

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

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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:

Name of director	Shares of the Company	
	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.

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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.

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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