17
A/R turnover (days)	**31**	36
Inventory turnover (days)	**94**	94

Financial Position

	2002 (HK$ mil)	2001 (HK$ mil)
Fixed assets	**734**	853
Net current assets	**1,770**	1,566
Cash and time deposits	**1,183**	1,084
Total liabilities	**4,164**	2,805
Interest bearing debts	**757**	30
Net assets	**3,558**	2,934

Turnover Breakdown By Products



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

** PC only has 10 months contribution in 2001

CORPORATE STRUCTURE

* Held through T.C.L. Industries Holding (H.K.) Limited

CORE
BUSINESSES

TV

Computer

TVs

100% owned by the Group

Main Production Base
Located in Huizhou, China

Major Markets
China, Hong Kong, Southeast Asia, Europe, Middle East and Russia

TCL

Computers

100% owned by the Group

Main Production Base
Located in Shenzhen, China

Major Market
China

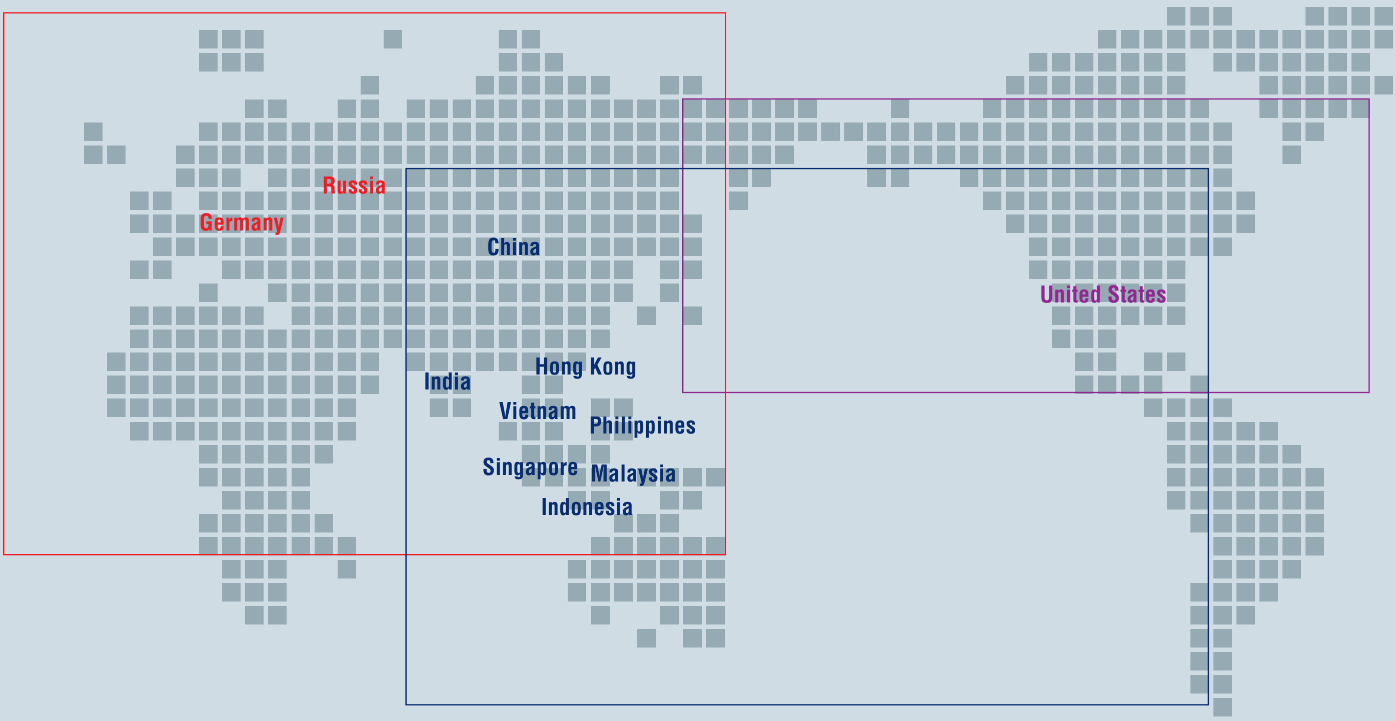
Mobile Handsets

40.8% owned by the Group

Main Production Base
Located in Huizhou, China

Major Markets
China and South East Asia

Mobile Communications



TV BUSINESS

China's TV market started reviving during the year under review. Following the opt-out by some of the industry players, the market returned to rational competition, and the severe price wars of the previous years were allayed. Market attention then shifted to the development of high-end products as well as the expansion into overseas markets. **Seizing these market opportunities, the sales of televisions increased 28% to 8.1 million sets in 2002.** According to the statistics compiled by the Ministry of Information Industry, **TCL was the best selling TV brand in the PRC.**


Consumer Electronics
Communications
Computers

CHAIRMAN'S STATEMENT

Mr. Li Dong Sheng, Tomson
Chairman

“Benefiting the community;
Creating value for customers;
Generating opportunities for employees.”

Despite the slow recovery of the world economy in 2002 and the ongoing global market uncertainty, TCL International Holdings Limited, through evolution and innovation, has managed to successfully expand even further into overseas markets in the first year following China’s accession to World Trade Organization (“WTO”). Sales of the Group’s key products grew much faster than the previous year, with substantially increased earnings. Having further enhanced our competitiveness, we have strengthened our position as a leading consumer electronics industry player in the PRC market during the year under review.

Results Overview

The Group’s turnover increased 27% to HK$12.2 billion in 2002. Profit attributable to shareholders amounted to HK$570 million, representing a surge of 95% over the previous year. Earnings per share increased 91% to HK22.32 cents (2001: HK11.7 cents). The increase in sales turnover was attributable to the rapid growth of TV and PC businesses, while growth in net profit was mainly due to the fact that the Group twice increased its equity stake in Huizhou TCL Mobile Communication Co. Ltd. (“TCL Mobile”) during the year, greatly increasing profit contribution from this fast growing business. In line with our forecast made at the beginning of 2002, the Group’s business recovered and returned on track to growth.

In view of the Group’s satisfactory business performance, the Board of Directors recommended the payment of a final dividend of HK7 cents per share. As the Group did not distribute an interim dividend in 2002, total dividend for the year amounted to HK7 cents per share (2001: HK3 cents).

China’s TV market started reviving during the year under review. Following the opt-out by some of the industry’s players, the market returned to rational competition, and the severe price wars of the previous years were allayed. Market attention then shifted to the development of high-end products as well as the expansion into overseas markets. Seizing these market opportunities, the sales of televisions increased 28% to 8.1 million sets in 2002, ranking TCL as the best selling television brand in the PRC.

In view of the intense competition faced by the white goods business, additional resources will be needed to assure our competitive advantages in the marketplace. As such, to prevent the diversification of resource allocations and to mitigate against any negative effect on the development of the core businesses, the Group sold its white goods business to its parent company during the year under review.

CHAIRMAN'S STATEMENT

With regard to the PC business, the overall PC industry environment improved but market demand was still lukewarm. Following our guiding principle, "understanding the needs of customers and satisfying them with the most efficient means", we accurately positioned our products, continuously deepened and widened our sales channels, improved product quality and service standards, imposed stringent controls on operations, and improved our management efficiencies. We also effectively expanded our market share in the educational PC sector, and managed to emerge ahead of the difficult times. The sales of PCs reached 376,000 sets in 2002, representing a substantial growth of 87%, which surpassed the preset sales target. More importantly, our PC business started making profit contributions to the Group.

Although the world economy seemed to be at a virtual standstill in 2002, the Group achieved remarkable results in our overseas business. In implementing a series of management restructuring adjustments for our overseas business, we have built an all-rounded market and customer-oriented Platform Supporting System, providing sales, procurement, and production management facilities that further enhanced our operational efficiencies. The Group's overseas business, therefore, achieved a turnover of HK$1.2 billion, representing a year-on-year growth of over 80%.

During the year under review, the Group took the strategic step to acquire certain major assets of Schneider Electronics AG ("Schneider") in Germany for entry into the European markets. In addition, the Group made favourable progress in establishing cooperation with some international consumer electronic players in early 2003. These measures are expected to accelerate the development of the Group's overseas business.

The Group's mobile communication business achieved highly satisfactory growth in 2002. Sales of handsets reached 6.24 million sets, representing exponential year-on-year growth of four times. In outpacing its competitors, the Group enjoys a 10% market share, elevating itself above fierce market competition. The Group also exercised sound cost controls, and stock levels remained healthy.

In 2002, the Group twice increased its stake in TCL Mobile, growing from 20% in the beginning of 2002, to 40.8% at present and widened its earnings base. As TCL Mobile achieved a net profit of HK$1.2 billion during the year under review, the mobile phone business has emerged as one of the Group's major profit contributors.

While the Group recorded remarkable growth in 2002, it has continued to seek further growth opportunities. The target is to become a highly competitive international corporation in the global marketplace. China's entry into the WTO, precipitated rapid changes in both the operating environment and market competition. TCL will remain at the forefront by maintaining our vigilance, demonstrating our innovation, optimising every component of our operations, and improving our overall competitiveness to capitalize on emerging market opportunities.

Future Outlook

The global outlook for 2003 remains uncertain. But despite the sluggish global economy, we continue to see strong economic development in the PRC. Foreign investors have also showed increased confidence in China's economy following its entry into the WTO, as evidenced by the increasing number of investors shifting their production bases to China. These factors have brought China's exports into a new era. Household consumer electronic manufacturers in China are no longer confining themselves to the domestic market, but are also actively pursuing the enormous global market.

Looking at the macro operating environment for the domestic consumer electronics industry, the pace and in-flow of foreign investment is accelerating. At the same time, Chinese enterprises are taking increasing steps to reach out to overseas markets. Changes are being seen in the operational modes of foreign investment in China — the domestic market is in the process of consolidation, and the cooperation between foreign companies and domestic companies are set to complement one another. The Group will strengthen its strategic planning and execution abilities, actively leverage opportunities arising from the international division of labour in various industries and the restructuring of the value-chain to fully exploit our inherent advantages and potential. In fostering cooperation with international manufacturers, the Group will keep an eye on new opportunities, consolidate internal and external affiliated resources, correctly align the business structure, further broaden business scope and augment corporate strengths. The Group will also focus on strengthening our ability to minimise risk. With a philosophy to develop business actively and manage risks cautiously, the Group is on the road to healthy growth and continuous development.

The Group anticipates that TV sales in the PRC will experience a steady rate of growth this year. As we expect the demand for high-end products to rise even further, we will increase our investment in R&D to enhance our long-term growth. Catering to customer needs, we will also launch new products continually. The Group has every confidence that in terms of operation efficiency, our TV business will continue to stay well ahead of other players.

Regarding overseas business, through proper planning and strategic OEM cooperation established last year, we believe that our overseas business will continue to grow rapidly. We will step up our overseas marketing, and put equal emphasis on the TCL brand as well as on OEM businesses.

Looking at the information technology business, the Group believes that it will improve through the consolidation of the product range, by focusing resources on those businesses with clear profit models, and by concentrating on the evident strengths of TCL's advantageous hardware business. The Group plans to accelerate the expansion of the commercial PC market by devoting efforts to the development of education and government information technology projects in order to establish competitive advantages in the industry.

As of the beginning of 2003, the Group holds 40.8% interests of the mobile phone business. Though this business has established an extremely strong base on the back of a remarkable rate of growth over the past few years, this pace of growth, while expected to continue, may dip slightly. With intensifying market competition, the profit margin will be lowered, while the frequency of product roll-outs will be increased. Manufacturers, therefore, have to keep a finger on the market pulse to keep up with the market.

In realizing the importance of investment in the research and development of mobile phones, the Group has strengthened cooperation with international players and started the manufacture of mobile handsets with chipset-based technology. Also, the Group has shortened the lead-time required for product development, and therefore launched new products to the market in a timely manner, and thus enjoyed a relatively high margin. We are confident that TCL will strengthen and maintain its leadership position and earnings capabilities, in spite of the fierce market competition. While the Group will continue to explore the domestic mobile phone market, it is also planning ahead for overseas expansion. We expect the overseas sales of mobile handsets to be a key growth driver in the years ahead.

The Group is dedicated to optimising shareholder value. We are confident that our long-term shareholders will enjoy an appreciation of their investments with improved returns.

Last but not least, I would like to extend my gratitude to all senior management members, staff, shareholders, auditors, and all friends of the Group.

Li Dong Sheng, Tomson
Chairman

18 March, 2003

MOBILE COMMUNICATION

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The growth of the mobile phone business was extremely encouraging in 2002. A total of 6.24 million handsets were sold during the year, representing fourfold growth, truly exponential. According to the latest CCID monthly report, **TCL handset achieved a market share of 13%** and an average of 10% market share for the whole year, outperforming other players amid keen competition.

MANAGEMENT DISCUSSION & ANALYSIS

2002 REVIEW OF OPERATIONS

During the year under review, the Group was deeply committed to developing the 3Cs core businesses — Consumer Electronics, Communications and Computers. All the three businesses, especially TVs and mobile phones, the two major revenue and profit contributors, achieved encouraging results, further consolidating the Group's leading position in the PRC market.

Television Business

According to the statistics compiled by the Ministry of Information Industry[1], TCL was the best selling TV brand in the PRC. The Group adopted a strategy of reaching out comprehensively to all corners of the market and strengthening its position in the high-end market while maintaining its foothold in the mid-end market. The Group also expanded its market share, predominantly by leading the low-end market through competitive pricing. A total of 6.75 million television sets were sold in the PRC in 2002, attaining growth of 22% compared to the same period last year. As a result of our continuous inventory control efforts, coupled with the downward price adjustment of components, the gross profit margin increased to 21%.

