# TCL INTERNATIONAL HOLDINGS LIMITED

## (TCL國際控股有限公司)

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1070)**

## RESULTS ANNOUNCEMENT
## FOR THE THREE MONTHS ENDED 31 MARCH 2004

### FINANCIAL HIGHLIGHTS

| | **2004** | 2003 | |
|---|---|---|---|
| | ***HK$M*** | *HK$M* | *change (%)* |
| Turnover | **4,026** | 3,477 | +16 |
| Profit before tax | **297** | 187 | +59 |
| Net profit attributable to shareholders | **253** | 163 | +55 |
| Basic earnings per share (HK cents) | **9.34** | 6.18 | +51 |

The Board of Directors of TCL International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2004 with comparative figures for the previous year as follows:

# CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Unaudited Three months ended 31 March | |
|---|---|---|---|
| | | **2004** | 2003 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| TURNOVER | 2 | **4,025,575** | 3,476,941 |
| Cost of sales | | **(3,240,745)** | (2,920,352) |
| Gross profit | | **784,830** | 556,589 |
| Other revenue and gains | | **23,135** | 19,943 |
| Selling and distribution costs | | **(412,779)** | (323,952) |
| Administrative expenses | | **(159,047)** | (138,768) |
| Other operating expenses | | **(9,720)** | (11,600) |
| PROFIT FROM OPERATING ACTIVITIES | 2 | **226,419** | 102,212 |
| Finance costs | | **(3,335)** | (8,242) |
| Share of profits and losses of jointly-controlled entities | 3 | **93,267** | 112,407 |
| Amortization of goodwill on acquisition of a jointly-controlled entity | | **(19,608)** | (19,608) |
| PROFIT BEFORE TAX | | **296,743** | 186,769 |
| Tax | 5 | **(39,259)** | (16,697) |
| PROFIT BEFORE MINORITY INTERESTS | | **257,484** | 170,072 |
| Minority interests | | **(4,506)** | (7,136) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **252,978** | 162,936 |
| DIVIDEND | 6 | **Nil** | Nil |
| EARNINGS PER SHARE | 7 | | |
| — Basic | | **9.34 cents** | 6.18 cents |
| — Diluted | | **8.94 cents** | 5.94 cents |

# CONDENSED CONSOLIDATED BALANCE SHEET

| | **Unaudited 31 March 2004** *HK$'000* | Audited 31 December 2003 *HK$'000* |
|---|---|---|
| NON CURRENT ASSETS | | |
| Fixed assets | **868,171** | 868,919 |
| Trademarks | **26,335** | 27,744 |
| Goodwill | **244,710** | 244,539 |
| Interests in jointly-controlled entities | **1,607,116** | 1,653,375 |
| Long term investments | **1,682** | 1,682 |
| Prepayment for the acquisition of a subsidiary | **—** | 47,815 |
| Deferred tax assets | **8,855** | 8,855 |
| | **2,756,869** | 2,852,929 |
| CURRENT ASSETS | | |
| Inventories | **2,354,885** | 2,441,500 |
| Trade and bills receivable | **1,807,508** | 1,941,137 |
| Other receivables | **541,214** | 359,569 |
| Pledged bank deposits | **472** | 5,199 |
| Cash and bank balances | **775,800** | 1,069,562 |
| | **5,479,879** | 5,816,967 |
| CURRENT LIABILITIES | | |
| Trade and bills payable | **2,217,184** | 2,966,659 |
| Tax payable | **69,251** | 53,543 |
| Other payables and accruals | **705,485** | 684,235 |
| Bank borrowings | **104,495** | 113,929 |
| | **3,096,415** | 3,818,366 |
| NET CURRENT ASSETS | **2,383,464** | 1,998,601 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **5,140,333** | 4,851,530 |
| NON-CURRENT LIABILITIES | | |
| Bank borrowings | **258,824** | 282,353 |
| Convertible notes | **266,000** | 347,000 |
| Deferred tax liabilities | **1,847** | 1,847 |
| | **526,671** | 631,200 |
| MINORITY INTERESTS | **135,962** | 100,079 |

| | | |
|---|---|---|
| | **4,477,700** | 4,120,251 |
| CAPITAL AND RESERVES | | |
| Issued capital | **273,255** | 268,133 |
| Reserves | **3,932,445** | 3,580,118 |
| Proposed final dividend | **272,000** | 272,000 |
| | **4,477,700** | 4,120,251 |

