

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

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

- manufacture and sale of colour television sets, and trading of related components
- manufacture and sale of other audio-visual products
- manufacture and sale of computer related products

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

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

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

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

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

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

Measurement and recognition:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

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

Disclosures:

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

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

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

Joint venture companies

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

Goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

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

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

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

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

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

Impairment of assets

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

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

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

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

Operating leases

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

Trademarks

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments

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

Inventories

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Foreign currencies

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

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

Share option schemes

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

Pension schemes

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) dividend income, when the shareholders' right to receive payment has been established; and
- (d) sales commission income, when the sale has been completed.

Research and development costs

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

Dividends

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Cash and cash equivalents

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

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

4. SEGMENT INFORMATION

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

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

- (a) the television segment manufactures colour television sets and trades related components;
- (b) the audio-visual segment manufactures audio-visual products;
- (c) the computer segment manufactures personal computers and peripheral products;
- (d) the others segment comprises the information technology and other businesses; and
- (e) the discontinued white goods segment manufactured and traded home electrical appliances.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION (continued)

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

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

(a) Business segments

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

Group

	Continuing operations:						Discontinued operations:						Consolidated	
	Television		Computer		Audio-visual		Others		White goods		Eliminations		2003	2002
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	12,422,446	9,393,956	1,775,583	1,388,654	374,846	350,221	575,777	260,865	—	793,953	—	—	15,148,652	12,187,549
Intersegment sales	96,064	75,030	937	6,740	192,478	112,969	16,262	16,053	—	—	(305,741)	(210,792)	—	—
Total	12,518,510	9,468,986	1,776,520	1,395,294	567,324	463,190	592,039	276,918	—	793,953	(305,741)	(210,792)	15,148,652	12,187,549
Segment results	573,685	565,497	31,241	17,244	(28,506)	(46,165)	(14,613)	(51,401)	—	(72,217)	—	—	561,807	412,958
Interest income													9,188	17,227
Corporate expenses													(31,539)	(43,564)
Amortisation of goodwill	(8,475)	(8,475)	(24,661)	(24,661)	—	—	(274)	(273)	—	—	—	—	(33,410)	(33,409)
Gain on disposal of subsidiaries	—	—	—	—	—	—	1,331	—	—	4,062	—	—	1,331	4,062
Finance costs													(32,929)	(12,159)
Share of profits less losses of:														
Jointly-controlled entities	8,193	9,512	—	—	—	—	329,482	368,946	—	(5,133)	—	—	337,675	373,325
Associate	—	—	—	—	—	—	—	—	—	(53)	—	—	—	(53)
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities	—	—	—	—	—	—	(78,433)	(29,642)	—	—	—	—	(78,433)	(29,642)
Loss on deemed disposal of interest in a jointly-controlled entity	—	—	—	—	—	—	—	(38,825)	—	—	—	—	—	(38,825)
Gain on disposal of discontinued operations of jointly-controlled entities and an associate	—	—	—	—	—	—	—	—	—	3,985	—	—	—	3,985
Profit before tax													733,690	653,905
Tax													(84,093)	(61,213)
Profit before minority interests													649,597	592,692
Minority interests													(7,748)	(19,041)
Net profit from ordinary activities attributable to shareholders													641,849	573,651

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

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

(b) Geographical segments

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

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

5. TURNOVER

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

6. PROFIT FROM OPERATING ACTIVITIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

6. PROFIT FROM OPERATING ACTIVITIES (continued)

- * Certain government grants have been received for carrying out research activities within the Guangdong Province, Mainland China. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.
- ** These are included in "Other operating expenses" on the face of the consolidated profit and loss account.
- *** The amortisation of trademarks is included in "Selling and distribution costs" on the face of the consolidated profit and loss account.
- **** The negative goodwill recognised in the consolidated profit and loss account is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

8. DIRECTORS' REMUNERATION

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
Current — Hong Kong		
Charge for the year	17,685	10,000
Overprovision in prior years	(31)	—
Current — Elsewhere	59,800	38,697
Deferred (note 28)	(941)	(3,524)
	76,513	45,173
Share of tax attributable to:		
Jointly-controlled entities	7,580	16,040
Total tax charge for the year	84,093	61,213

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX (continued)

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

Group — 2003

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. TAX (continued)

Group — 2002

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

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 7.5% to 33%.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