Product research and development has always been one of the Group's core focuses. The Group met market demand in 2002 by rolling out a diverse range of 50 new products. These included PDPs (2 models), HiD rear projection TVs (8 models), HiD TVs (12 models), Audio TVs (15 models) and Games TVs (5 models).

In general, domestic brands made further international inroads in 2002, accelerating the pace of overseas expansion. The strong growth in TV exports drove the PRC TV industry towards a gradual recovery. Price competition eased, and inventories of the entire industry were also reduced to a reasonable level. As well, the domestic TV market consolidated as small players retreated from competition. On the other hand, domestic brands are facing increasing challenges from overseas brands. Market competition shifted towards the high-end products. While the price of standard TV models remained stable with a minor downward adjustment, pure flat and TV models with progressive scanning features experienced rapid growth and captured an increasing proportion of market share.

Devoting additional resources to high-end products will be our key focus in 2003. The Group will also maintain its competitive edge in mid-range products and retreat from selective lower priced products. We will also cater to the needs of different market segments, such as home and commercial users. By increasing the pace of product rollout, a total of 50 new products, which included high-end models such as PDPs, rear projection, and LCD TVs, the Group aims to capture an even larger share of the market.

Unit Sales Comparison

	2002 (in'000)	2001 (in'000)	Growth	2002 preset sales target (in'000)	Completion rate
TVs — PRC	**6,753**	5,552	+22%	6,000	113%
TVs — Overseas	**1,299**	740	+75%	1,000	130%
Mobile Handsets	**6,236**	1,247	+400%	5,000	125%
PCs	**376**	201	+87%	300	125%

[1] For the first eleven months in 2002.

PC Business

Despite the gradual recovery of the PC market, market-demand was far from strong. According to the market figures announced by IDC[1], the desktop PC market recorded a growth of only 12%, and the average unit price declined further during the year.

Under the shadow of such an operating environment where the market had yet to recover, TCL with a proper product position in place successfully expanded its market share in the educational PC sector. Total sales reached 376,000 sets in 2002, representing an increase of 87%. The gross profit margin has also remained relatively stable. With sales exceeding the preset targets, the PC business turned around during the year.

TCL's ranking in the PC market was also relatively stable. It is now the third best selling consumer desktop PC brand and ranked fourth among all domestic players in the PRC. The rapid growth in 2002 narrowed the gap between TCL and other leading players, while increasing the distance between those competitors lagging behind.

The Group launched six new series of PCs. Among the new products rolled out during the year, the high-end home PC series that offer TV functions, such as the "Rui Xiang 7000", as well as the digital PC series, such as the "Rui Li 500", have emerged as the dominating products. In the commercial PC market, the Group introduced "精鼎"、"精致"、"税通" series which were targeted at education, e-commerce and medium enterprise sectors. These series recorded solid sales.

Moving into 2003, the operating environment is expected to improve gradually, but it will be a difficult time for small and medium regional brands as they will face increasingly tough challenges in the marketplace. Meeting these new challenges, the Group has integrated its new strategies in the upcoming operations plans. We will expand our distribution channels for educational and industrial applications and increase resources utilisation to ensure the accomplishments of our growth targets by streamlining the processes of marketing, distribution, point of sales as well as supply chains. Our target customers are mid-income group families and families in the third or fourth tier cities. Under the marketing theme of "fitting customers' needs", TCL aims to provide quality and competitive products and services to achieve even better sales results.

Mobile Phone Business

The growth of the mobile phone business was extremely encouraging in 2002. A total of 6.24 million handsets were sold during the year, representing fourfold growth, truly exponential. According to the latest monthly report[2] CCID, TCL handset achieved a market share of 13% and an average of 10% market share for the whole year, outperforming other players amid keen competition.

The Group continued to enrich its products lines from medium to high-end products to lower priced mid-range products to attract customers in different market segments. Although the gross profit margin decreased from 34% to 27%, the overall profitability increased satisfactorily as a result of stringent cost controls and encouraging sales of the "3" series, among which sales of model "3188" were particularly impressive. Inventory was maintained at a healthy level.

In view of the positive outlook of the mobile phone business, the Group acquired additional equity stake in TCL Mobile twice in 2002, increasing its interest from 20% to 40.8%. The acquisition has broadened the Group's earnings base, enabling shareholders to enjoy better returns.

The Group continued to increase R&D investment during the year. Possessing a highly competent R&D team, the Group's product design capabilities were greatly enhanced, resulting in a shorter product development cycle. As fast growing as the market was, the Group seized the opportunities and launched 20 new models during the year under review.

1. *Figures up to the third quarter of 2002.*
2. *Statistics for December 2002.*

We anticipate that the market will continue to enjoy further growth in 2003. Market competition will intensify as foreign brands increase investment in the market and as an increasing number of domestic handset manufacturers enter the market. To cope with the keen competition, the Group plans to further increase R&D investments, while controlling costs to maintain its competitiveness. We will continue to differentiate ourselves from other players by the pioneering gem stone design concept. Enriching products lines and speeding up the pace of new product roll-outs, the Group also plans to capitalise on market opportunities to enlarge its market share through the introduction of colour screen handsets and mobile phones with trendy designs and camera features.

AV Business

Competition in the AV industry was still fierce. Although the AV business has not yet contributed to profits, product competitiveness increased in the second half of 2002 following a full year of internal adjustments. As a result, the product outlook, functions and qualities were adjusted to suit the needs of the mainstream market.

The Group sold a total of more than 550,000 DVD/VCD players in 2002, representing an increase of 59% compared to 2001. Our market share was slightly increased. TCL performed particularly well in certain regions such as Guangzhou, Beijing, Shenzhen, Jinnang, etc. with satisfactory sales performance. Four new products series, totalling 11 models, were launched in 2002, including "TD-C2P", "FP" series, "F6" series, "F6P" series. Amongst these products, the first vertical stand DVD player brought the greatest impact to the market. In addition, the "F6" series, our key product, accounted for more than 50% of the revenue from this business.

Looking forward to 2003, market competition will shift from primary price reduction to brand differentiation. Consumers will pursue high-end products that are typically thinner and smaller in size and incorporated with personalized features. As such, the Group will introduce 15 new DVD models, some of which include DVD ultra thin players, touch screen DVD players, DVD recorders, audio DVD players, PS-DVD players (capable of reading 32-digit games, with PSI disc) etc. Additionally, the Group will foster a closer alliance with its back-end sales outlets and offer effective support to transform the sales mode of DVD players, speed up the development of professional channels, and implement focused, well-planned promotion strategies for individual regional market. In leveraging our existing sales platform and customer resources, TCL will continue to introduce products appealing to customers to increase the penetration and scale of operations of AV products. Our aim is to develop a professional image for the AV business and increase the market share of DVD players.

Information Technology Business

With regard to the network devices business, the Group devoted its efforts to the development and marketing of mid-to low-range exchange switches. Total sales increased 1.15 times in 2002, with share of 3.5% in the China market. Performance indicators such as the cash conversion cycle and operating efficiency improved considerably compared to the previous year.

Stepping up R&D efforts, the Group launched a total of six new models. Internally developed products accounted for 35% of the total products launched in 2002.

The distance-learning education business also turned around during the year under review. The number of students for the programme jointly run by the Group and the China Central Radio and Television University ("CCRTU") reached 160,000. The network covered primary and secondary cities throughout the nation. Meanwhile, the Group also developed the "Digital Campus" programme which is part of the IT project of the western part of China sponsored by the Ministry of Education of the PRC.

The Group expects that China's overall investment in information technology will continue to increase. The network devices market will also grow steadily. In pooling its resources, the Group is on the lookout for opportunities with promising growth. We will

emphasize the practical usage of mid and low-range products and enrich mid to high-end product lines to establish an all-around capability in the construction of large-scale regional networks, especially for tertiary institute campus networks. We also intend to increase the proportion of in-house developed products. Our goal is to launch 12 new products in 2003.

Overseas Business

The Group refined the organisational structure of the overseas division in 2002. A preliminary integrated support platform covering sales, procurement and production management was set up to cater to market and customer needs. Operational efficiency was further increased.

In 2002, TCL Overseas achieved sales of 1.3 million TV sets and 220,000 DVD players, representing growth of 75% and 87% respectively compared to the previous year.

TCL brand products were still targeted at Southeast Asia. Sales in Vietnam, the Philippines and Hong Kong grew more than 30%. TCL was the top-five best selling TV brands in Vietnam and the Philippines. We also increased our efforts to explore new emerging markets in 2002, with sales in Russia and Korea for example recording good performance.

Not only is 2002 a year of rapid growth for our overseas business, it also provided solid ground for 2003. We anticipate that in 2003, growth will come primarily from Europe and South America.

The acquisition of major assets of Schneider in 2002 has paved the way for our future expansion in Europe. We have also established a new office in the city of Miami, the US, to tap the South American market. Our goal is to establish our presence and acquire a stable market share for TCL brand products in South America within two years. As to Russia, we are actively exploring opportunities for different forms of co-operation. We will further strengthen our position established in 2002, and seek partners with whom we can develop long term cooperation to jointly boost sales of TCL brand products in the Russian market.

White Goods Business

As affected by the clearance of stocks and severe market competition in 2002, the performance of the white goods business was not satisfactory. A loss of HK$71 million was recorded for the year under review. In 2002, a total of 243,000 sets of refrigerators were sold, representing growth of 38%; sales of washing machine amounted to 485,000 sets, growth of 21%; and sales of air conditioner reached 341,000 sets, a growth of 109%. The gross profit margin of the division slipped 7% to 12% in 2002.

In line with the Group's strategy of developing 3C businesses, the Group sold its white goods manufacturing business to TCL Corporation, its parent company, in December 2002, resulting in a profit on disposal of HK$8 million.

Research and Development

The Group is dedicated to bettering its products through research and development in enhancing its competitiveness. During the year under review, the Group achieved fruitful results in R&D. The TV business focused on the development of high-end products and optimisation of low-end products, to attract different customers.

Regarding the high-end TV market, the Group placed its emphasis on three main directions, namely the Plasma Display Panel TV, (PDP TV), Liquid Crystal Display TV (TFT-LCD TV), and Rear Projection TV (RPTV). The results of these developments were satisfactory.

In the development of PDPTV, TCL is the first player in the PRC to acquire PDP core technology. The Group successfully developed its own PDP driving circuitry, separate power supply for plasma display panel and digital video interface. All these innovations effectively lowered the cost of production. Dr. Yan Xiaolin of TCL Group is appointed as the program leader of PDP Testing Program of the International Engineering Consortium. He is the only Chinese expert participant to define international standards of PDP technology.

MANAGEMENT DISCUSSION & ANALYSIS

In 2002, TCL Group put more effort in the development of Rear Projection TV, which significantly increased the Group's market share in this product category, making TCL the number two brand in the PRC. TCL developed the internationally advanced state-of-the-art HiD435B.r HiD Rear Projection TV high, equipped with advanced technology such as progressive scanning, high clarity, compatibility and Internet access, The Group also launched the first HiD Rear Projection TV equipped with 85 Hz progressive scanning with full brightness control in the PRC and internationally advanced LCOS Rear Projection. TV.

In addition, the Group has developed products such as LCD TV, combined LCD TV/DVD product and LCD monitor, as a preparation of exploration of the future LCD TV market.

Looking at the low-end TV market, the Group will improve product outlook, optimise circuit designs, minimise manufacturing cost, and effectively boost its low-end market share.

FINANCIAL REVIEW

Results and Performance

Performance Indicators

	2002	2001
Gross Margin	**18%**	18%
Net Margin	**5%**	3%
Return on Equity	**16%**	10%
Current Ratio	**1.5**	1.6
Interest Cover	**45**	17
Debt/Equity Ratio	**0.21**	0.01
Inventory Turnover	**94 days**	94 days
Account Receivable Turnover	**31 days**	36 days

Overall Performance

The year 2002 was one of exciting financial results. The Group benefited from strong economic growth in the PRC. The formulation of effective business strategies led the Group to make further inroads in overseas markets. With its efficient manufacturing system, nationwide distribution and service network throughout the PRC, the Group is on the road to success.

The Group's consolidated turnover in 2002 exceeded HK$10 billion for the first time, reaching HK$12.2 billion, which represented an increase of 27% over the previous year. While TV remains the major revenue source, the Group has successfully reduced its reliance on the PRC market. Turnover derived from overseas exports increased 82% to HK$1.2 billion, representing 10% of the Group's consolidated turnover (2001: 7%).

In addition, the Group brought in a new profit driver through the investment in its joint venture company, TCL Mobile. TCL Mobile's contribution accounted for 50% of the Group's net profit in 2002 (2001: 21%). In achieving a remarkable growth in revenue during the past three financial years, TCL Mobile is the fastest growing technology company according to the first of its kind compilation, the "Asia Pacific Technology Fast 500" programme hosted by Deloitte Touche Tohmatsu.

The financial performance of the principal businesses of the Group are discussed in details as below:

Gross Profit Margin Comparison

	2002	2001	Change
TVs – PRC	**22%**	19%	+3%
TVs – Overseas	**11%**	11%	–
Mobile Handsets	**27%**	34%	-7%
PCs	**9%**	7%	+2%

Televisions

TCL maintained its leading position in the PRC TV industry. Sales increased 28% to 8.1 million units in 2002, of which 6.8 million units (2001: 5.6 million units) were sold in the PRC, while the remaining 1.3 million units (2001: 0.7 million units) were exported overseas under the TCL brand or on an OEM basis.