*Notes:*

## 1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited quarterly financial statements. These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

## 2. Segment Information

An analysis of the Group's turnover and profit from operating activities by principal activities for the three months ended 31 March 2004 is as follows:

| | **Turnover** | | **Profit from operating activities** | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Television | **3,306,939** | 2,960,652 | **232,608** | 124,076 |
| Computers | **435,818** | 366,508 | **10,707** | 3,206 |
| Other audio-visual products | **152,378** | 80,261 | **4,044** | (4,106) |
| Others | **130,440** | 69,520 | **(5,756)** | (6,130) |
| | **4,025,575** | 3,476,941 | **241,603** | 117,046 |
| Interest income | | | **4,546** | 2,420 |
| Amortisation of goodwill | | | **(8,571)** | (8,353) |
| Corporate expenses | | | **(11,159)** | (8,901) |
| | | | **226,419** | 102,212 |

## 3. Share of Profits and Losses of Jointly-controlled Entities

More than 90% of the Group's share of results of its jointly-controlled entities was derived from Huizhou TCL Mobile Communication Co., Ltd ("TCL Mobile") and its subsidiaries, a group mainly engaged in the manufacturing and selling of mobile phones.

On 6 April 2004, TCL Communication Technology Holdings Limited ("TCL Communication"), the intended holding company of TCL Mobile, has applied for an advance booking to the Stock Exchange for the listing of its shares on the main board of the Stock Exchange. Further details of the proposed listing are set out in the Company's announcement dated 6 April 2004.

The condensed summary of certain additional financial information of TCL Mobile is as follows:

*Results for the three months ended 31 March 2004 :#*

| | Unaudited Three months ended 31 March | |
|---|---|---|
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| TURNOVER | **1,915,691** | 2,663,692 |
| Cost of sales | **(1,431,027)** | (2,158,881) |
| Gross profit | **484,664** | 504,811 |
| Other revenue and gains | **11,308** | 7,329 |
| Selling and distribution costs | **(205,838)** | (179,216) |
| Administrative and other operating expenses | **(62,938)** | (57,488) |
| PROFIT FROM OPERATING ACTIVITIES | **227,196** | 275,436 |
| Finance costs | **(114)** | (2,322) |
| PROFIT BEFORE TAX | **227,082** | 273,114 |
| Tax | **(21,248)** | (5,728) |
| NET PROFIT | **205,834** | 267,386 |

*Financial position:*

| | **Unaudited** | Audited |
|---|---|---|
| | **31 March** | 31 December |
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| NON CURRENT ASSETS | **257,151** | 259,598 |
| CURRENT ASSETS | | |
| Inventories *(Note i)* | **627,330** | 760,965 |
| Trade receivables | **81,136** | 392,021 |
| Bills receivable | **2,389,836** | 1,356,571 |
| Cash and bank balances | **661,630** | 858,454 |
| Other current assets | **528,347** | 610,280 |
| | **4,288,279** | 3,978,291 |
| CURRENT LIABILITIES | | |
| Trust receipt loans | **—** | 13,851 |
| Trade and bills payable | **1,572,743** | 1,340,978 |
| Other payables and accruals | **903,926** | 776,223 |
| Other current liabilities *(Note ii)* | **1,495,930** | 92,610 |
| | **3,972,599** | 2,223,662 |
| NET CURRENT ASSETS | **315,680** | 1,754,629 |
| | **572,831** | 2,014,227 |
| CAPITAL AND RESERVES | | |
| Paid-up capital | **232,215** | 232,215 |
| Reserves | **340,616** | 1,782,012 |
| | **572,831** | 2,014,227 |

*Notes:*

i. Included in the inventories are raw materials of HK$488,829,000 (31 December 2003: HK$557,109,000), work in progress of HK$46,270,000 (31 December 2003: HK$78,868,000) and finished goods of HK$92,231,000 (31 December 2003: HK$124,988,000).

ii. Included in other current liabilities is HK$1,473,727,000 dividend payable due to existing shareholders of TCL Mobile. It is currently the intention of all the shareholders of TCL Mobile that these dividends will be directly or indirectly re-invested in TCL Communication prior to its listing on the Stock Exchange.

