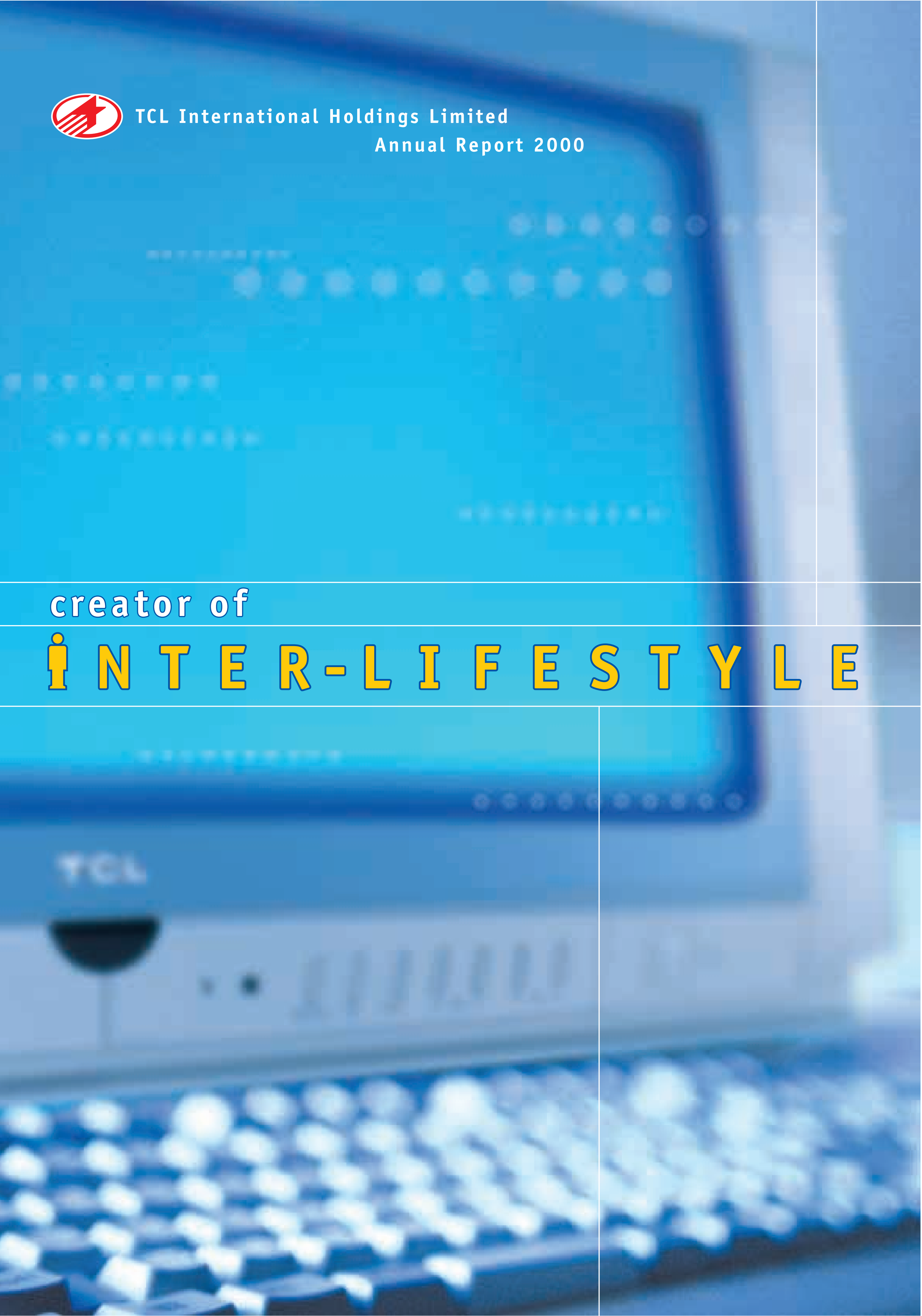
TCL International Holdings Limited

Annual Report 2000



creator of INTER-LIFESTYLE

CORPORATE PROFILE

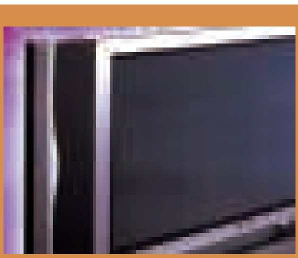
TCL International Holdings Limited is a prominent industry leader in the design, manufacture, and sales of a wide range of household appliances in the PRC and overseas. Riding on the success of the mainstay businesses in colour televisions, audio-visual products and white goods, TCL expands into the modern areas of information technology products and services, including personal computers, Internet access devices and value-added services. All of the products sold in China are distributed through an extensive nationwide distribution network under the TCL brand name.