The operating environment of the TV industry in the PRC improved as a result of the increasing demand from export markets. As local manufacturers utilised their spare capacity to manufacture TV sets for export, the supply-demand position in the PRC moved closer to equilibrium. This greatly eased domestic competition among major players.

Benefiting from this favourable market change, coupled with reduction of CRT costs, the overall gross margin of the TV business increased from 19% in 2001 to 21% in 2002. Export sales will be a major growth driver in 2003, on the back of acquisition of major assets of Schneider and certain newly secured strategic OEM alliances. Overall prices and margins are expected to remain stable.

PCs

The Group's PC business experienced a turnaround in the third quarter of 2002 and made a profit. During the year under review, in addition to targeting home PC users, the Group took active steps to promote TCL brand PCs to the consumer sector as well as to educational institutions. Additional resources and attention were allocated to promotions in second-tier cities in China. This strategy has proven to be highly successful, with shipments increasing 87% to 376,000 units. Despite a decrease in average sales prices, both gross profit and operating profit did not drop due to better economies of scale, effective ERP system, mature supply chain management and improvements made in the manufacturing and distribution process. The business therefore turned profitable.

White Goods

The Group entered into a disposal agreement with its parent company for the disposal of the loss-making White Goods Division. Disposal was completed in December 2002. On completion, a gain on disposal in the amount of HK$8 million was recognised.

Stock provisions were made to write down the goods to its net realisable value. The gross margin, therefore, decreased from 19% in 2001 to 12% in 2002.

Mobile Phones

2002 has been a year of excitement for the Group's mobile phone business. While television remained the Group's backbone product, mobile handset business was the key growth driver in 2002. Sales surged by 400% to 6.24 million units. The contribution from the mobile phone business represented approximately 50% of the Group's total net profit.

This exciting business is run by the Group's 40.8% owned joint venture company TCL Mobile. More than 90% of the Group's contribution from jointly-controlled entities was derived from TCL Mobile and its subsidiaries ("TCL Mobile Group"). A summary of the performance of TCL Mobile Group for year 2002 is listed out as follows:

Performance Indicator — TCL Mobile

	2002	2001
Gross Margin	**27%**	34%
Net Margin	**15%**	15%
Return on Equity	**75%**	80%
Current Ratio	**1.5**	1.3
Interest Cover	**76**	51
Debt/Equity Ratio	**0.04**	0.02
Inventory turnover	**90 days**	91 days
Trade receivable turnover	**4 days**	12 days
Unit Sales	**6,236,000**	1,247,000

MANAGEMENT DISCUSSION & ANALYSIS

To further expand the market share, the Group actively broadened its product lines from high-end products to mid-range products. As expected, the gross margin for mobile phones decreased from 34% in 2001 to 27% this year. With proper corporate strategies in place, however, adverse effects of the gross margin reduction were mitigated by improved economies of scale. In addition, as a pioneering mobile handset manufacturer, TCL successfully developed chip-set based manufacture. In command of a higher technology level, the Group effectively lowered production cost as the cost of chipsets is lower than that of modules.

Despite the increasingly competitive environment, the Board is confident that this business will continue to stay ahead of the competition through various measures. Continuous improvements in the product mix will secure further market share and economies of scale should continue to improve. Further, the increased internal production of key components will have the benefit of both cutting production and logistics costs, and enhancing the components' quality control and availability.

Significant Investments and Acquisitions/Disposals

Taking proactive steps to enhance its earnings potential, the Group made a series of investments and acquisitions/disposals during the year under review. The major moves made during the year are summarised as follows:

(a) In January 2002, the Group increased its equity interest in TCL Mobile from 20% to 30% through an acquisition of an additional 10% equity interest in TCL Mobile at a consideration of approximately HK$282.7 million.

In May 2002, the registered capital of TCL Mobile was increased from US$10 million to US$29.8 million, of which US$2.98 million was contributed by Cheerful Asset Investment Limited, a company controlled by the management of TCL Mobile, in return for a 10% equity interest in TCL Mobile. The remaining amount was contributed by the existing shareholders of TCL Mobile through the capitalisation of dividends from TCL Mobile. As a result of the transaction, the Group's interest in TCL Mobile was diluted from 30% to 27%.

In November 2002, the Group acquired a further 13.8% interest in TCL Mobile for a cash consideration of HK$764.9 million, increasing its stake in TCL Mobile to 40.8%. The consideration was funded partly by the net proceeds from the issue of convertible notes in the amount of approximately HK$350 million, and partly from bank borrowing of HK$400 million. The nominal remaining balance was financed by internal resources.

(b) In view of the highly competitive nature of the white goods business, and the fact that this business did not fit into the Group's 3C strategy and its long-term goal of becoming a leader of infotainment/multi-media device provider, the Directors consider that it is in the interest of the Company to terminate the white goods manufacturing business.

In December 2002, the Company sold its interest in a number of companies engaging in the white goods manufacturing business to TCL Corporation, the Company's ultimate controlling shareholder, at a total consideration of approximately HK$54 million.

(c) In September 2002, the Group formed a joint venture company, "Team Way Limited", with Great Wall Cybertech Limited ("Great Wall") to take over the entire export business of TV and other audio-visual products of Great Wall. The Group owns 70% of the joint venture and Great Wall owns the remaining 30%. The Group's total investment in the venture amounted to HK$7 million. Subsequent to the year end, the Group further acquired a 30% equity interest in Team Way from Great Wall at a cash consideration of HK$3 million.

(d) To accelerate access into the European market, in October 2002, the Group acquired assets, mainly production facilities, inventories, and trademark for a series of brands including SCHNEIDER, from the Insolvency Administrator of Schneider Electronics AG at a consideration of EURO 8.2 million.

All these strategic moves have been made for the long-term benefit of the Group, aimed at broadening its revenue base, enhancing its earnings and increasing shareholder value.

Liquidity and Financial Resources

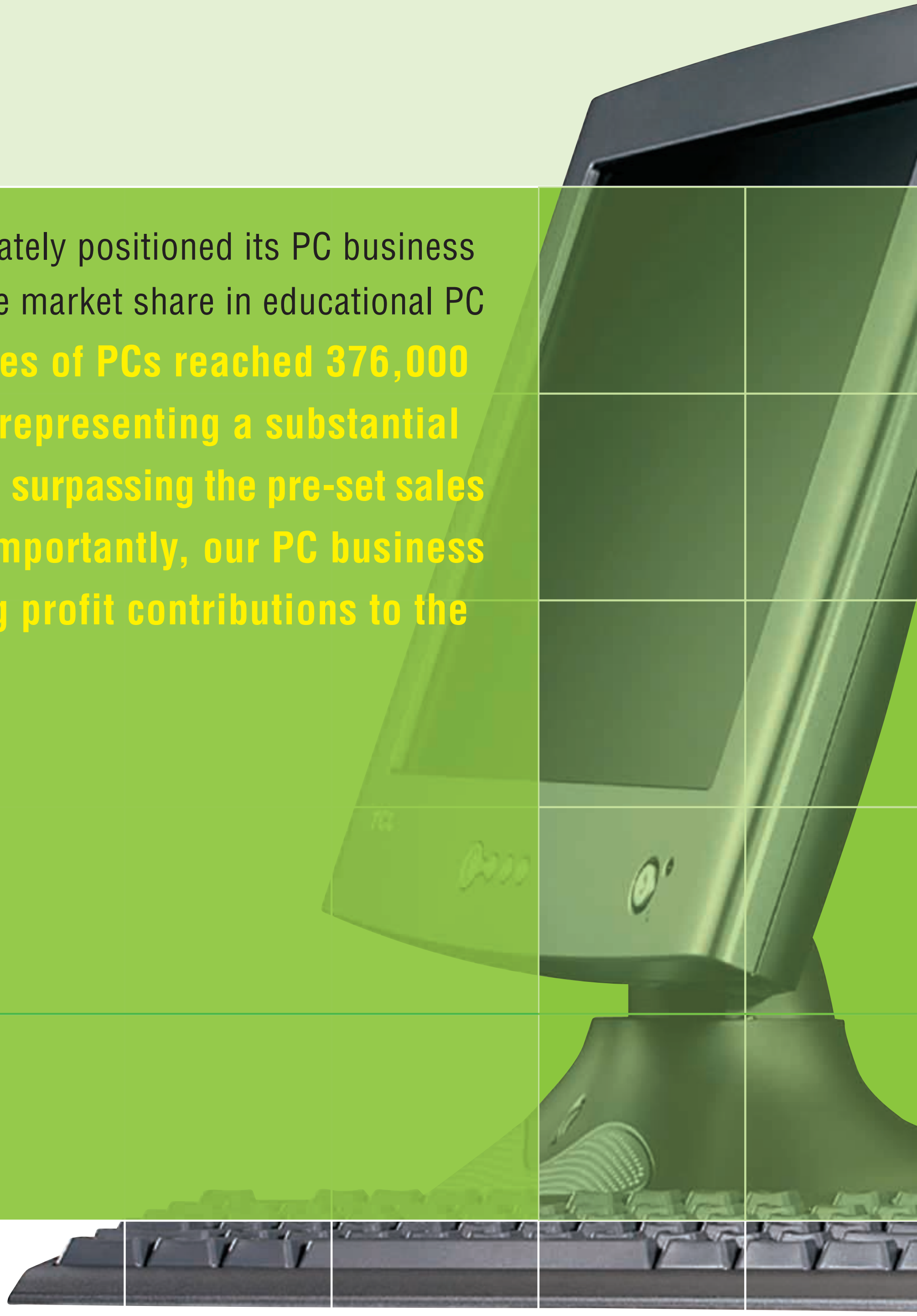
The Group's efficient management of resources has ensured that its financial and liquidity positions remain healthy. The cash and bank balance at year end amounted to HK$1,183 million of which 21% was in Hong Kong Dollars, 53% was in RMB and 25% was in US dollars.

To finance the acquisition of additional interest in TCL Mobile, HK$400 million long-term bank loan was raised and HK$350 million convertible notes (the "Notes") were issued. None of the Notes were redeemed or converted during the year. Despite the increase in long-term debt, the debt-equity ratio still remains at a healthy level of 21%. The current ratio of the Group at the year end was 1.5.

There was no major equity financing during the year. A total of 119,779,563 shares were issued pursuant to the exercise of employee share options.

PC BUSINESS

The Group accurately positioned its PC business and expanded the market share in educational PC market. **The sales of PCs reached 376,000 sets in 2002, representing a substantial growth of 87%, surpassing the pre-set sales target. More importantly, our PC business started making profit contributions to the Group.**




TCL
Consumer Electronics
Communications
Computers

DIRECTORS AND SENIOR MANAGEMENT

Mr Albert Thomas da Rosa
Mr Wong Toe Yeung
Mr Suen Hay Wai, Felipe
Ms Lu Zhong Li
Mr Yan Yong
Mr Hu Qiu Sheng
Dr Hon Fong Ming

Mr Li Dong Sheng, Tomson
Mr Yuan Xin Cheng

Directors

Executive Directors

Mr Li Dong Sheng, Tomson, 45, 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: in 1994, "Distinguished Contributor to Development of PRC Electrical Appliance Industry"; in 1995, "National Excellent Young Entrepreneur"; in 2000, "Model of National Work Force"; and in 2002, representative of the 16th NPC and "2002 CCTV Man of the Year on Chinese Economy", as well as the "Annual Innovation Award". Mr Li has a demonstrated ability to conceive innovative solutions and ideas and a knack for finding the right talent for the right job. Mr Li has more than twenty years of experience in various aspects of the electronics industry particularly in the manufacture and sale of electronic products. Mr Li is an engineer with a Bachelor of Science degree from Huanan Polytechnic University.

Mr Yuan Xin Cheng, 51, is responsible for the Group's brand, marketing and information management function. He is the Vice Chairman and Vice President of TCL Corporation. He joined the Group in 1991 and has some twenty years of management experience in the production, sales and marketing of electronic consumer products. He also has extensive business connections in the PRC. Mr Yuan is an economist and graduated from the Institute of Beijing Economics and Management.

Ms Lu Zhong Li, 57, is Director, Vice President and Chief accountant of TCL Corporation. Ms Lu has over thirty six years of experience in financing, taxation, accounting and financial management. Ms Lu is an accountant and graduated from Hubei University.

Mr Hu Qiu Sheng, 43, is responsible for the overall management of the Group's production functions. Mr Hu has over twenty years of experience in production technology development, and product research, development and sales. He joined the Group in 1993 and became the first General Manager of TV business in 1999. He was then appointed the President of multi-media business in 2002 and has held the position as the Vice President of TCL Corporation since October 2002. He is an engineer and graduated with a Bachelor of Science degree from Huanan University in Guangzhou.

Mr Yan Yong, 40, joined the Group in March 1999 and was appointed Executive Director, Chief Financial Officer, and Vice General Manager in October 2000. He is currently responsible for corporate finance and head of the Group' strategic development department. Prior to joining TCL, he was the Vice President and PRC Country Manager at Tulip Computers (Asia) Limited. He holds an MBA from Stanford University and an M.S. in Computer Science from Beijing University. He has over ten years of management and finance experience in the United States and the PRC.