## 4. Depreciation and Amortization

During the period, depreciation of HK$43,475,000 (2003: HK$31,984,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment; and amortization of HK$28,954,000 (2003: HK$28,647,000) was charged to the profit and loss account in respect of the Group's intangible assets and goodwill arising on consolidation.

## 5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof:

| | **Unaudited Three months ended 31 March** | |
|---|---|---|
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| Group: | | |
| Hong Kong | **10,388** | 1,367 |
| Elsewhere | **19,965** | 12,898 |
| | **30,353** | 14,265 |
| Share of tax attributable to: | | |
| Jointly-controlled entities | **8,906** | 2,432 |
| | **39,259** | 16,697 |

## 6. Dividend

The directors of the Company do not recommend the payment of any interim dividend for the three months ended 31 March 2004 (2003: Nil).

## 7. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$252,978,000 (2003: HK$162,936,000) and the weighted average of 2,708,336,512 (2003: 2,634,495,395) shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK$252,978,000 (2003: HK$162,936,000), adjusted by the reduction of interest expenses of HK$2,260,000 (2003: HK$2,625,000) relating to the convertible notes. The weighted average number of shares used in the calculation is 2,708,336,512 (2003: 2,634,495,395) shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 26,751,618 (2003: 14,586,695) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period; and the weighted average of 120,917,815 (2003: 136,932,707) shares on the deemed conversion of all convertible notes during the period.

# BUSINESS REVIEW AND OUTLOOK

## Operational Highlights
## Unaudited figures for the three months ended 31 March 2004

| | **2004** | 2003 | |
|---|---:|---:|---:|
| | ***('000 sets)*** | *('000 sets)* | *Change (%)* |
| TVs — PRC | **2,155** | 2,022 | +7 |
| — Overseas | **1,004** | 552 | +82 |
| Mobile Handsets | **2,321** | 2,604 | –11 |
| PCs | **134** | 102 | +31 |

— The operating efficiencies and profitability of all core businesses improved

— Gross profit margin of TVs, handsets and PCs increased by 4%, 6% and 1% to 21%, 25% and 10% respectively

— Contribution from the overseas business to the total turnover increased from 13% to 22%

— The handset business underwent cyclical adjustment, posting a decrease in sales, but the new embedded camera handset models launched at the end of the first quarter is expected to boost gross margin and competitiveness

— Sales of PCs increased by 31%, due to the launch of comprehensive and diversified products

— The Group entered into an agreement with the world leading TV manufacturer Thomson S.A. and a major global handset manufacturer Alcatel S.A., establishing a solid foundation for the expansion of core businesses globally

# BUSINESS REVIEW

The Group continued to see stable developments in the first quarter of 2004. Against the backdrop of stiff market competition in the consumer electronics and handset markets not only in China but also in the world market, the Group, under the joint efforts of staff and the management to keep up with market pulse, posted satisfactory improvements in product margins. The Group, on one hand, is committed to R&D and promotion of high-end products, and increased its efforts in quality control and operational efficiencies on the other. During the first quarter, it continued to remain at the forefront and surpassed its rivals in all core businesses in the PRC. In the overseas market, the TV business also posted a strong growth of 82% in terms of unit sales.

## TV Business — PRC

The early arrival of the Chinese New Year meant that the low season of the industry started earlier than the same period of last year. Consequently sales of TVs in the PRC market were just slightly higher than that in 2003, whereas the high-end product segment experienced rapid growth. In general, market competition was more on high-end products.

During the first quarter this year, the Group expedited product sales through proactive marketing activities and effective management. The sales of TCL TVs in the period under review increased 7% to 2,155,000 units. Its market shares also increased when compared with that in 2003. TCL stepped up the enhancement of product mix in the first quarter of 2004. High-end products as a result accounted for higher percentage in the sales mix. Gross profit margin was up from 18% to 23%.