Business Philosophy

TCL strives to provide value for customers, career opportunities for employees and benefits for society as a whole.

TCL's Guiding Principles

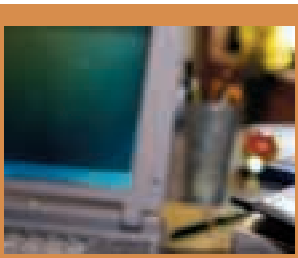
- The reputation of TCL's brand name is built on the quality of its products and services.
- TCL commits to the digital technology of the future and invests substantially in Research and Development corresponding to market demands.



Colour Television

White Goods

Personal Computer



Information Technology

Mission

TCL - The Inter-lifestyle Creator

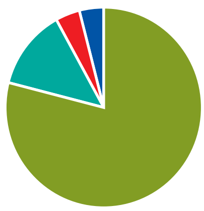
TCL aims at being a premier consumer electronic brand in the PRC to create an Inter-lifestyle in households, putting innovative, intelligent, interactive and informative technologies in everyday life.

- TCL's products can only be connected to the consumers through an effective nationwide distribution network.
- TCL builds partnerships and alliances with parties which can enhance TCL's technological capability, management expertise and extend its access to the local and international market.

FINANCIAL HIGHLIGHTS

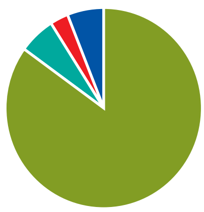
	2000 HK$'mn	1999 HK$'mn	Change %
Turnover			
TV	**6,750**	5,217	29%
Refrigerator	**363**	218	67%
Washing Machine	**403**	146	176%
Air Conditioner	**385**	N/A	N/A
AV	**342**	161	112%
Others	**326**	416	-21%
Total	**8,569**	6,158	39%
Gross Profit	**1,699**	904	88%
Net Profit Attributable to Shareholders	**428**	510	-16%

Revenue Breakdown by Businesses (2000)



Television sets	79%
White goods and air conditioner	13%
Audio and visual product	4%
Others	4%

Revenue Breakdown by Businesses (1999)



Television sets	85%
White goods	6%
Audio and visual product	3%
Others	6%

Financial Position

	2000 HK$'mn	1999 HK$'mn
Fixed Assets	**646**	520
Net Current Assets*	**1,828**	1,760
Cash and Time Deposits	**1,103**	1,297
Total Interest Bearing Debts	**269**	496
Net Assets/Shareholders' funds*	**2,567**	2,131
Current Ratio*	**1,65**	1.68
Debt Equity Ratio*	**0.10**	0.23