Mr Suen Hay Wai, Felipe, 48, Mr Suen holds the positions of General Manager of Operations at TCL International Holdings and is also President of TCL Overseas Holdings. In his present capacity, Mr Suen is responsible for the general management, overseas market and business activities. He has more than twenty years of management level 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

Non-executive Director

Mr Wong Toe Yeung, 63, was previously a director of Toyo (Holdings) Limited (formerly known as Tomei International (Holdings) Ltd.), a listed company on The Stock Exchange of Hong Kong Limited. He is now a director of Huizhou TCL – Mobile Communication Company Limited. Mr. Wong has more than thirty years of experience in the consumer electronic products industry.

Independent Non-executive Directors

Dr Hon Fong Ming, Perry, 36, 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 as well as mergers and acquisition markets in both the PRC 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, 48, 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 law from the University of Hong Kong and also obtained a master's degree in law from the same University. He is also a non-executive director and company secretary of other companies listed on The Stock Exchange of Hong Kong Limited.

Senior Management

Mr Ahn Myung Jun , 47, is Vice President — Overseas OEM Business. Mr Ahn joined the Group in October 2000 and is responsible for the international business of the Company. Previously, Mr Ahn worked with LG Electronics Inc of Korea for more than twenty-two 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 the Ukraine. He established the joint venture between TCL and LGE in Huizhou and worked as the 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 Foreign Language and International Trade.

Mr Bruce Ren, 40, Chief Technology Officer of TCL Group Multimedia electronics business and General Manager of Research Centre, joined the Group in November 2000, bringing with him more than fourteen 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 developer on 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 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 Shao Guang Jie, 41, is the Chief Accountant (PRC operations) of the Group. She is also the Vice President of TCL Multi-Media Business Unit. She is responsible for the Group's financial management in the PRC. Ms Shao joined the Group in 1995 and has more than eighteen years of experience in accounting, auditing, taxation and financial management. Ms Shao is a registered accountant and auditor in the PRC and graduated from Xian University.

Dr. Yi Chun Yu, 36, Vice President – Overseas TCL Brand Business and General Manager of TCL Overseas Marketing Limited. Mr. Yi joined TCL Corporation in 1996. He is mainly responsible for overseas business marketing and promotion. He has more than eight years of experience in product promotion and overseas business management. Dr. Yi graduated from Huazhong Agricultural University and majored in investment analysis.

Mr Yu Guang Hui, 35, is Vice President-Overseas Strategic OEM Business. He is responsible for the overseas sales of the Group's multimedia products business. Mr Yu joined the Group in 1996 and has more than seven years of experience in production planning and materials management. He was one of the chief coordinators in the early construction and management of the TCL King colour television's production base and later oversaw the whole purchasing function of the Group's multimedia business. He graduated with a MS in physics and is currently pursuing an MBA at Beijing University.

Mr Chikao Yamane, 63, is the Production Technology Director of the Group. He joined the Group in 2000. Mr Chikao Yamane has a wealth of experience in the design, enhancement, productivity upgrade and operational efficiency of production processes. He was with Toshiba Corporation for more than forty years and was the Assistant General Manager of Toshiba Dalian Co., Ltd.

Mr Wong Hoi Wah, 59, is the Chief Engineer of the Group. He 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 thirty-four years of experience in electronics engineering. He is also holds a number of patent rights.

Ms Lam Man Ying, 36, 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

Adhering to its mission of “Building a first-class enterprise with a renowned China brand name”, the Group has been keeping in compliance with the progressing international standards of corporate governance. The disciplined Board practices corporate governance with great effectiveness, not only in terms of its commitment to boosting shareholder value and enhancing corporate competitiveness but also in increasing corporate transparency through a standardised management system and sound external communications geared to facilitate investors’ evaluations of the Group’s investments.

Shareholders’ interests — Our Priority

Ever since its establishment, the Group has always presumed the safeguarding of investors’ interests as a core value of corporate governance. The Board is responsible for formulating the Group’s overall business development targets and strategies, assessing management results and monitoring performance of the management on a regular basis. The Board, with their knowledge and insight, has been leading the Group in a responsible and sincere manner that is beneficial to the Group’s long-term planning. Shareholder interests are of primary consideration in all decisions.

All independent, non-executive directors possess high professional management standards. Mr. Albert Thomas da Rosa, Jr. is a practising solicitor, whereas Dr. Hon Fong Ming is the Chairman and Chief Executive Officer of Dragoncom (Asia) Asset Management Limited. Aided by their professional management opinions, the Group’s development direction is clear, concise and has suitable safeguards in place for the interests of minority shareholders.

The Group has instituted an audit committee in accordance with the Code of Best Practice. The audit committee, comprising two independent, non-executive directors, is responsible for reviewing the completeness and accuracy of the Group’s financial statements, assessing the scope of work of both internal and external audits, and measuring the efficiency of the internal control system to ensure with certainty that TCL International publishes financial information for shareholders and investors that is accurate, reliable and timely.

Committed to Enhancing Corporate Transparency

The management of TCL International actively pursues close ties with its shareholders and investors through various channels. The initiative Group has also gone above and beyond the requirements of the Listing Rules of the Main Board. Not only does the Group publish its interim and annual results in accordance with the Listing Rules, but it has voluntarily increased the number of results announcements from twice yearly to quarterly, in a move that enhances transparency by adhering to international standards.

In addition, in light of the growing importance of the handset business — due to its rapid growth and swift development of the PRC’s wireless telecommunications market as a whole — the Group has decided to include part of the operating and financial information of its joint venture in the wireless telecommunications business, TCL Mobile, in its results announcement for the scrutiny of investors and the public alike.

Efforts in Investor Relations

TCL International has set up an investor relations department headed by an executive director. It is vested with the responsibility of maintaining close contact with investors by arranging regular meetings for the exchange of views with both investors and the media. In addition to enabling investors to further understand the direction of the Group's business developments, these meetings will likewise afford management an opportunity to better comprehend the opinions and expectations of third parties on its business developments. Our concerted efforts in this area have been lauded by the authoritative, international magazine, *Asiamoney*, which awarded TCL International as one of the PRC companies with the best overall investor relations and sound shareholder and investor communications. To further facilitate access to corporate information, the Group has also placed information such as business profiles, annual and interim reports and announcements, promotional materials and news flashes on its website, **www.tclhk.com**, allowing the public to keep abreast of the Group's latest developments through the Internet, anytime, anywhere.

Looking ahead, the Group will continue to enhance its internal governing mechanism by standardising its management system, increasing corporate transparency and safeguarding shareholders' interests. With capital appreciation a primary goal, shareholders' interests are in fact a base concern.

Achievements in 2002

Deloitte Touche Tohmatsu

- TCL Mobile ranked "No. 1 Fastest Growing Technology Company" in the first "Asia Pacific Technology Fast 500" Program

"*Asiamoney*" International magazine

One of the recipients of :

- **"Company of Overall Best Management (China)"**
- **"Company of Overall Best Investor Relations (China)"**
- **"Company of Best Operation Efficiency (China)"**
- **"Company of Easy to Access Senior Management (China)"**
- **"Company of Best communication with shareholders and investors (China)".**

HUMAN ASSETS

The Group has more than 20,000 dynamic and talented employees dedicated to advancing the quality and reliability of our operations. Our mission, philosophies and principles fully recognize the importance of human resources as our most valuable assets.

With a mission of establishing an internationally competitive world-class enterprise as our mission, we aim to attract, recruit and retain world-class management and technical people through offering well-structured remuneration, training and career development, as well as a stimulating empowering and caring work environment with open communication that enables employees to ensure the success and growth of the Group. Our staff remuneration policy is also reviewed regularly, making reference to current legislation, market conditions and both individual and company performance. In 2002, our leave policy, medical and life insurance policies were revised.

With “Generating Opportunities for Employees” as one of our philosophies, we are committed to our employees’ career development. Successful development of human resources is critical to the achievement of corporate goals. The key to this success is the continued dedication of all employees to professional growth and achievement. In this respect, the Management has cultivated a corporate culture that encourages lifelong learning. The Group organises training courses on team-building, customer service, product knowledge, as well as provided staff with educational subsidises for courses that boost their professional skills. Counselling, coaching and encouraging employees’ self-improvement throughout their career is the responsibility of every manager. Our final target is to ensure that our staff grows with us.

With “Trust and Teamwork” as two of our guiding principles, we promote teamwork across the whole organization, create a sense of trust and belonging. The Management places great emphasis on maintaining a pleasant working environment and fostering excellent relationships between all staff members and the Management. The Group also pays full attention to any grievances voiced by its employees and adheres to the principle of equal opportunity. Our principal focus is on health and safety, staff welfare, continual staff development, rewarding exemplary performance and maintaining effective communications channels.

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SOCIAL & COMMUNITY CONTRIBUTIONS

Apart from actively promoting the development of the TCL brand name, the Group has also supported and sponsored various social and community activities. During the year under review, TCL International, one of the PRC's most high-profile brand names in consumer electronics products, together with its parent company, TCL Corporation, organised a number of educational, sports and community activities.

Contributions to educational work

For a long time, TCL has been concerned with nurturing the PRC's next generation and has very much focused on the education sector by supporting primary education. Up to now, TCL Group has contributed towards the construction of 12 primary "Schools of Hope" nationwide. In May 2002, TCL Group also made contributions to support and promote the local education in Xingxiang City of Henan Province.

Being based in Huizhou, TCL Group is particularly concerned with the educational development there. In August 2002, TCL Group financed outstanding local high school graduates with the opportunity to pursue a coveted tertiary education.

TCL Group's societal contributions particularly stress tertiary educations. TCL Group organised in 2002 the "TCL Industrial Design Competition for Undergraduates" in collaboration with eight tertiary institutions, which include Qinghua University, Hunan University, China Arts Institute, Beijing Polytechnic University and Wuhan Polytechnic University. The purpose of the competition was to provide undergraduates with a platform upon which to practice their newly acquired skills, enhancing the level of industrial design in the PRC. Such inspirational efforts have continued for three years and have continued to grow in prestige, attracting the cream of the crop from each university.

In addition, the Group has also founded scholarships for faculties and students of Xian Communication University, Huanan Polytechnic University, Electronic Technology University, Xian Electronic Technology University and Hangzhou Electronic Industry Institute. Through such university collaborations, the Group is encouraging students to take a more proactive approach in achieving their full potential, and in the process setting higher educational standards in the PRC.

Promoting sports

Considering sports are an indispensable element of a healthy life, the Group chooses to support those physical activities that strengthen and enrich both body and mind. In November 2002, the Group sponsored the "TCL Classic" golf event, which, organised by such a prominent sports body as the Asian Professional Golf Association, was one of the seasons' highlights for the PRC's participating professional and amateur golfers. The event also received comprehensive coverage from domestic and foreign media and served to promote the popularity of golf in the PRC.

Social and community services

In 2002, TCL Group continued to support the poor in rural areas of Huizhou. A "heart to heart" program that promotes stronger ties with relatives and higher respect for community was launched, offering direct financial support to improve the livelihood of destitute farmers.

During the period of Military Establishment Day of 1 August, TCL Group actively embarked on a campaign with the theme of "support the military and treat their dependents fairly". The Group convened seminars for veterans and their dependents and provided them with consolation funds.

Looking ahead, in adhering to the corporate mission of "Benefiting the Community" and realising a high quality of life through outstanding consumer electronics products, the Group will continue to shoulder its societal obligations, to be more concerned about society and enthusiastic about community activities by contributing its fair share with one ultimate goal in mind: creating a more harmonious community.

CORPORATE INFORMATION

Board of Directors

Chairman
Mr LI Dong Sheng, Tomson

Vice Chairman
Mr YUAN Xin Cheng

Executive Director
Ms LU Zhong Li
Mr HU Qiu Sheng
Mr YAN Yong
Mr SUEN Hay Wai

Non-Executive Director
Mr WONG Toe Yeung

Independent Non-Executive Directors
Mr HON Fong Ming
Mr Albert Thomas DA ROSA, Junior

Company Secretary

Ms PANG Sin Yin, Solicitor, Hong Kong

Principal Bankers

Bank of China (Hong Kong) Ltd
China Construction Bank
CITIC Ka Wah Bank Ltd
The Development Bank of Singapore 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

Auditor

Ernst & Young
Certified Public Accountants
15/F, Hutchison House
10 Harcourt Road
Central, Hong Kong

Principal Registrar

Bank of Butterfield International
(Cayman) Ltd
Butterfield House
Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

Branch Registrar

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8 Tai Chung Road, Tsuen Wan
New Territories
Hong Kong

Registered Office

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Grand Cayman
Cayman Islands
British West Indies

Investor and Media Relations

Strategic Financial Relations (China) Limited
Unit A, 29/F Tower I
Admiralty Centre
18 Harcourt Road
Hong Kong

Producer

Roman Financial Press Limited
21/F Wheelock House
20 Pedder Street
Central
Hong Kong

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 2002.

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 18 to the financial statements.

During the year, the Group terminated its white goods manufacturing business and disposed of its equity interests in a number of companies operating in the People's Republic of China. Further details in relation to the discontinued operations and related disposal of interests are set out in notes 6 and 35(b) to the financial statements. Other than the foregoing, 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 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 99.

The directors recommend the payment of a final dividend of 7 HK cents per share in respect of the year to shareholders which names are recorded on the register of members on 12 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 100. 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 15 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 33 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 34 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, 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 (2000 Revision) of the Cayman Islands, amounted to HK$2,336,632,000. 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	9%
— the five largest suppliers combined	35%
Sales	
— the largest customer	2%
— the five largest customers combined	5%

A jointly-controlled entity of the Group is the Group's largest customer.