During the period under review, the Group launched 21 models of non-CRT products (including rear-projection, PDP and LCD TVs) and CRT based high definition TV (HDTV) products, enriching the product line for high-end products, such as PDP and LCD TVs, and strengthened the sales of rear-projection TVs, HDTVs and such like products. Non-CRT products and progressive scanning TVs accounted for 11% & 22% of the total turnover in the first quarter, increasing from 6% & 8% in the same period last year. TCL rear-projection TV showed remarkable performance, with its market share reaching a record high of 13% in the rear projection TV market and ranking as No. 2 in the market, according to the China Economy Consultancy. TCL's high-end CRT TVs (including progressive scanning and high definition TVs), with a share of 19%, was ranked No. 2 in January and February, according to the same research.

## TV Business — Overseas

Despite the prevailing keen competition in the global TV market and the price competition initiated by second and third-tier brands, TCL's overseas business continued to post stunning growth. TV export sales in the first quarter of 2004 reached approximately 1 million sets, representing a year-on-year increase of 82%.

The gross profit margin of the overseas business increased by 6% when compared with that of last year. Through strengthening inventory control and account receivables management, the Group increased its turnover efficiency, demonstrating a healthy operations pattern.

As for the marketing strategy of overseas business, in addition to promoting a handful of selected models in certain regional markets, the Group also fortified product advertising and marketing to boost sales. Different products were launched in different regions to cater to the varying needs across markets. The launch of 21" model in Vietnam, the HID series in Hong Kong as well as LCD TVs, PDP TVs and HID rear-projection TVs, etc. in Indonesia received overwhelming response.

Furthermore, the Group increased its efforts to developing the êntrepot trade business in Singapore while strengthening its market presence in other Southeast Asian markets, enriching its product portfolio and enhancing overall business operations.

The development of the OEM business in regional markets such as Africa, the Middle East, Latin America, the Far East and Australia progressed impressively. Meanwhile, the Group also formulated different brand development strategies for different regions. During the period under review, the Group sustained intimate relationships with relevant business partners and progressed satisfactorily in different regional markets.

## Handset Business

Market competition in the domestic handset market further intensified in the first quarter of 2004. Manufacturers competed not only in terms of price, but also in terms of product functions and industrial design. Apart from accelerating pace of product launch, many international brands even initiated frequent price competition in order to capture more market shares.

TCL was able to sustain its market position amidst keen market competition. However, as the post-Chinese New Year low season started earlier this year, the sales volume of handsets for the first quarter of 2004 recorded a year-on-year decline of 11%, amounting to 2,321,000 units.

In spite of this, during the year under review, the Group improved its product mix via increasing the sales of colour screen handsets and embedded camera handsets, resulting in a stable average selling price. This, together with the implementation of stringent cost control measures, improved the gross profit margin to 25%.

TCL launched five new products during the first quarter of 2004, including handset models with colour display and embedded camera feature launched in March. The new products were well received by the market.

## PC Business

The PRC market for desktop PCs continued its growth pattern in 2004, representing an increase of 18% as compared to that of last year. The Group continued to embrace the established operation strategy of market segmentation and regional operation during the first quarter of 2004. Unit sales surged by 31% to 134,000 sets, among which 123,000 sets are desktop PCs and the remaining 11,000 sets are notebook PCs. Gross profit margin went up to 10% and net profit also increased substantially, mainly attributable to the increase in the sales of high-end products.

Responding to the increasing demand for personalization, TCL launched a series of customer-oriented PCs. The Group's emphasis on customized products such as PCs for tax accounting, education and installation in Internet pubs. The strategy for commercial PCs is to cater to specific needs of a market segment, commoditizating office PCs, while in the home PC market, the Group aims to serve as a network terminal and digital electric appliances (數碼家電化).

## AV Business

During the period under review, competition in the PRC AV industry remained keen. A vast number of market entrants, comprising small enterprises, fabrication factories and foreign manufacturers, kicked off waves of prices wars, leading to a decrease in average product prices. The profit margins of DVD players contracted as a result. The Group, with its high brand value and quality products, maintained its market share. Overseas business, on the other hand, sustained strong growth. Overall sales of AV products thus surged to 437,000 sets in the first quarter of 2004, representing a 150% year-on-year growth. The Group also adjusted the inventory mix, which shortened the inventory turnover period of DVD/VCD players. In addition, the more settlement by cash-on-delivery terms minimized the Group's capital risk and successfully achieved a turnaround in this business. Gross profit margin increased from 9% last year to 13% in 2004.