* before proposed final dividend

CORPORATE INFORMATION

Board of Directors

Chairman

Mr. Li Dong Sheng, Tomson

Vice Chairman

Mr. Yuan Xin Cheng

Executive Directors

Mr. Hu Qiu Sheng

Ms. Wu Shi Hong

Mr. Yan Yong

Non-Executive Directors

Ms. Lu Zhong Li

Mr. Wong Toe Yeung

Independent Non-Executive Directors

Mr. Hon Fong Ming

Mr. Albert Thomas da Rosa, Junior

Company Secretary

Ms. Pang Siu Yin, Solicitor, Hong Kong

Principal Bankers

The China State Bank, Ltd

CITIC Ka Wah Bank Ltd

The Development Bank of Singapore Ltd

Hang Seng Bank Ltd

The Hongkong and Shanghai Banking Corporation Ltd

Industrial and Commercial Bank of China (Asia) Ltd

Nanyang Commercial Bank, Ltd

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

Auditor

Ernst & Young

Certified Public Accountants

Principal Registrar

Bank of Butterfield International
(Cayman) Ltd

Butterfield House, Fort Street

P.O. Box 705, George Town

Grand Cayman

Cayman Islands

Branch Registrar

Tengis Limited

4/F Hutchison House

10 Harcourt Road

Central

Hong Kong

Principal Office

13th Floor

TCL Tower

8 Tai Chung Road

Tsuen Wan

New Territories

Hong Kong

Registered Office

Ugland House

South Church Street

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

Investor and Media Relations

iPR ASIA LTD

20/F Hing Wai Building

36 Queen's Road Central

Hong Kong

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors

Executive Directors

Mr. Li Dong Sheng, aged 43, is the founder and chairman of the Group. He is responsible for the formulation of corporate strategy and the overall direction for the Group's management team. In 1994 and 1995, Mr. Li was awarded the titles of "Outstanding Youngster of Huizhou Municipal" and "National Excellent Young Entrepreneur", respectively. Mr. Li has over 18 years of experience in various aspects of the electronics industry, including the manufacture and sale of electronics products. Mr. Li is an engineer and graduated with a Bachelor of Science degree from Huanan Polytechnic University in Guangzhou, the PRC.

Mr. Yuan Xin Cheng, aged 49, is responsible for the sales and marketing function of the Group. He is the chairman of TCL Huizhou, TCL Shenzhen and Huizhou TCL Appliance and an executive director and vice president of TCL Holdings. He joined the Group in 1998 and has some 29 years of experience in the production, sales and marketing of electronic consumer products. He also has extensive business connections in the PRC. Mr. Yuan is an economist and graduated from Television Broadcasting University in Huanan, the PRC.

Mr. Hu Qiu Sheng, aged 41, is responsible for the overall management of the Group's production function. He is the general manager of TCL Huizhou and TCL Shenzhen. Mr. Hu has over 18 years of experience in production technology development, and product research, development and sales. He joined the Group in 1996. He is an engineer and graduated with a Bachelor of Science degree from Huanan University in Guangzhou, the PRC.

Ms. Wu Shi Hong, aged 43, is responsible for overseeing the business in respect of information technology related products and services of the Group. Ms. Wu has almost 16 years experience in the information technology business. Ms. Wu was at management level with the IBM group for over 5 years. Prior to joining the Group in December 1999, Ms. Wu was the general manager of Microsoft China Limited.

Mr. Yan Yong, aged 38, joined the Group in March 1999 and was appointed Executive Director in October 2000. Previously, he was Head of the Business Development Department of the Group and the General Manager of T&L, Inc, a joint venture between the Company and Lotus Pacific, Inc of the United States. He is currently the Assistant to the President and Vice General Manager of the Group, responsible for corporate finance. Prior to joining TCL, he was the Vice President and PRC Country Manager at Tulip Computers (Asia) Limited and has over 10 years of management and finance experience in the United States and the PRC. He has an MBA from Stanford University and an M.S. in Computer Science from Peking University.

Non-executive Directors

Ms. Lu Zhong Li, aged 55, is a director, vice president and chief accountant of TCL Holdings. Ms. Lu has over 35 years of experience in financing, taxation, accounting and financial management. Ms. Lu is an accountant and graduated from Hubei University, the PRC.

Mr. Wong Toe Yeung, aged 61, previously was a director of Toyo (Holdings) Limited (formerly known as Tomei International (Holdings) Ltd.), a listed company on The Stock Exchange of Hong Kong Limited, and a director of Huizhou TCL — Telital Mobile Communication Company Limited. Mr. Wong has over 30 years of experience in the consumable electronic products industry.

Independent Non-executive Directors

Mr. Hon Fong Ming, aged 34, is the executive director of Dragoncom (Asia) Asset Management Limited. He has over 10 years of experience in capital market management and corporate finance. In particular, he has acquired practical experience in assisting the listing of PRC enterprises in overseas markets. Mr. Hon is also the editor-in-chief of Asian Review （亞洲評論）, a Hong Kong-published journal of politics and international relations. He specialises in the research of history and modernisation of South East Asia. He frequently publishes political and economic critiques, and is working on an academic thesis concerning the major English and Chinese press media in Asia.

Mr. Albert Thomas da Rosa, Junior, aged 47, is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, solicitors, Hong Kong. He is also a fellow of the Chartered Institute of Arbitrators and a member of the Hong Kong Securities Institute. He graduated with a bachelor's degree in law from the University of Hong Kong and also obtained a master's degree in law from the same University. He is also a non-executive director of certain other companies listed on The Stock Exchange of Hong Kong Limited.