Save as disclosed above, 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.

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	
Suen Hay Wai	(appointed on 10 January 2003)
Wu Shi Hong	(resigned on 1 December 2002)

Non-executive directors:

Wong Toe Yeung
Hon Fong Ming*
Albert Thomas da Rosa, Junior*

* Independent non-executive directors

DIRECTORS (continued)

In accordance with article 99 of the Company's articles of association, Mr. Suen Hay Wai's appointment terminates at the conclusion of forthcoming annual general meeting and he, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 116 of the Company's articles of association, Messrs. Li Dong Sheng, Tomson, Yuan Xin Cheng and Hu Qiu Sheng 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 25 to 27 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

Save as disclosed in note 20 to the financial statements, no director had a material interest 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' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Interests in the Company:

	Shares of the Company	
Name of director	**Nature of interest**	**Number of shares held**
Li Dong Sheng, Tomson	Personal	21,356,000
Yuan Xin Cheng	Personal	600,000
Lu Zhong Li	Personal	10,500,000

DIRECTORS' INTERESTS IN SHARES (continued)

Interests in associated corporation:

Name of associated corporation	Name of director	Nature of interest	Percentage of interest in associated corporation
TCL Corporation (formerly known as TCL Holdings Corporation Ltd.) (Note)	Li Dong Sheng, Tomson	Personal	9.08%
	Yuan Xin Cheng	Personal	1.56%
	Lu Zhong Li	Personal	1.48%
	Hu Qiu Sheng	Personal	1.19%

Note: TCL Corporation held 1,424,605,289 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.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above and notes 31 and 33 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 their respective 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

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option schemes have been moved to note 33 to the financial statements.

Concerning the share options granted during the year as detailed in note 33, 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.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of the Company's share capital
TCL Industries	1,424,605,289 (Note)	54.15%
TCL Corporation	1,424,605,289 (Note)	54.15%

Note: 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.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group during the year are as follows:

	HK$
Companies controlled by the ultimate holding company:	
Contract fee paid to:	
TCL Digital Science & Technology (Wuxi) Co., Ltd.	16,829,000
Inner-Mongolia TCL Electrical Appliance Company Limited	12,175,000
Purchases of raw materials from:	
Chinaway Paper Production (Huizhou) Co., Ltd.	43,900,000
Chinaway Polyfoam Plastics (Huizhou) Co., Ltd.	31,534,000
Huizhou TCL-Sumisho Electronics Co., Ltd.	6,621,000
TCL International Electrical (Huizhou) Co., Ltd.	2,162,000
Purchases of finished goods from:	
Huizhou TCL Mobile Communication Co., Ltd. and its subsidiaries	3,623,000
Sales commission expense:	
TCL Household Appliances (Huizhou) Co., Ltd.	3,063,000
TCL Electric Appliances (Shaanxi) Co., Ltd.	649,000
Lease of plant from:	
Great Wall Cybertech Ltd.	1,585,000

CONNECTED TRANSACTIONS (continued)

Further details of the terms of the above connected transactions are set out in note 39 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 prospectus or announcements as the case may be.

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

(a) TCL Holdings (BVI) Limited acquired a 10% equity interest in Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile") from Jasper Ace Limited for a total consideration of RMB300 million (equivalent to approximately HK$282.7 million), pursuant to an agreement dated 20 December 2001 between TCL Holdings (BVI) Limited, Jasper Ace Limited and Mr. Wong Toe Yeung. The consideration for the acquisition was determined on the basis of guaranteed profit of RMB300 million of TCL Mobile for the year ended 31 December 2001 ("Guaranteed Profit") and an price/earning multiple of 10 times. The acquisition was completed on 21 January 2002 and the Guaranteed Profit was fully met. Details of the transaction are contained in the circular to the shareholders dated 11 January 2002.

(b) On 20 December 2001, TCL Overseas Holdings Limited and TCL Mobile entered into a supply agreement relating to the purchase by TCL Overseas Holdings Limited and its subsidiaries of goods manufactured, produced or sold by TCL Mobile and its subsidiaries in any territory in the world except the People's Republic of China (the "PRC"), details of which are contained in the circular to the shareholders dated 11 January 2002.

(c) On 9 May 2002, Shenzhen TCL New Technology Co., Ltd. and TCL Corporation entered into an investment agreement pursuant to which the parties have agreed to set up a joint venture company, by 1 December 2002, which date has been extended to 30 June 2003.

(d) On 9 May 2002, the Company and TCL Corporation entered into a conditional sale and purchase agreement, pursuant to which the Company agreed to procure certain of its subsidiaries to dispose of their respective interest in a number of companies which engage in the white goods manufacturing business, at a cash consideration of approximately RMB57 million (equivalent to approximately HK$53.4 million). The transaction was completed on 3 December 2002.

(e) On 9 May 2002, TCL Overseas Holdings Limited and, among others, TCL Corporation entered into an overseas distribution agreement in connection with the distribution of white goods in territories other than the PRC.

(f) On 9 May 2002, TCL Electrical Appliance Sales Co., Ltd. and, among others, TCL Corporation entered into a PRC distribution agreement in connection with the distribution of white goods in the PRC.

(g) On 10 June 2002, the Company, TCL Industries and TCL Corporation entered into a variation deed to vary the deed of non-competition executed by TCL Corporation and TCL Industries in favour of the Company on 15 November 1999 (the "Non-competition Deed"), such that TCL Corporation and TCL Industries may engage in certain activities which are originally restricted under the Non-competition Deed.

CONNECTED TRANSACTIONS (continued)

(h) On 26 September 2002, TCL Holdings (BVI) Limited and Mate Fair Group Limited entered into a conditional sale and purchase agreement pursuant to which TCL Holdings (BVI) Limited agreed to purchase a 13.8% equity interest in TCL Mobile at a cash consideration of RMB811,440,000 (equivalent to approximately HK$764,860,000). The consideration for the acquisition was determined on the basis of guaranteed profit of RMB840 million (equivalent to approximately HK$791,781,000) of TCL Mobile for the year ended 31 December 2002 ("New Guaranteed Profit") and an price/earning multiple of 7 times. The acquisition was completed on 8 November 2002 and the New Guaranteed Profit was fully met. Details of the transaction are contained in the circular to the shareholders dated 16 October 2002.

(i) On 26 September 2002, the Company, Go-Win Limited, United Asset Investments Limited and Nam Tai Electronics, Inc. entered into a conditional subscription agreement in connection with the issue of the 3% guaranteed convertible notes due in 2005 with an aggregate principal amount of HK$350,000,000, details of which are contained in the circular to the shareholders dated 16 October 2002.

(j) On 2 December 2002, TCL King Electrical Appliances (Huizhou) Company Limited entered into as the lessee a lease agreement with 11 entities as the lessors which, except for two, are all subsidiaries of Great Wall Cybertech Limited, for the leasing of a piece of land located in Huizhou Great Wall Industrial Village in the PRC at a monthly rental of RMB840,000 (equivalent to approximately HK$793,000).

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 Listing Rules of The Stock Exchange of Hong Kong Limited during the year.

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 a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LI Dong Sheng, Tomson
Chairman

Hong Kong
18 March 2003

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 42 to 99 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 statements and to report our opinion to you.

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 2002 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
18 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
TURNOVER	5	**12,187,549**	9,609,735
Cost of sales		**(9,997,175)**	(7,891,035)
Gross profit		**2,190,374**	1,718,700
Other revenue and gains		**96,733**	135,888
Selling and distribution costs		**(1,294,356)**	(1,123,776)
Administrative expenses		**(565,614)**	(386,322)
Other operating expenses		**(73,925)**	(60,216)
Gain on disposal of discontinued operations of a subsidiary	6	**4,062**	—
PROFIT FROM OPERATING ACTIVITIES	7	**357,274**	284,274
Finance costs	8	**(12,159)**	(24,185)
Share of profits and losses of:			
Jointly-controlled entities		**373,325**	65,237
Associate		**(53)**	—
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities		**(29,642)**	—
Loss on deemed disposal of interest in a jointly-controlled entity	20	**(38,825)**	—
Gain on disposal of discontinued operations of jointly-controlled entities and an associate	6	**3,985**	—
Provision for impairment of a jointly-controlled entity		**—**	(8,614)
PROFIT BEFORE TAX		**653,905**	316,712
Tax	11	**(64,737)**	(25,780)
PROFIT BEFORE MINORITY INTERESTS		**589,168**	290,932
Minority interests		**(19,041)**	898
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	**570,127**	291,830
DIVIDEND	13		
Proposed final		**184,555**	75,455
EARNINGS PER SHARE	14		
Basic		**22.32 cents**	11.70 cents
Diluted		**21.73 cents**	11.64 cents

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	**734,262**	853,364
Trademarks	16	**25,910**	—
Goodwill	17	**277,949**	306,046
Interest in an associate	19	**—**	14,953
Interests in jointly-controlled entities	20	**1,543,143**	237,048
Long term investments	21	**1,682**	1,682
		2,582,946	1,413,093
CURRENT ASSETS			
Inventories	22	**2,579,118**	2,039,045
Trade and bills receivable	23	**1,029,005**	937,463
Other receivables	26	**408,413**	301,563
Pledged bank deposits	27	**89,340**	63,112
Cash and bank balances		**1,093,187**	1,021,009
		5,199,063	4,362,192
CURRENT LIABILITIES			
Trade and bills payable	28	**2,769,271**	2,151,096
Tax payable		**23,056**	20,895
Other payables and accruals	29	**612,751**	600,638
Bank borrowings	30	**23,845**	23,667
		3,428,923	2,796,296
NET CURRENT ASSETS		**1,770,140**	1,565,896
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,353,086**	2,978,989

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings	30	**382,785**	6,628
Convertible notes	31	**350,000**	—
Deferred tax	32	**1,915**	1,915
		734,700	8,543
MINORITY INTERESTS		**60,378**	36,508
		3,558,008	2,933,938
CAPITAL AND RESERVES			
Issued capital	33	**263,100**	251,122
Reserves	34	**3,110,353**	2,607,361
Proposed final dividend	13	**184,555**	75,455
		3,558,008	2,933,938

LI Dong Sheng, Tomson
Director

YAN Yong
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
1 January — Total equity		**2,933,938**	2,566,611
Net gains/(losses) not recognised in the profit and loss account:			
Exchange differences on translation of the financial statements of foreign entities	34	**16,136**	(1,376)
Net profit for the year attributable to shareholders		**570,127**	291,830
Dividend	34	**(75,869)**	(87,893)
Issue of shares, including share premium	33	**112,585**	164,766
Goodwill in capital reserve recognised in the profit and loss account	34	**1,070**	—
Release of goodwill on deemed disposal of a jointly-controlled entity	34	**219**	—
Exchange reserve realised on disposal of discontinued operations	34	**(677)**	—
Write off of exchange reserve	34	**479**	—
31 December — Total equity		**3,558,008**	2,933,938

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
			(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operating activities		**357,274**	284,274
Adjustments for:			
Depreciation	7	**159,335**	112,272
Goodwill amortisation	7	**33,409**	25,312
Negative goodwill recognised as income	7	**(1,090)**	—
Loss on disposal of fixed assets	7	**24,029**	1,984
Interest income	7	**(17,227)**	(35,947)
Amortisation of trademarks	7	**639**	—
Impairment of a long term investment	7	**643**	—
Gain on disposal of a subsidiary		**(4,062)**	—
Operating profit before working capital changes		**552,950**	387,895
Decrease/(increase) in inventories		**(661,267)**	689,222
Increase in trade and bills receivable from third parties		**(218,642)**	(112,939)
Increase in prepayments, deposits and other receivables		**(207,462)**	(57,007)
Decrease in net amounts due to related parties		**(110,746)**	(39,366)
Increase/(decrease) in net amounts due to jointly-controlled entities		**(96,774)**	97,225
Increase/(decrease) in trade and bills payable to third parties		**1,253,547**	(391,539)
Increase in other payables and accruals		**78,902**	147,343
Increase/(decrease) in an amount due to the ultimate holding company		**(935)**	935
Cash generated from operations		**589,573**	721,769
Interest paid		**(10,634)**	(24,185)
Income taxes paid		**(46,536)**	(78,325)
Net cash inflow from operating activities		**532,403**	619,259

	Notes	2002 HK$'000	2001 HK$'000
			(Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	15	**(213,321)**	(123,781)
Purchases of trademarks	16	**(24,798)**	—
Proceeds from disposal of fixed assets		**88,758**	14,614
Decrease/(increase) in pledged bank deposits		**(26,228)**	38,678
Acquisition of subsidiaries, net of cash acquired	35(a)	**(2,440)**	(96,254)
Formation of an associate		**—**	(14,953)
Acquisition/formation of jointly-controlled entities		**(700,061)**	(70,162)
Disposal of a subsidiary, net of cash disposed	35(b)	**(71,277)**	—
Disposal of an associate		**15,039**	—
Disposal of jointly-controlled entities		**35,786**	—
Interest received		**17,227**	35,947
Dividend received from a jointly-controlled entity		**—**	4,860
Net cash outflow from investing activities		**(881,315)**	(211,051)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**400,000**	28,038
Repayment of bank loans		**(23,665)**	(192,992)
Proceeds from issue of share capital upon exercise of share options	33	**112,585**	—
Repayment of a loan from the ultimate holding company		**—**	(139,131)
Contribution from minority shareholders		**3,000**	4,122
Dividend paid	34	**(75,869)**	(87,893)
Net cash inflow/(outflow) from financing activities		**416,051**	(387,856)
INCREASE IN CASH AND CASH EQUIVALENTS		**67,139**	20,352
Cash and cash equivalents at beginning of year		**1,021,009**	1,000,928
Effect of foreign exchange rate changes, net		**5,039**	(271)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,093,187**	1,021,009
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,093,187**	1,021,009

BALANCE SHEET

31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**2,908,574**	2,279,054
CURRENT ASSETS			
Other receivables	26	**1,277**	233
Cash and bank balances		**51,848**	1,126
		53,125	1,359
CURRENT LIABILITIES			
Tax payable		**1,896**	1,900
Other payables and accruals	29	**10,071**	8,983
		11,967	10,883
NET CURRENT ASSETS/(LIABILITIES)		**41,158**	(9,524)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,949,732**	2,269,530
NON-CURRENT LIABILITIES			
Convertible notes	31	**(350,000)**	—
		2,599,732	2,269,530
CAPITAL AND RESERVES			
Issued capital	33	**263,100**	251,122
Reserves	34	**2,152,077**	1,942,953
Proposed final dividend	13	**184,555**	75,455
		2,599,732	2,269,530

LI Dong Sheng, Tomson
Director

YAN Yong
Director

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 white goods (note 6)

— 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 recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

- SSAP 1 (Revised): Presentation of financial statements
- SSAP 11 (Revised): Foreign currency translation
- SSAP 15 (Revised): Cash flow statements
- SSAP 33: Discontinuing operations
- SSAP 34: Employee benefits

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 45 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated at a weighted average rate for the year on consolidation, rather than at the closing rate. This has had no material effect on the amounts previously recorded in the financial statements.