12. DIVIDEND

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

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$641,849,000 (2002 (restated): HK\$573,651,000) and the weighted average of 2,651,526,753 (2002: 2,554,562,270) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$641,849,000 (2002 (restated): HK\$573,651,000), adjusted by the reduction of interest expense of HK\$10,490,000 (2002: HK\$1,525,000) relating to the convertible notes. The weighted average number of shares used in the calculation is the 2,651,526,753 (2002: 2,554,562,270) shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 13,470,468 (2002: 55,356,614) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year; and the weighted average of 136,857,676 (2002: 20,258,538) shares on the deemed conversion of all convertible notes during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. FIXED ASSETS

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. FIXED ASSETS (continued)

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

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

15. TRADEMARKS

Group

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. GOODWILL

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the principal subsidiaries are as follows:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. INTERESTS IN SUBSIDIARIES (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. INTERESTS IN SUBSIDIARIES (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. INTERESTS IN SUBSIDIARIES (continued)

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

@ Direct subsidiaries of the Company.

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

† Established during the year.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			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
電大在線遠程教育技術有限公司 *	Corporate	PRC	50	45	50	Provision of remote education services

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

Results for the year:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Financial position:

	2003	2002
	HK\$'000	HK\$'000
NON-CURRENT ASSETS	259,598	194,020
CURRENT ASSETS		
Inventories *	760,965	1,409,987
Trade receivables	392,021	76,058
Bills receivable	1,356,571	1,272,208
Cash and bank balances	858,454	629,003
Other current assets	610,280	840,584
	3,978,291	4,227,840
CURRENT LIABILITIES		
Trust receipt loans	13,851	67,643
Trade and bills payables	1,340,978	1,409,207
Other payables and accruals	776,223	1,260,498
Other current liabilities	92,610	73,944
	2,223,662	2,811,292
NET CURRENT ASSETS	1,754,629	1,416,548
NON-CURRENT LIABILITIES	—	2,456
	2,014,227	1,608,112
CAPITAL AND RESERVES		
Paid-up capital	232,215	232,215
Reserves	1,782,012	1,375,897
	2,014,227	1,608,112

* Included in the inventories are raw materials of HK\$557,109,000 (2002: HK\$847,466,000), work in progress of HK\$78,868,000 (2002: HK\$120,616,000) and finished goods of HK\$124,988,000 (2002: HK\$441,905,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

19. LONG TERM INVESTMENTS

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

20. INVENTORIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

21. TRADE AND BILLS RECEIVABLES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

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

23. OTHER RECEIVABLES

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

24. PLEDGED BANK DEPOSITS

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

25. TRADE AND BILLS PAYABLES

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

25. TRADE AND BILLS PAYABLES (continued)

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

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

26. BANK BORROWINGS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. BANK BORROWINGS (continued)

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

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

27. CONVERTIBLE NOTES

Group and Company

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. CONVERTIBLE NOTES (continued)

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

The principal terms of the convertible notes are as follows:

Issue price

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

Term and maturity date

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

Interest

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

Conversion period

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

Conversion rights

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. CONVERTIBLE NOTES (continued)

Conversion shares

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

Redemption at the option of the Company

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. DEFERRED TAX

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

Deferred tax liabilities

Group

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

Deferred tax assets

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. DEFERRED TAX (continued)

Deferred tax liabilities

Group

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

Deferred tax assets

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. DEFERRED TAX (continued)

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

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

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

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

29. SHARE CAPITAL

Shares

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE CAPITAL (continued)

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

- (a) The subscription rights attaching to 49,155,999 share options were exercised, resulting in the issue of 49,155,999 shares of HK\$0.10 each for a total cash consideration of HK\$70,117,000.
- (b) 1,173,708 shares of HK\$0.10 each were issued pursuant to the conversion of the Company's convertible notes amounting to HK\$3,000,000 at a conversion price of HK\$2.556 per share.

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

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

Share options

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE CAPITAL (continued)

Share options (continued)

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE CAPITAL (continued)

Share options (continued)