## IT Business

Since the disposal of the network business last year, the Group has re-deployed its resources to the development of the distance learning education business. During the first quarter of 2004, the Group suspended the launch of new services in view of school holidays. It continued to focus on its key services, namely service provision for China Central Radio & Television University and public services supporting system for open distance-learning education, and has attained eminent progress. TCL is currently the leading service provider in the overall distance learning education business.

## Future Outlook

With vehement competition in the TV market, the Group anticipates the prices for both conventional CRT and high-end products to decrease in the second quarter of 2004. Along with the further consolidation of the TV market, second-tier brands will encounter tremendous pressure on maintaining operations and smaller brands will be phased out, whereas the sales of high-end products will increase remarkably and become a scaleable business.

TCL will adopt the marketing strategy of highlighting mid-end products and leveraging its comprehensive market coverage. Distinguished high definition, outstanding 3C functions and prominent audio systems are the three main characteristics that differentiate TCL's new generation TVs from products of its rivals.

As for the overseas market, the strengthening of marketing and advertising activities in the previous quarter expedited the sales of TCL's products in different regions, increased its ranking in market share and established a solid sales foundation for the next quarter as well as the second half of 2004. Capitalizing on its existing marketing strategy, TCL will continue to accelerate new product development and enrich its product mix, so as to satisfy different market demands. The Group will launch over 30 new products and will also introduce high-end products, including LCD and PDP TVs to mature markets such as Hong Kong and Singapore. In face of increasing costs, the Group will coordinate its resources to explore and capture any arising business opportunities in emerging markets. Meanwhile, TCL will further implement its development plans for different markets, strengthen brand promotion overseas and enhance overall business performance.

Mainstream products for mobile handsets will be those with color display and photo-taking features (embedded camera) in the next quarter. Decrease in selling price of these new products will drive the sales and raise its share in the product mix, eventually leading to a steady upward trend for the average price in the overall GSM market. Therefore, to further enhance its overall market share, TCL will step up its efficiency of launching new products and establishing market entry barriers by introducing low-end monochrome or color handsets based on its low cost advantage. In addition, the Group will continue to develop the market for mid to high-end products, and at the same time extend its reach to market segments such as the female market, with the launch of high-end smart phone with color display and/or embedded camera feature.

TCL will continue to embrace the operation strategies of market segmentation in regional sales management within the PRC to increase its market share for the consumer PCs sector. The Group will also launch a series of new products with fashionable outlook, extendable digital capabilities and interactive entertaining functions. As for the commercial PCs sector, the Group will launch a commercial professional PC, the 精鼎-series, which is customized for education industry. The product has a unified multi-functional case lock and adopted the ameliorative design for education application. TCL has to establish a commercial PC brand tailor-made for different industries.

Setting our vision to be a global player, the Group entered into an agreement with the world leading TV manufacturer Thomson S.A. ("Thomson") in November last year to jointly establish TCL-Thomson Electronics Limited ("TTE") that engages in the research and development, manufacture as well as the sales and distribution of TVs. To further realize its vision, TCL Mobile entered into an agreement with Alcatel S.A. ("Alcatel"), a world-class handset manufacturer, to develop a global platform for the research and develop, manufacture and sales of handsets, leading the Group towards the road to becoming an internationally leading TV and handset manufacturer with global operation scales.

# FINANCIAL REVIEW

## Results

The Group recorded turnover of approximately HK$4,026 million for the first quarter of 2004, representing an increase of 16% as compared to the same period last year. Profit attributable to shareholders was approximately HK$253 million, compared to the HK$163 million of the corresponding period last year. TV and handset businesses continued to be the Group's major profit contributors. Turnover and gross margin of TV business was HK$3,307 million and 21% respectively, representing an increase of 12% and 4% respectively. Our handset business maintained as market leader in the PRC and achieved turnover of HK$1,916 million, a decrease of 28%. On the other hand, gross profit margin of handset business increased by 6% to 25%, attributed to improved product mix and better cost control.