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

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on pages 46 and 47 of the financial statements and the notes thereto have been revised in accordance with the new requirements.

SSAP 33 prescribes the basis for reporting information about discontinuing operations and has resulted in certain additional disclosures, which are included in note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in additional disclosures relating to the Company's share option scheme, as set out in note 33 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 2002. 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.

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 Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates 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.

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 reserves, is included as part of the Group's interests in jointly-controlled entities.

Long term investment

A long term investment is a non-trading investment in unlisted equity securities intended to be held on a long term basis. It is stated at cost less any impairment in value, other than that considered to be temporary in nature.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates 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 associates and 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 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition.

On disposal of subsidiaries, associates 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates 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 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 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 associates and jointly-controlled entities, any negative goodwill not yet recognised in the 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, associates 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 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 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 the 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.

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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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 balance sheets of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates 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 to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share options scheme

The Company operates a share option scheme 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 scheme 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 "Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for all employees who are eligible to participate in the 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 Scheme. The assets of the 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 Scheme.

Subsidiaries outside Hong Kong are required to contribute a certain percentage of 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.

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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(c) dividends 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 capital and reserves 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.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 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 white goods segment manufactures and trades home electrical appliances;

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

(e) the others segment comprises the information technology and other businesses.

In determining the Group's geographical segments, revenues and results 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.

4. SEGMENT INFORMATION (continued)

(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: Television		Audio-visual		Computer		Others		Discontinued operations: White goods		Eliminations		Consolidated	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Segment revenue:														
Sales to external customers	**9,393,956**	7,476,257	**350,221**	241,954	**1,388,554**	864,720	**260,865**	91,198	**793,953**	935,606	**—**	—	**12,187,549**	9,609,735
Intersegment sales	**75,030**	14,178	**112,969**	36,717	**6,740**	67,697	**16,053**	26,845	**—**	6,034	**(210,792)**	(151,471)	**—**	—
Total	**9,468,986**	7,490,435	**463,190**	278,671	**1,395,294**	932,417	**276,918**	118,043	**793,953**	941,640	**(210,792)**	(151,471)	**12,187,549**	9,609,735
Segment results	**582,724**	387,935	**(46,165)**	(14,799)	**17,244**	(17,552)	**(51,401)**	(38,959)	**(72,217)**	28,953	**—**	—	**430,185**	345,578
Amortisation of goodwill	**(8,475)**	(2,825)	**—**	—	**(24,661)**	(22,487)	**(273)**	—	**—**	—	**—**	—	**(33,409)**	(25,312)
Gain on disposal of discontinued operations of a subsidiary	**—**	—	**—**	—	**—**	—	**—**	—	**4,062**	—		—	**4,062**	—
Corporate expenses													**(43,564)**	(35,992)
Finance costs													**(12,159)**	(24,185)
Share of profits less losses of:														
Jointly-controlled entities	**9,512**	4,960	**—**	—	**—**	—	**368,946**	61,509	**(5,133)**	(1,232)	**—**	—	**373,325**	65,237
Associate	**—**	—	**—**	—	**—**	—	**—**	—	**(53)**	—	**—**	—	**(53)**	—
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities	**—**	—	**—**	—	**—**	—	**(29,642)**	—	**—**	—	**—**	—	**(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**	—
Provision for impairment of a jointly-controlled entity	**—**	(8,614)	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(8,614)
Profit before tax													**653,905**	316,712
Tax													**(64,737)**	(25,780)
Profit before minority interests													**589,168**	290,932
Minority interests													**(19,041)**	898
Net profit from ordinary activities attributable to shareholders													**570,127**	291,830

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Continuing operations: Television 2002 HK$'000	Television 2001 HK$'000	Audio-visual 2002 HK$'000	Audio-visual 2001 HK$'000	Computer 2002 HK$'000	Computer 2001 HK$'000	Others 2002 HK$'000	Others 2001 HK$'000	Discontinued operations: White goods 2002 HK$'000	White goods 2001 HK$'000	Eliminations 2002 HK$'000	Eliminations 2001 HK$'000	Consolidated 2002 HK$'000	Consolidated 2001 HK$'000
Segment assets:	**5,532,219**	4,211,543	**129,959**	148,320	**701,339**	523,483	**568,091**	815,157	**—**	717,715	**(781,189)**	(899,610)	**6,150,419**	5,516,608
Interest in an associate	**—**	—	**—**	—	**—**	—	**—**	—	**—**	14,953	**—**	—	**—**	14,953
Interests in jointly-controlled entities	**102,383**	94,584	**—**	—	**—**	—	**1,440,760**	109,484	**—**	32,980	**—**	—	**1,543,143**	237,048
Unallocated assets													**88,447**	6,676
Total assets													**7,782,009**	5,775,285
Segment liabilities	**4,159,046**	2,931,497	**133,771**	95,566	**389,077**	225,111	**646,486**	816,088	**—**	599,234	**(1,958,237)**	(1,926,555)	**3,370,143**	2,740,941
Unallocated liabilities													**793,480**	63,898
Total liabilities													**4,163,623**	2,804,839
Other segment information:														
Depreciation and amortisation	**155,567**	100,497	**2,285**	4,582	**27,285**	25,922	**31,652**	1,923	**5,166**	4,660	**—**	—	**221,955**	137,584
Impairment losses recognised in the profit and loss account	**643**	8,614	**—**	—	**—**	—	**1,070**	—	**—**	—	**—**	—	**1,713**	8,614
Capital expenditure	**203,147**	384,715	**4,048**	1,360	**2,492**	16,060	**10,937**	22,140	**20,469**	4,960	**—**	—	**241,093**	429,235

(b) Geographical segments

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

Group

	The PRC, excluding Hong Kong 2002 HK$'000	The PRC, excluding Hong Kong 2001 HK$'000	Hong Kong 2002 HK$'000	Hong Kong 2001 HK$'000	Others 2002 HK$'000	Others 2001 HK$'000	Eliminations 2002 HK$'000	Eliminations 2001 HK$'000	Consolidated 2002 HK$'000	Consolidated 2001 HK$'000
Segment revenue:										
Sales to external customers	**11,013,422**	8,964,731	**120,484**	59,467	**1,053,643**	585,537	**—**	—	**12,187,549**	9,609,735
Other segment information:										
Segment assets	**5,228,841**	4,561,702	**743,252**	876,188	**178,326**	78,718	**—**	—	**6,150,419**	5,516,608
Capital expenditure	**186,486**	426,804	**9,642**	1,677	**44,965**	754	**—**	—	**241,093**	429,235

5. TURNOVER

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

6. DISCONTINUED OPERATIONS

On 9 May 2002, the Company entered into an agreement with TCL Corporation, the ultimate holding company, for the disposal of its interests in the companies which engage in the white goods manufacturing business operating in the PRC, comprising its 20% equity interest in an associate, 上海 TCL 雙菱空調器製造有限公司, its 50% equity interest in a jointly-controlled entity, TCL Rechi (Huizhou) Refrigeration Equipment Ltd., its 70% equity interest in a jointly-controlled entity, TCL Electric Appliances (Shaanxi) Co., Ltd., and its 75% equity interest in a subsidiary, TCL Air Conditioner (Zhongshan) Co., Ltd. The aggregate cash consideration was HK$53,356,000, which was determined on the basis of the unaudited net asset values of these companies as at 31 March 2002 attributable to the Company. The transaction was completed on 3 December 2002. Gains on disposal of the relevant subsidiary, and of the jointly-controlled entities and associate amounted to HK$4,062,000 and HK$3,985,000, respectively. There were no significant tax liabilities arising from the disposal. Details of the transaction are included in an announcement of the Company dated 9 May 2002.

The results from the ordinary operations of the white goods business included in the consolidated profit and loss account for the year ended 31 December are as follows:

	2002	2001
	HK$'000	HK$'000
TURNOVER	**793,953**	941,640
Cost of sales	**(698,478)**	(768,299)
Gross profit	**95,475**	173,341
Other revenue and gains	**673**	3,313
Selling and distribution costs	**(149,728)**	(129,466)
Administrative expenses	**(17,962)**	(15,678)
Other operating expenses	**(675)**	(2,557)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(72,217)**	28,953
Finance costs	**(7,136)**	(11,177)
Share of losses of:		
Jointly-controlled entities	**(5,133)**	(1,232)
Associate	**(53)**	—
PROFIT/(LOSS) BEFORE TAX	**(84,539)**	16,544
Tax	**3,266**	(372)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(81,273)**	16,172
Minority interests	**10,421**	394
NET PROFIT/(LOSS)	**(70,852)**	16,566

6. DISCONTINUED OPERATIONS (continued)

The net cash flows attributable to the white goods business included in the consolidated cash flow statement are as follows:

	2002 HK$'000	2001 HK$'000
Operating activities	53,510	70,625
Investing activities	(18,959)	(3,518)
Financing activities	14,400	(43,786)
Net cash inflows	48,951	23,321

7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2002	2001
	HK$'000	HK$'000
Cost of inventories sold	**9,997,175**	7,891,035
Depreciation	**159,335**	112,272
Amortisation of goodwill of subsidiaries*	**33,409**	25,312
Impairment of a long term investment	**643**	—
Negative goodwill recognised as income	**(1,090)**	—
Amortisation of trademarks**	**639**	—
Research and development costs	**61,289**	18,247
Minimum lease payments under operating leases for land and buildings	**51,405**	40,065
Auditors' remuneration	**2,924**	2,623
Staff costs (including directors' remuneration — note 9):		
Wages and salaries	**355,649**	279,390
Pension scheme contributions	**19,896**	12,694
	375,545	292,084
Loss on disposal of fixed assets	**24,029**	1,984
Exchange losses, net	**1,576**	2,344
Bad debt provision	**17,557**	31,322
Interest income	**(17,227)**	(35,947)
Commission income	**(20,695)**	(38,792)

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

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

8. FINANCE COSTS

	Group 2002 HK$'000	2001 HK$'000
Interest on bank loans and facilities	**10,634**	24,185
Interest on convertible notes	**1,525**	—
	12,159	24,185

9. DIRECTORS' REMUNERATION

Directors' remuneration 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 2002 HK$'000	2001 HK$'000
Fees	**220**	340
Other emoluments:		
Salaries, allowances and benefits in kind	**3,234**	4,796
Performance related bonuses	**122**	—
Pension scheme contributions	**12**	12
	3,588	5,148

Fees include HK$100,000 (2001: 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 (2001: Nil).

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

	Number of directors 2002	2001
Nil to HK$1,000,000	**9**	10

9. DIRECTORS' REMUNERATION (continued)

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

In the prior year, 16,400,000 share options were granted to the directors in respect of their services to the Group. No value in respect of the share options granted was charged to the consolidated profit and loss account for the prior year. Details of movements of the share options of the directors are set out in note 33 to the financial statements.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any directors (2001: included one director), details of whose remuneration are set out in note 9 above. Details of the remuneration of the five (2001: four) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,120**	4,215
Amounts paid as an inducement to join the Group	**—**	2,600
Performance related bonuses	**410**	—
Pension scheme contributions	**36**	24
	5,566	6,839

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

	Number of employees	
	2002	2001
Nil to HK$1,000,000	**2**	—
HK$1,000,001 to HK$1,500,000	**3**	3
HK$3,500,001 to HK$4,000,000	**—**	1
	5	4

In the prior year, 1,176,000 share options were granted to the non-director, highest paid employees in respect of their services to the Group. No value in respect of the share options granted was charged to the consolidated profit and loss account for the prior year.

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

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%.

Taxes on profits assessable elsewhere than Hong Kong 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.

	2002	2001
	HK$'000	HK$'000
Group:		
Hong Kong	**10,000**	5,401
Elsewhere	**38,697**	22,204
Overprovision in prior years	**—**	(2,574)
	48,697	25,031
Share of tax attributable to:		
Jointly-controlled entities	**16,040**	749
Tax charge for the year	**64,737**	25,780

There was no significant unprovided deferred tax in respect of the year (2001: Nil).