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

Name or category of participant	Number of share options					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 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003					
Directors										
Li Dong Sheng, Tomson	12,000,000	—	—	(12,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	6,950,000	—	—	6,950,000	15 May 2003	1.550	Note 7	1.590	
	12,000,000	6,950,000	—	(12,000,000)	6,950,000					
Yuan Xin Cheng	6,000,000	—	—	(6,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	5,300,000	(5,300,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.375
	6,000,000	5,300,000	(5,300,000)	(6,000,000)	—					
Lu Zhong Li	5,000,000	—	—	(5,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	4,600,000	(4,600,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.925
	5,000,000	4,600,000	(4,600,000)	(5,000,000)	—					
Hu Qiu Sheng	5,000,000	—	—	(5,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	4,600,000	(4,600,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.375
	5,000,000	4,600,000	(4,600,000)	(5,000,000)	—					
Yan Yong	300,000	—	—	(300,000)	—	1 June 2000	2.508	Note 2	3.200	
	200,000	—	(200,000)	—	—	2 May 2001	0.928	Note 3	1.130	1.480
	—	200,000	(66,000)	—	134,000	30 January 2003	2.114	Note 6	2.075	2.825
	—	1,550,000	(1,550,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.825
	500,000	1,750,000	(1,816,000)	(300,000)	134,000					
Suen Hay Wai	—	700,000	—	—	700,000	30 January 2003	2.114	Note 6	2.075	
Wong Toe Yeung [®]	3,000,000	—	(1,000,000)	(2,000,000)	—	3 December 1999	2.236	Note 1	3.075	2.500

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE CAPITAL (continued)

Share options (continued)

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE CAPITAL (continued)

Share options (continued)

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

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

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

30. RESERVES

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

30. RESERVES (continued)

Group (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

30. RESERVES (continued)

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

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

Company

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

(b) Acquisition of subsidiaries

	2002 HK\$'000
Net assets acquired:	
Fixed assets	2,801
Goodwill	5,312
Inventories	400
Cash and bank balances	862
Trade and bills receivables	3
Prepayments, deposits and other receivables	2,616
Trade and bills payables	(97)
Other payables and accruals	(2,873)
Minority interests	(4,632)
	4,392
Negative goodwill on acquisition	(1,090)
	3,302
Satisfied by:	
Cash	3,302
An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:	
	2002 HK\$'000
Cash consideration	(3,302)
Cash and bank balances acquired	862
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,440)

NOTES TO FINANCIAL STATEMENTS

31 December 2003

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

(c) Major non-cash transaction

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

32. OPERATING LEASE ARRANGEMENTS

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

33. COMMITMENTS

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

34. CONTINGENT LIABILITIES

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

35. RELATED PARTY TRANSACTIONS

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

35. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The sales of raw materials were made at cost.
- (ii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.
- (iii) In 2002, the sales commission was calculated at 10% of the retail price of the products sold.
- (iv) The sales handling fee income was calculated at 1.7% of the invoiced sales of the products distributed.
- (v) The subcontracting fees were determined by reference to subcontracting fees charged by third party companies offering similar services.
- (vi) In 2002, the Group sold its finished goods at an average mark-up of 2%.
- (vii) The rent was determined with reference to open market rentals.
- (viii) The contract fee was the sum of the following:
 - (1) A fee equivalent to 8% of net asset value of the contracted operation as at the end of preceding financial year; and
 - (2) Depreciation costs of the contracted operation for this financial year.
- (ix) The cash discounts paid were calculated as follows:
 - (1) For amounts settled within the credit period, the cash discount was calculated at a monthly rate of 0.465%;
 - (2) For settlement within the credit period, the amount of settlement by cash over 70% of the total settlement attracted a cash discount calculated at a monthly rate of 0.465%.

36. POST BALANCE SHEET EVENT

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. POST BALANCE SHEET EVENT (continued)

- (c) Thomson is required to contribute into TTE certain of its business units engaging primarily in TV manufacturing and located in Mexico, India and Poland etc., three research and development centres located in Germany, U.S. and India, certain fixed assets including production equipment and certain current assets and liabilities relating to its TV business.
- (d) In consideration of the contribution by the Company and Thomson of their respective TV businesses and assets (including the Wuxi and Inner-Mongolia Assets), TTE will issue new shares representing 67% and 33% of the enlarged issued share capital of TTE immediately following closing of the Combination Agreement ("Closing") to the Company and Thomson, respectively.
- (e) The obligations of the Company and Thomson under the Combination Agreement are subject to fulfillment or waiver of a number of conditions on or prior to Closing, including the approval by the shareholders of the Company of the Combination Agreement and the transactions contemplated thereunder and execution of a number of transaction documents stipulated under the Combination Agreement (the "Transaction Documents"). The Transaction Documents include, among others, the Exchange Option Agreement and a number of operation agreements to be entered into between TTE and the Thomson group or the TCL Corporation group concerning the future operation of TTE.
- (f) The Exchange Option Agreement will involve the Company granting an irrevocable option to Thomson to exchange its shares in TTE for the new shares of the Company, which will become exercisable under certain circumstances but no later than 18 months from Closing.

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

37. COMPARATIVE AMOUNTS

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

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

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