Senior Management

Mr Suen Hay Wai, aged 46, General Manager — Operations. Mr Suen is responsible for the daily operations of the Company, and brings with him over 20 years of experience in general and business management of multinational and public-listed companies. Prior to joining TCL in September 2000, he was with AST Research (Far East) Ltd. as General Manager. His major work encompasses finance, general management and supply chain management in both manufacturing and sales organisations. Mr Suen has a B.S. in Business Administration from Chinese University of Hong Kong.

Mr Myung Jun Ahn, aged 45, General Manager — Overseas. Mr Ahn joined the Group in October 2000 and is responsible for the international business of the Company. Previously, Mr Ahn worked with LG Electronics Inc of Korea for over 22 years, where he was mainly responsible for international sales and the management of subsidiaries in countries other than Korea. He has worked in various countries, including Germany, Italy, China, Russia and the Ukraine. He established the joint venture between TCL and LGE in Huizhou and worked as the General Manager of the joint venture between 1994 and 1996. Mr Ahn graduated from Hankuk University of Foreign Studies with a bachelor's degree in International Trade.

Mr Bruce Ren, aged 38, Chief Technology Officer. Mr Ren joined the Group in November 2000, bringing with him over 14 years of experience in engineering and management in both China and the United States. Previously, he worked for 7 years with Microsoft

Corporation, with responsibilities ranging from developer on the Windows 95 team to project manager for Chinese Windows NT, to Deputy Director of the Microsoft China R&D Center. He managed the Venus team during his tenure in Beijing with Microsoft China R&D Center. Mr Ren graduated from Peking University with both a master's and a bachelor's degree in Computer Science and Engineering.

Mr. Yang Li, aged 41, is the general manager responsible for the Group's sales function in the PRC. He is also the general manager of Huizhou TCL Appliance. Mr. Yang is an assistant economist and has some 19 years of experience in the sales of various consumable electronic products in the PRC.

Ms. Shao Guang Jie, aged 38, is the chief accountant (PRC operations) of the Group. She is also the deputy general manager of TCL Huizhou and TCL Shenzhen. She is responsible for the Group's financial management in the PRC. Ms. Shao joined the Group in 1995 and has over 17 years of experience in accounting, auditing, taxation and financial management. Ms. Shao is a registered accountant and auditor in the PRC and graduated from Xian University, the PRC.

Mr. Chikao Yamane, aged 58, is the production technology controller of the Group. He joined the Group in 2000. Mr. Yamane has a wealth of experience in the design, enhancement, productivity upgrade and operational efficiency of production processes. He was with Toshiba Corporation for over 40 years and was the assistant general manager of Toshiba Dalian Co., Ltd.

Mr. Wong Hoi Wah, aged 56, is the chief engineer of the Group. He is responsible for product research and development. Mr. Wong is also a non-executive director of a company listed on The Stock Exchange of Hong Kong Limited. Mr. Wong joined the Group in 1996 and has over 33 years of experience in electronics engineering.

Mr. Yu Guang Hui, aged 33, is the production manager (PRC) of the Group. He is also the deputy general manager of TCL Huizhou and TCL Shenzhen. He is responsible for the Group's production management. Mr. Yu joined the Group in 1996 and has over 7 years of experience in production, production planning and quality control management of materials. He is an engineer and graduated from Normal University in Shannxi, the PRC, with a science master's degree in physics.