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK$293,486,000 (2001: HK$95,959,000).

13. DIVIDEND

	2002	2001
	HK$'000	HK$'000
Proposed final — 7.0 (2001: 3.0) HK cents per share	**184,555**	75,455

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

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$570,127,000 (2001: HK$291,830,000) and the weighted average of 2,554,562,270 (2001: 2,494,435,950) 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$570,127,000 (2001: HK$291,830,000), adjusted by the reduction of interest expense of HK$1,525,000 (2001: Nil) relating to the convertible notes. The weighted average number of shares used in the calculation is the 2,554,562,270 (2001: 2,494,435,950) shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 55,356,614 (2001: 13,086,174) 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 20,258,538 (2001: Nil) shares on the deemed conversion of all convertible notes during the year.

15. 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	431,331	44,403	421,051	226,420	95,634	26,006	1,244,845
Additions	18,945	19,434	59,122	53,467	7,350	55,003	213,321
Acquisition of subsidiaries	—	—	2,943	31	—	—	2,974
Disposal of a subsidiary	(37,751)	—	(25,363)	(2,756)	(1,839)	(12,357)	(80,066)
Disposals	(10,971)	(20)	(23,278)	(107,654)	(53,679)	—	(195,602)
Transfers	7,436	—	248	6,393	—	(14,077)	—
Exchange realignments	3,789	377	3,317	1,987	848	245	10,563
At 31 December 2002	412,779	64,194	438,040	177,888	48,314	54,820	1,196,035
Accumulated depreciation:							
At beginning of year	66,416	25,928	165,859	93,733	39,545	—	391,481
Provided during the year	15,983	21,094	68,907	39,698	13,653	—	159,335
Acquisition of subsidiaries	—	—	167	6	—	—	173
Disposal of a subsidiary	(3,174)	—	(4,957)	(828)	(421)	—	(9,380)
Disposals	(2,434)	(9)	(7,090)	(46,399)	(26,883)	—	(82,815)
Exchange realignments	580	210	1,082	770	337	—	2,979
At 31 December 2002	77,371	47,223	223,968	86,980	26,231	—	461,773
Net book value:							
At 31 December 2002	335,408	16,971	214,072	90,908	22,083	54,820	734,262
At 31 December 2001	364,915	18,475	255,192	132,687	56,089	26,006	853,364

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

	2002 HK$'000	2001 HK$'000
Hong Kong	**29,845**	22,884
Elsewhere	**382,934**	408,447
	412,779	431,331

At 31 December 2002, the Group's land and buildings with a net book value amounting to HK$10,309,000 (2001: HK$10,529,000) were pledged to secure general banking facilities and bank loans granted to the Group (note 30).

16. TRADEMARKS

Group

	HK$'000
Cost:	
At beginning of year	—
Additions	24,798
Exchange realignments	1,776
At 31 December 2002	26,574
Accumulated amortisation:	
At beginning of year	—
Provided during the year	639
Exchange realignments	25
At 31 December 2002	664
Net book value:	
At 31 December 2002	25,910
At 31 December 2001	—

The trademarks were acquired with the obligation of the Company to maintain certain production in Germany for two years.

17. 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	331,358	—
Acquisition of subsidiaries	5,312	(1,090)
At 31 December 2002	336,670	(1,090)
Accumulated amortisation/(recognition as income):		
At beginning of year	25,312	—
Amortisation provided/(recognised as income) during the year	33,409	(1,090)
At 31 December 2002	58,721	(1,090)
Net book value:		
At 31 December 2002	277,949	—
At 31 December 2001	306,046	—

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

18. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**1,148,255**	1,148,255
Due from subsidiaries	**1,760,319**	1,130,799
	2,908,574	2,279,054

The amounts due from 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 2002 %	2001 %	Principal activities
Schneider Electronics GmbH*†	Germany	EUR2,000,000	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
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

18. 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 2002 %	2001 %	Principal activities
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
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 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
TCL Retail (HK) Limited	Hong Kong	Ordinary HK$10,000	100	100	Trading of audio-visual products
TCL Technoly Electronics (Huizhou) Co., Ltd.	PRC	HK$43,000,000	100	100	Manufacture and sale of audio-visual products

18. 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 2002 %	2001 %	Principal activities
TCL (Vietnam) Corporation Ltd.	Vietnam	VND37,135,000,000	100	100	Manufacture and sale of audio-visual products
Team Way Limited†	Hong Kong	Ordinary HK$100	70	—	Trading of audio-visual products and components

@ Direct subsidiaries of the Company.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International 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.

19. INTEREST IN AN ASSOCIATE

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	—	14,953

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2002 %	2001 %	Principal activities
上海 TCL 雙菱空調器製造有限公司	Corporate	PRC	—	20	Manufacture and sale of air-conditioners

The above associate was disposed of during the year (note 6).

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	795,108	245,662
Goodwill on acquisition	756,649	—
Provision for impairment	(8,614)	(8,614)
	1,543,143	237,048

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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 1 January 2001 are as follows:

	Group	
	Goodwill capitalised as an asset	**Goodwill debited to capital reserve**
	HK$'000	HK$'000
Cost:		
At beginning of year	—	3,266
Acquisition of additional interests in a jointly-controlled entity	808,159	—
Deemed disposal of interest in a jointly-controlled entity	(23,832)	(219)
At 31 December 2002	784,327	3,047
Accumulated amortisation and impairment:		
At beginning of year	—	—
Amortisation provided during the year	28,572	—
Impairment provided during the year	—	1,070
Deemed disposal of interest in a jointly-controlled entity	(894)	—
At 31 December 2002	27,678	1,070
Net book value:		
At 31 December 2002	756,649	1,977
At 31 December 2001	—	3,266

20. 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	Voting power	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
電大在綫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 International 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.

20. 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:

	2002	2001
	HK$'000	HK$'000
TURNOVER	**7,875,762**	2,024,929
Cost of sales	**(5,724,279)**	(1,330,264)
Gross profit	**2,151,483**	694,665
Other revenue and gains	**26,099**	10,099
Selling and distribution costs	**(655,267)**	(289,416)
Administrative and other operating expenses	**(254,156)**	(101,889)
PROFIT FROM OPERATING ACTIVITIES	**1,268,159**	313,459
Finance costs	**(17,053)**	(6,421)
PROFIT BEFORE TAX	**1,251,106**	307,038
Tax	**(52,733)**	—
NET PROFIT	**1,198,373**	307,038

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Financial position:

	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS	**194,020**	112,932
CURRENT ASSETS		
Inventories*	**1,409,987**	329,962
Trade receivables	**76,058**	66,418
Bills receivable	**1,272,208**	334,545
Cash and bank balances	**629,003**	338,875
Other current assets	**840,584**	40,885
	4,227,840	1,110,685

* Included in the inventories are raw materials of HK$847,466,000 (2001: HK$133,017,000), work in progress of HK$120,616,000 (2001: HK$60,616,000) and finished goods of HK$441,905,000 (2001: HK$136,329,000).

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Financial position: (continued)

	2002 HK$'000	2001 HK$'000
CURRENT LIABILITIES		
Bank borrowings	**67,643**	8,095
Trade and bills payable	**1,409,207**	469,179
Other payables and accruals	**1,260,498**	331,849
Other current liabilities	**73,944**	23,438
	2,811,292	832,561
NET CURRENT ASSETS	**1,416,548**	278,124
NON-CURRENT LIABILITIES	**2,456**	7,968
	1,608,112	383,088
CAPITAL AND RESERVES		
Paid-up capital	**232,215**	77,196
Reserves	**1,375,897**	305,892
	1,608,112	383,088

On 21 January 2002, the Group's interest in TCL Mobile was increased from 20% to 30% by an acquisition of an additional 10% equity interest in TCL Mobile from Jasper Ace Limited, a company wholly owned by Mr. Wong Toe Yeung, a non-executive director of the Company, pursuant to an agreement dated 20 December 2001. The cash consideration was HK$282,700,000, calculated based on the 2001 profit of TCL Mobile of HK$282.7 million guaranteed by the vendor and an implied price/earnings multiple of 10 times. Details of the transaction are set out in the circular to shareholders dated 11 January 2002.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

On 29 May 2002, the registered capital of TCL Mobile was increased from US$10 million to US$29.8 million, of which US$2.98 million was contributed by Cheerful Asset Investment Limited ("Cheerful Asset") in return for a 10% equity interest in TCL Mobile. Cheerful Asset is a company controlled by the management of TCL Mobile. The remaining amount was contributed by the existing shareholders of TCL Mobile through the capitalisation of a dividend from TCL Mobile. As a result of the transaction, the interest in TCL Mobile held by the Group was diluted from 30% to 27% and a loss on deemed disposal in the amount of HK$38,825,000 was charged to the profit and loss account.

On 8 November 2002, the Group's interest in TCL Mobile was increased from 27% to 40.8% by an acquisition of an additional 13.8% equity interest in TCL Mobile from Mate Fair Group Limited, which is owned as to 75% by Mr. Wong Toe Yeung, pursuant to an agreement dated 26 September 2002. The cash consideration was HK$764,860,000, calculated based on the 2002 profit of TCL Mobile of HK$791.8 million guaranteed by Mr. Wong Toe Yeung and an implied price/earnings multiple of 7 times. Details of the transaction are set out in the circular to shareholders dated 16 October 2002.

21. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	HK$'000
Unlisted equity investments, at cost	**2,325**	1,682
Provision for impairment	**(643)**	—
	1,682	1,682

22. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**901,641**	527,689
Work in progress	**286,208**	46,567
Finished goods	**1,391,269**	1,464,789
	2,579,118	2,039,045

The carrying amount of inventories carried at net realisable value included in the above balance was HK$Nil (2001: HK$5,888,000) as at the balance sheet date.

23. TRADE AND BILLS RECEIVABLE

		Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Due from third parties:			
Trade receivable		**359,866**	266,643
Bills receivable		**624,006**	605,792
		983,872	872,435
Due from related parties	24	**38,499**	56,351
Due from jointly-controlled entities	25	**6,634**	8,677
		1,029,005	937,463

23. TRADE AND BILLS RECEIVABLE (continued)

The majority of the Group's sales in the PRC was made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 days to 90 days. For overseas sales, the Group usually requires settlement by letter of credit with tenures ranging from 90 days to 180 days. An aged analysis of the trade and bills receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Current to 90 days	**543,311**	744,785
91 days to 180 days	**454,415**	152,559
181 days to 365 days	**21,690**	14,619
Over 365 days	**9,589**	25,500
	1,029,005	937,463

24. DUE FROM/TO RELATED PARTIES/ULTIMATE HOLDING COMPANY

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

25. DUE FROM/TO JOINTLY-CONTROLLED ENTITIES

The amounts due from/to jointly-controlled entities are unsecured, repayable within one year and interest-free (2001: bore interest at 6.1% per annum if the amount exceeded the credit period).

26. OTHER RECEIVABLES

		Group		Company	
		2002	2001	**2002**	2001
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other receivables		**404,488**	282,090	**1,277**	233
Due from jointly-controlled entities	25	**—**	19,473	**—**	—
Dividend receivable		**3,925**	—	**—**	—
		408,413	301,563	**1,277**	233

27. PLEDGED BANK DEPOSITS

At 31 December 2002, the Group's bank deposits of HK$89,340,000 (2001: HK$63,112,000) were pledged to secure general banking facilities granted by the banks in the PRC.

28. TRADE AND BILLS PAYABLE

		Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Due to third parties:			
Trade payable		**1,655,730**	1,210,907
Bills payable		**1,027,234**	696,978
		2,682,964	1,907,885
Due to related parties	24	**75,104**	130,332
Due to jointly-controlled entities	25	**11,203**	112,879
		2,769,271	2,151,096

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

	Group	
	2002	2001
	HK$'000	HK$'000
Current to 90 days	**2,391,738**	1,925,597
91 days to 180 days	**344,983**	199,948
181 days to 365 days	**17,780**	10,545
Over 365 days	**14,770**	15,006
	2,769,271	2,151,096

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2002	2001	**2002**	2001
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables and accruals		**612,751**	583,089	**10,071**	8,983
Due to the ultimate holding company	24	**—**	935	**—**	—
Due to jointly-controlled entities	25	**—**	16,614	**—**	—
		612,751	600,638	**10,071**	8,983

30. BANK BORROWINGS

	Group	
	2002	2001
	HK$'000	HK$'000
Bank loans:		
Secured	**6,630**	6,931
Unsecured	**400,000**	23,364
	406,630	30,295
Bank loans repayable:		
Within one year	**23,845**	23,667
In the second year	**94,443**	312
In the third to fifth years, inclusive	**283,389**	998
After five years	**4,953**	5,318
	406,630	30,295
Portion classified as current liabilities	**(23,845)**	(23,667)
Long term portion	**382,785**	6,628

The secured bank loans were secured by the Group's land and buildings with a net book value amounting to HK$10,309,000 (2001: HK$10,529,000). All secured bank loans were fully repaid after the year end.

31. CONVERTIBLE NOTES

Pursuant to a subscription agreement dated 26 September 2002, the Company agreed to issue convertible notes of principal amounts of HK$100 million, HK$210 million and HK$40 million to Go-Win Limited, United Asset Investments Limited and Nam Tai Electronics, Inc., respectively, to finance part of the consideration for the acquisition of the 13.8% equity interest in TCL Mobile detailed in note 20. Both Go-Win Limited and United Asset Investments Limited are wholly owned by Mr. Wong Toe Yeung, a non-executive director of the Company.