## Significant Investment and Acquisitions

During the period under review, TCL achieved significant progress in the establishment of TTE with Thomson. Since the signature of the MOU in November 2003, TCL and Thomson have been cooperating seamlessly. During the PRC President Mr. Hu Jintao's visit to France at the end of January this year, both parties entered into a combination agreement. Pursuant to the agreement, the respective TV businesses and assets of the Group and of Thomson will be combined and managed under the ownership of the new joint venture TTE, which will be held as to 67% and 33% by the Group and Thomson respectively. It is the Directors' belief that TTE will become a major global company with long term competitiveness in the businesses of TV R&D, manufacturing, distribution and sales. TTE is scheduled to start operation in the second half of 2004, upon the approval of shareholders and regulatory authorities. Further details of the joint venture are set out in the Company's announcement dated 30 January 2004.

Apart from that, TCL and Alcatel signed a binding MOU to form a joint venture for the development, manufacture and distribution of mobile handsets and related products and services in April 2004. The joint venture will be owned as to 55% by TCL and 45% by Alcatel respectively. Alcatel will transfer all its mobile handset business and assets into the joint venture. TCL intends to build on the combined technology, manufacturing and marketing expertise to expand its market coverage to further increase revenue and enhance operational efficiency.

With the view of concentrating on the development of multi-media business (including TVs and PCs) and the expansion of overseas business, the Group announced its plan for the restructure and listing of its mobile handset business. The Group is considering to declare a special interim dividend which will be satisfied by a distribution in specie of all the shares acquired by the Company pursuant to TCL Mobile's listing and reorganization. The exact terms, structure and mechanism of the proposed distribution are currently being considered. If the proposed distribution is implemented as intended, the Company will no longer have any equity interest in TCL Mobile.

In February 2004, the Group completed the acquisition by a cash consideration of approximately USD5.6 million of an additional 50% interest in TCL Digital Technology (Beijing) Co. Ltd., which is engaged in the manufacture and sales of notebook computers. The Group previously held a 5% interest in the company prior to the acquisition.

## Liquidity and Financial Resources

The Group consistently maintained a strong liquidity position throughout the period. Through its centralized treasury function, the Group was able to make efficient allocation of its financial resources and reduced its financial expenses, if any. The cash and bank balances as at 31 March 2004 amounted to HK$776 million, of which 48% was maintained in Hong Kong Dollars, 20% in US Dollars, 25% in Renminbi and 7% was held in other currencies for the overseas operations. The Group's gearing ratio at the period end was 0.14 which is calculated based on the Group's total interest-bearing borrowings at approximately HK$629 million and the shareholders' funds of approximately HK$4,478 million.

There was no material change in available credit facilities when compared with the year ended 31 December 2003 and there was no asset held under finance lease at the period end. At the period end, the Group's bank deposits of approximately HK$0.5 million only were pledged to secure a bank loan. Other than the foregoing, all bank borrowings were clean loans without any changes or securities required. Convertible notes were subject to fixed interest rate at 3% per annum. During the period, a total amount of HK$81 million convertible notes were exercised and converted into 31,690,134 shares of the Company at an exercise price of HK$2.556 per share.

## Capital Commitments and Contingent Liabilities

There was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2003.

## Foreign Exchange Exposure

Since most business transactions conducted by the Group and payments made to suppliers are made in either Hong Kong Dollars, US Dollars or Renminbi, no use of financial instruments for hedging purposes is considered necessary.

## Employees and Remuneration Policy

The Group had a total of 21,000 dynamic and talented employees, of which approximately 4% was management level, 22% was technical staff, 9% was clerical staff, 26% was sales & marketing staff, and 39% was workers. They were all dedicated to advancing the quality and reliability of our operations. Total staff costs for the period was approximately HK$151 million. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Share options granted to directors and employees and remained outstanding at the period end totaled 53,818,500 units.

# PURCHASES, SALE OR REDEMPTION OF SHARES

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

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited during the period.

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

Hong Kong, 28 April 2004

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