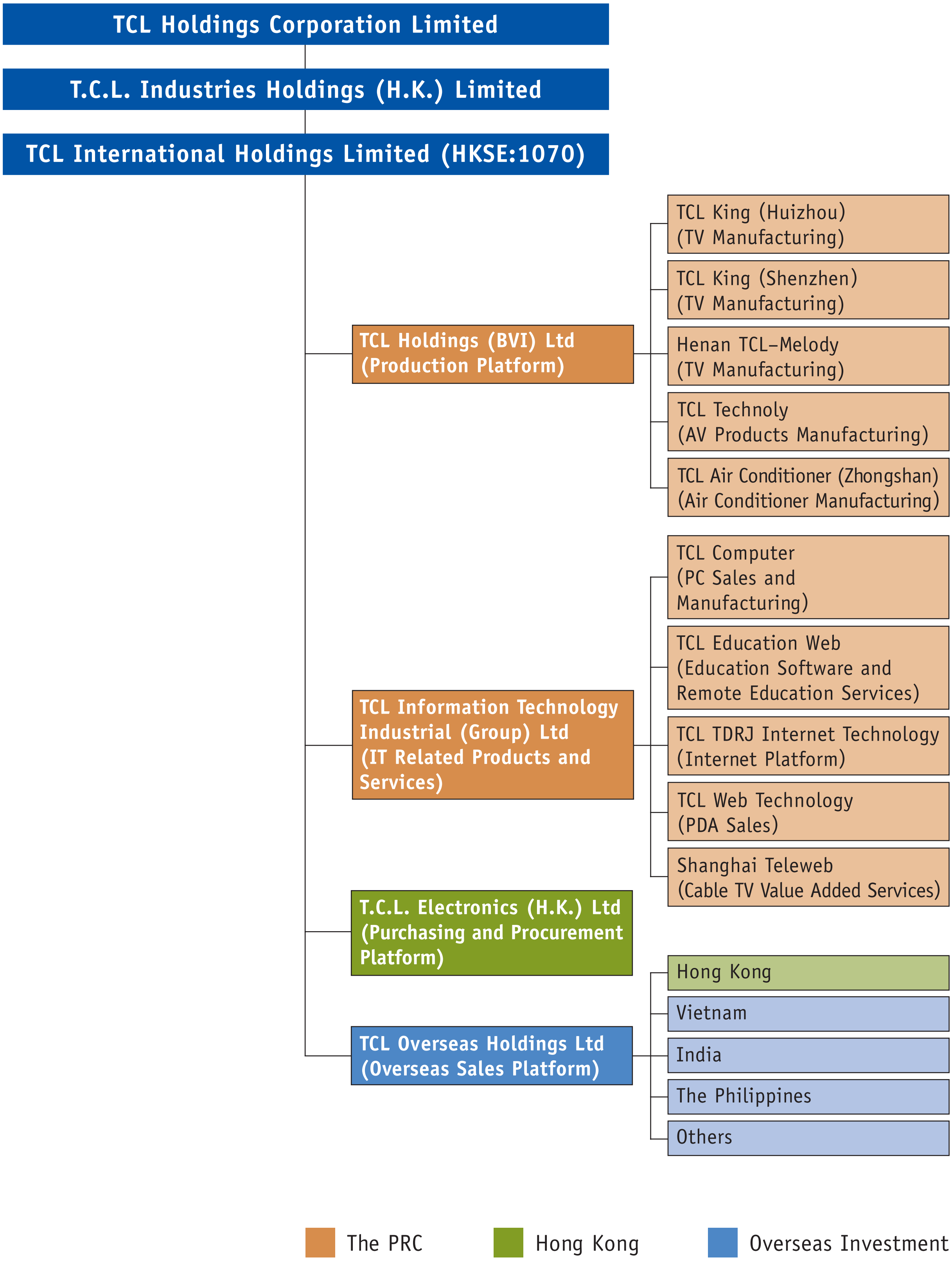
Mr. Cheung Kim Wah, aged 45, is the production manager (overseas) of the Group. He is responsible for the overseas production management of the Group. Mr. Cheung joined the Group in 1997 and has over 18 years of experience in the production of television sets.

Ms. Lam Man Ying, aged 34, financial controller, joined the Group in September 2000 and has over 10 years of experience in auditing, accounting and finance. Prior to joining the Group, she was a manager of Ernst & Young. Ms. Lam is a fellow member of the Chartered Association of Certified Accountants of the United Kingdom and an associate member of the Hong Kong Society of Accountants.

