

NOTES TO FINANCIAL STATEMENTS

31 December 2002

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.

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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.

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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.

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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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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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.

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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

	Television		Audio-visual		Continuing operations: 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

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Television		Audio-visual		Continuing operations: 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 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		Hong Kong		Others		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
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 HK\$'000	2001 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

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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	2001
	HK\$'000	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.

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8. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	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	2001
	HK\$'000	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.

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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 HK\$'000	2001 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.

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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.

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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	2001
	HK\$'000	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		Principal activities
			2002	2001	
			%	%	
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

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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		Principal activities
			2002 %	2001 %	
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		Principal activities
			2002 %	2001 %	
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.

NOTES TO FINANCIAL STATEMENTS

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19. INTEREST IN AN ASSOCIATE

	Group	
	2002	2001
	HK\$'000	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		Principal activities
			2002	2001	
			%	%	
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	2001
	HK\$'000	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

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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			Principal activities
			Ownership interest	Voting power	Profit sharing	
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

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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.

NOTES TO FINANCIAL STATEMENTS

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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

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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	
	Note	2002	2001	2002	2001
		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	
	Notes	2002	2001
		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

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29. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 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 HK\$'000	2001 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.

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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.

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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:

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

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

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31 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.

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31 December 2002

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 HK\$'000	2001 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

NOTES TO FINANCIAL STATEMENTS

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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)
Gain on disposal	2,110
Satisfied by cash	4,062
	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

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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

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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	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.