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, and are payable semi-annually in arrears.

Conversion period

The conversion period commences on 8 November 2002 and ends 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 HK$10 million or an integral multiple thereof into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment).

Conversion shares

Assuming full conversion of the convertible notes at the initial conversion price, the number of shares to be issued will be 136,932,707, representing approximately 5.2% of the existing issued share capital of the Company and approximately 4.9% of the issued share capital of the Company as enlarged by the issue of such shares.

31. CONVERTIBLE NOTES (continued)

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 million 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.

During the year, no convertible notes were converted into shares of the Company.

32. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	HK$'000
Balance at beginning and end of year	**1,915**	1,915

The provision for deferred tax relates wholly to timing differences arising from accelerated depreciation allowances.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

33. SHARE CAPITAL

Shares

	Company	
	2002	2001
	HK$'000	HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,630,998,852 (2001: 2,511,219,289) shares of HK$0.10 each	**263,100**	251,122

33. SHARE CAPITAL (continued)

During the year, the subscription rights attaching to 119,779,563 (2001: Nil) share options were exercised, resulting in the issue of 119,779,563 shares of HK$0.10 each for a total cash consideration of HK$112,585,000.

A summary of the movements in the Company's share capital is as follows:

	Numbers of shares issued	Paid-up nominal value HK$'000
Issued capital at 1 January 2001	2,405,600,000	240,560
New issue of shares for the acquisition of a subsidiary	105,619,289	10,562
Issued capital at 31 December 2001	2,511,219,289	251,122
Share options exercised	119,779,563	11,978
Issued capital at 31 December 2002	2,630,998,852	263,100

Share options

On 30 October 2001, the share option scheme adopted by the Company on 15 November 1999 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted by shareholders of 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. Eligible participants of the share options schemes include the Company's executive directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for three and a half years from the date of adoption.

33. SHARE CAPITAL (continued)

Share options (continued)

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 shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the New Scheme. 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) 80% of the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company's shares.

On 1 September 2001, Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange was amended whereby if the Company wishes to continue to grant options under the New Scheme on or after 1 September 2001, it must also comply with the new requirement set out therein, including the subscription price must be not less than (i) the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer, (ii) closing price of the Company's shares on the date of offer and (iii) the nominal value of the Company's share.

At 31 December 2002, the number of shares issuable under share options granted under both the Old Scheme and the New Scheme was 74,028,437, which represented approximately 2.8% of the Company's shares in issue as at that date.

33. SHARE CAPITAL (continued)

Share options (continued)

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

	Number of share options									
Name or category of participant	**At 1 January 2002**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**At 31 December 2002**	**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	
	1,500,000	—	(1,500,000)	—	—	2 May 2001	0.928	Note 2	1.130	2.340
	13,500,000	—	(1,500,000)	—	12,000,000					
Yuan Xin Cheng	6,000,000	—	—	—	6,000,000	3 December 1999	2.236	Note 1	3.075	
	1,200,000	—	(1,200,000)	—	—	2 May 2001	0.928	Note 2	1.130	1.970
	7,200,000	—	(1,200,000)	—	6,000,000					
Lu Zhong Li	5,000,000	—	—	—	5,000,000	3 December 1999	2.236	Note 1	3.075	
	1,000,000	—	(1,000,000)	—	—	2 May 2001	0.928	Note 2	1.130	1.885
	10,000,000	—	(10,000,000)	—	—	28 May 2001	1.042	Note 3	1.430	2.300
	16,000,000	—	(11,000,000)	—	5,000,000					
Hu Qiu Sheng	5,000,000	—	—	—	5,000,000	3 December 1999	2.236	Note 1	3.075	
	1,000,000	—	(1,000,000)	—	—	2 May 2001	0.928	Note 2	1.130	2.338
	6,000,000	—	(1,000,000)	—	5,000,000					
Yan Yong	300,000	—	—	—	300,000	1 June 2000	2.508	Note 4	3.200	
	400,000	—	(200,000)	—	200,000	2 May 2001	0.928	Note 2	1.130	2.300
	700,000	—	(200,000)	—	500,000					
Wu Shi Hong*	3,000,000	—	—	(3,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	1,000,000	—	(1,000,000)	—	—	2 May 2001	0.928	Note 2	1.130	2.300
	4,000,000	—	(1,000,000)	(3,000,000)	—					
Wong Toe Yeung	3,000,000	—	—	—	3,000,000	3 December 1999	2.236	Note 1	3.075	
	300,000	—	(300,000)	—	—	2 May 2001	0.928	Note 2	1.130	2.213
	3,300,000	—	(300,000)	—	3,000,000					
Other employees	30,000	—	—	—	30,000	1 June 2000	2.508	Note 4	3.200	
	51,924,000	—	(42,802,000)	(56,000)	9,066,000	2 May 2001	0.928	Note 2	1.130	2.094
	10,000,000	—	(10,000,000)	—	—	28 May 2001	1.042	Note 3	1.430	1.910
	21,000,000	—	(21,000,000)	—	—	30 August 2001	0.794	Note 3	0.960	1.910
	53,235,000	—	(29,777,563)	(25,000)	23,432,437	29 October 2001	0.994	Note 5	0.990	1.976
	—	10,000,000	—	—	10,000,000	4 November 2002	2.305	Note 6	2.175	
	136,189,000	10,000,000	(103,579,563)	(81,000)	42,528,437					
	186,889,000	10,000,000	(119,779,563)	(3,081,000)	74,028,437					

* Wu Shi Hong resigned as a director on 1 December 2002.

33. SHARE CAPITAL (continued)

Share options (continued)

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

Note 2 Half of such share options is exercisable after the expiry of 9 months from the date of grant, and the remaining half is exercisable after the expiry of 18 months from the date of grant, up to 14 May 2003.

Note 3 Such share options are exercisable at any time from the date of grant to 14 May 2003.

Note 4 One-third of such share options is 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 14 May 2003.

Note 5 One-third of such share options is 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 6 Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

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 over all of the exercises of options within the disclosure category.

34. RESERVES

Group

	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 2001	950,859	64,915	212,891	210	1,009,283	2,238,158
Issue of shares upon acquisition of a subsidiary	154,204	—	—	—	—	154,204
Exchange realignments	—	—	—	(1,376)	—	(1,376)
Net profit for the year	—	—	—	—	291,830	291,830
Proposed final 2001 dividend	—	—	—	—	(75,455)	(75,455)
Transfer from retained profits	—	—	96,352	—	(96,352)	—
At 31 December 2001	1,105,063	64,915	309,243	(1,166)	1,129,306	2,607,361
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 realignments	—	—	—	16,136	—	16,136
Realised on disposal	—	—	—	(677)	—	(677)
Write off of exchange reserve	—	—	—	479	—	479
Net profit for the year	—	—	—	—	570,127	570,127
Final 2001 dividend	—	—	—	—	(414)	(414)
Proposed final 2002 dividend	—	—	—	—	(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	1,396,386	3,110,353
Reserves retained by:						
Company and subsidiaries	1,205,670	66,204	325,469	13,725	1,119,146	2,730,214
Jointly-controlled entities	—	—	101,852	1,047	277,240	380,139
At 31 December 2002	1,205,670	66,204	427,321	14,772	1,396,386	3,110,353
Reserves retained by:						
Company and subsidiaries	1,105,063	64,915	278,434	(526)	1,095,243	2,543,129
Jointly-controlled entities	—	—	30,809	(640)	34,063	64,232
At 31 December 2001	1,105,063	64,915	309,243	(1,166)	1,129,306	2,607,361

* 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.

34. RESERVES (continued)

Group (continued)

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 17 and 20 to the financial statements.

Company

	Share premium account HK$'000	Capital reserve# HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2001	950,859	903,105	(85,719)	1,768,245
Issue of shares upon acquisition of a subsidiary	154,204	—	—	154,204
Net profit for the year	—	—	95,959	95,959
Proposed final 2001 dividend	—	—	(75,455)	(75,455)
At 31 December 2001	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	—	—	(184,555)	(184,555)
At 31 December 2002	1,205,670	903,105	43,302	2,152,077

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.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2002	2001
	HK$'000	HK$'000
Net assets acquired:		
Fixed assets	**2,801**	212,319
Goodwill	**5,312**	—
Inventories	**400**	180,930
Cash and bank balances	**862**	115,968
Trade and bills receivable	**3**	81,757
Prepayments, deposits and other receivables	**2,616**	126,577
Trade and bills payable	**(97)**	(160,345)
Due to related companies, net	**—**	(70,570)
Due to jointly-controlled entities	**—**	(117,248)
Other payables and accruals	**(2,873)**	(236,288)
Tax payable	**—**	(5,694)
Short term bank loans	**—**	(65,421)
Minority interests	**(4,632)**	(16,355)
	4,392	45,630
Goodwill/(negative goodwill) on acquisition (note 17)	**(1,090)**	331,358
	3,302	376,988
Satisfied by:		
Issue of shares	**—**	164,766
Cash	**3,302**	212,222
	3,302	376,988

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

(a) Acquisition of subsidiaries (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002 HK$'000	2001 HK$'000
Cash consideration	**(3,302)**	(212,222)
Cash and bank balances acquired	**862**	115,968
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(2,440)**	(96,254)

(b) Disposal of a subsidiary

	2002 HK$'000
Net assets disposed of:	
Fixed assets	**70,686**
Inventories	**121,594**
Cash and bank balances	**77,449**
Trade and bills receivable	**107,208**
Due from related companies, net	**73,370**
Prepayments, deposits and other receivables	**87,037**
Trade and bills payable	**(478,565)**
Other payables and accruals	**(53,638)**
Minority interests	**(3,031)**
	2,110
Gain on disposal	**4,062**
Satisfied by cash	**6,172**

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

(b) Disposal of a subsidiary (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	2002 HK$'000
Cash consideration received	**6,172**
Cash and bank balances disposed of	**(77,449)**
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(71,277)**

(c) Major non-cash transaction

During the 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 (note 31).

36. 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 five years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	**37,142**	12,865
In the second to fifth years, inclusive	**40,163**	24,042
After five years	**727**	8,043
	78,032	44,950

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2002	2001
	HK$'000	HK$'000
Contracted, but not provided for	**169,772**	22,720
Authorised, but not contracted for	**10,854**	229,725
	180,626	252,445

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	
	2002	2001
	HK$'000	HK$'000
Contracted, but not provided for	**1,522**	16,279

At the balance sheet date, the Company did not have any significant commitments.

38. CONTINGENT LIABILITIES

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

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable endorsed to suppliers	**138,623**	120,769	**—**	—
Bills discounted with recourse	**1,086,659**	4,673	**—**	—
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**818,240**	418,240
	1,225,282	125,442	**818,240**	418,240

As at 31 December 2002, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$421 million (2001: HK$29 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	
	2002	2001
	HK$'000	HK$'000
Bills receivable endorsed to suppliers	**—**	49,444
Bills discounted with recourse	**341,267**	—
	341,267	49,444

39. 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	Group 2002 HK$'000	Group 2001 HK$'000
Jointly-controlled entity:			
Sales of raw materials	(i)	**203,977**	534,070
Purchases of raw materials	(ii)	**39,377**	28,495
Sales commission income	(iii)	**20,695**	38,792
Subcontracting fee expense	(v)	**15,087**	—
Minority shareholders of subsidiaries:			
Sales of finished goods	(vi)	**43,115**	40,216
Rental expenses	(vii)	**1,585**	—
Companies controlled by the ultimate holding company:			
Sales of raw materials	(i)	**1,287**	—
Purchases of raw materials	(ii)	**342,122**	326,531
Purchases of finished goods	(ii)	**3,623**	—
Cash discounts payable	(viii)	**—**	13,442
Sales commission expense	(iii)	**—**	482,403
Sales handling fee income	(iv)	**3,712**	—
Subcontracting fee expense	(v)	**—**	17,285
Contract fee	(ix)	**29,004**	12,016
Company controlled by a jointly-controlled entity:			
Sales of raw materials	(i)	**28,767**	—
Purchases of raw materials	(ii)	**78,821**	75,438

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.

39. RELATED PARTY TRANSACTIONS (continued)

(iii) 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 products distributed.

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

(vi) The Group sold its finished goods at an average mark-up of 2% (2001: 4%).

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

(viii) 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 0.5%.

(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 0.5%.

(ix) The contract fee was the sum of the followings:

(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.

40. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAPs 1 and 15 during the current year, the presentation of certain items in the financial statements has been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2003.

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the last five financial years and of the assets and liabilities as at the last four financial year ends, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**12,187,549**	9,609,735	8,569,198	6,157,874	3,871,393
PROFIT BEFORE TAX	**653,905**	316,712	459,197	573,070	328,711
Tax	**(64,737)**	(25,780)	(32,888)	(62,592)	(5,198)
PROFIT BEFORE MINORITY INTERESTS	**589,168**	290,932	426,309	510,478	323,513
Minority interests	**(19,041)**	898	1,456	—	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**570,127**	291,830	427,765	510,478	323,513
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**7,782,009**	5,775,285	5,411,321	4,948,042	
Total liabilities	**(4,163,623)**	(2,804,839)	(2,827,717)	(2,816,580)	
Minority interests	**(60,378)**	(36,508)	(16,993)	—	
	3,558,008	2,933,938	2,566,611	2,131,462	

Note: As the Company was incorporated on 23 April 1999, the only published consolidated balance sheets of the Group which have been prepared are those as at 31 December 2002, 2001, 2000 and 1999.

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