YEAR IN REVIEW

May	Became Constituent Stock of Morgan Stanley Capital International (MSCI) China Free Index
May	Ranked No. 1 in colour TV sales in the first quarter of 2000, by the Ministry of Information Industry (MII)
July	Acquired 20% interest in Huizhou TCL-Telital Mobile Communication Company Limited for manufacturing, distributing and trading of digital mobile telephones and accessories
October	Launched ejiajia.com Inter-lifestyle portal
November	Acquired production facilities from Zhongshan Excellence Air-Conditioner Factory（中山卓越空調器廠）
November	Acquired TV, VCD and DVD manufacturing facilities in Vietnam
November	Announced a joint-project of “Long Distance Education” by TCL Education Web Limited, the subsidiary of TCL International Holdings Limited and China Central Radio & Television University
December	Announced acquisition of 100% interest in TCL Computer Technology Company Ltd. for PC business

BUSINESS STRUCTURE



CHAIRMAN'S STATEMENT

Li Dong Sheng, Tomson
Chairman

Year 2000 was challenge-studded for TCL International Holdings Limited ("TCL" or the "Group"). In the first year of listing on Hong Kong Stock Exchange, TCL encountered an unprecedented relentless competition in the domestic household electrical appliance market. Albeit the slow growth in PRC demand, TCL enlarged its market share and solidified its leading position in the industry. Contemporarily, the Group has successfully made strategic move into the information technology industry and digital mobile telephone arena as to set up the foundation for future progression.

Turnover in 2000 was HK$8,569 million, an increase of 39% over last year. Net profit of the year fared at HK$428 million, short of expectation, in the wake of the price war in the domestic TV market.

Business review

In 2000, the Group sold 5.8 million television sets. This accounted for 79% of total turnover and represented growth of 29% over that of last year. TCL is delighted at the outstanding R&D capabilities on new products development. In the year, the Group launched over 50 models of new products under five innovative product series. According to an authoritative statistics of market research, TCL's television sets were at the highest price among all domestic brands and were well accepted by customers. This portrays that TCL products are of high quality, innovative features and excellent service. Most of TCL products are positioned in the middle and high end markets. In an industry that seeks to develop and produce the finer resolution digital colour television sets, the Group got a distinguished 95% market share leading others by a great distance. In PRC, TCL's TVs have been recognised as the best domestic brand. The Group is one of the largest TV enterprise in terms of sales revenue.

As the price was impinged on TV selling price, the overall gross profit margin of the Group went down by 5%. However, we are still the best achiever in terms of profitability among other competitors in the PRC. The working principles of "producing the best products, providing the best service and establishing the best brand name" steer TCL to prevail over the other market contenders.

Leveraged upon TCL's brand name and distribution network, the Group's white goods of air-conditioners, refrigerators and washing machines grew rapidly, and recorded sales of over HK$1.1 billion. Within a short period of less than two years, TCL moved up the table and ranked among the top ten marketers in the domestic industry. Because of the good quality, the above household appliances have been exempted from inspection by the governing authorities.

During the last year, the Group has completed the strategic planning of the information technology business. TCL 萬維科技(深圳)有限公司,北京天地人家網絡技術有限公司, and TCL Education Web Company Ltd. were established and put into operation. Set-top boxes and personal digital assistants (PDAs) and other internet access devices were shortly introduced into the market. Other IT activities encompassed the provision of value-added internet related services and the establishment of an e-commerce platform complementary to existing strong distribution network. To this initial set up phase, the pre-operating expenses were written off. Aggravated by the unfavourable results of the Teleweb Project, the Group endured a loss of HK$57 million in the Information Technology Business. However, the preliminary expenses were essential for the future development of the business. It is noteworthy that the digital mobile telephone business acquired by the Group has shown an encouraging growth. Some new products are competed amongst in the high-end domestic market and were profitable.

TCL ranked second in the PRC TV market last year, and continues to strengthen its prime position.

In 2000, white goods recorded an impressive increase in turnover, rising to 13% from 6% in 1999.

In 2000, the Group fared well in overseas markets and achieved export sales of US$71.4 million, an increase of 85% over that of last year. The overseas business in 2000 was came principally from Southeast Asia, the Middle East, India and South Africa. During the year, the Group were into a joint venture with a local partner in India. The joint venture turned in a remarkable sales with profit and captured 5% of the market for local television products. In Vietnam, the recently acquired business marked a breakeven.

Given the rough domestic market situation, the Group's performance was sound and effective. However, there are rooms for improvement in the operation and management. In particular, TCL is in quest of a faster and more effective managerial structure to cope with paradigm shifts and slim-profit in the market. TCL is also concerned about how to overhaul the sales and distribution network to meet changes on China's accession to the WTO.

In this connection, the Group has been promulgating the philosophy of "innovative reform, understand and act in accord". Aiming at overdrive and effectiveness, TCL is to reform the Group's R&D, manufacturing and sales organization structure so as to uplift its competitiveness.

Outlook

In the first of the twenty-first century, the Group will make progress to expand from a prominent manufacturer of household and communication products to a provider of an internet-related access devices and value-added internet service. Television and audio-visual will move towards multimedia electronics of better profit margins, adding values of advance technology and enhanced performance.

Recently, the Group has launched a spectacular innovative home information display (HiD) unique in the PRC, which received excellent market response. Specialists have commented that this HiD represents a new generation of household information appliances combining a television set and Internet access devices.

In the domestic electrical household appliance market, TCL maintains its competitive edge in urban areas and continues to make a significant effort to develop the enormous suburban and rural markets. TCL will further fortify and grow the overseas markets actualizing the high growth in sales.

At the end of 2000, TCL completed the acquisition of production facilities from 中山卓越空調器廠. TCL is confident that sales revenue from white goods business will continue to grow, and become a major source of profit for the Group. Despite excessive competition still persists in the domestic market, TCL is optimistic about the prospects. Seeing collectively the global and the PRC household electronics market trend, TCL perceives that the demand will grow steadily. Especially, IT related household electronics will ramp more swiftly because China possesses the most mass manufacture base and potential marketplace for household electronics. TCL firmly believe the capability and the opportunity to establish itself as the industry leader

In 2000, TCL acquired the production facilities of air conditioner in Zhongshan and entered this high-potential business.

in the PRC household electrical appliance market. In parallel with the product promotion plan, TCL is making a comprehensive overhaul of the distribution network through reengineering on business flow and enhancing the information management system. This will elevate the R&D capability and operation efficiency.

The information technology business will be a key constituent of development this year. In February of 2001, TCL completed the acquisition of the computer technology business from the parent company. TCL Computer Technology Company Ltd. has fulfilled its profit target for 2000, ranked 3rd in consumer PC sales and 4th in desktop PC sales in the PRC. TCL has forged a close strategic alliance with Intel and was the first company to launch the Pentium 4 computer in the PRC market. It is expected that sales of computers and digital mobile telephones will maintain a high growth rate this year. The Group will simultaneously put its efforts on developing the businesses of PDAs and a multitude of Internet access devices. The information technology business is expected to contribute to the Group's profit this year.

With respect to information technology value-added services, TCL Education Web Limited has recently teamed up with Central Radio and Television University, Sian Jiaotong University and Central China Normal University, forming joint ventures to develop long distance education projects for popular tertiary education, MBA degree education and specialised teacher training curriculum respectively. TCL sees an enormous demand for long distance education in the PRC. Collaborating with the expertise and resources of the present educational software and hardware of TCL's parent's related companies, TCL will have genuine opportunities in the field of long distance education.

We entered the high-growth PC sector, with the acquisition of TCL Computer.

Meanwhile, TCL will provide basic training to its network users and promote sales of related information technology products. The project is expected to generate revenue this year and to be profitable within three years.

In 2001, 北京天地人家網絡技術有限公司 will finish building and fine-tuning the Internet platform and therefore provides technical service to support the interactive long-distance learning projects mentioned above. Besides, it also develops an e-commerce shopping mall for household business and a strategic internet platform for the Group as a whole.

On the verge of China's accession to the WTO and the growing globalization of the world's economy, the Group will grasp opportunities. In a structural realignment of worldwide economy and its business, TCL is in quest of better opportunities to make progress, to sustain consistent growth and create higher value for the shareholders.

Finally, I wish to thank the Group's management team and staff for their dedication, the shareholders and the audit team for their support.

Li Dong Sheng, Tomson
Chairman

Hong Kong, 20 April 2001

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Corporate Strategy

The Group strives to be the creator and owner of the Inter-lifestyle concept in the PRC. The activities of the Group are centered upon this strategy.

Market Conditions in the PRC

TCL views its prominence over the China market as its greatest assets and it stands to benefit from the positive long term macro outlooks.

In 2000, the PRC's GDP exceeded US$1,000 billion, marking a historic step for the national economy. China recorded an 8.3% increase in GDP, while per-capita GDP met forecasts at US$849. The fiscal policy has stimulated remarkable growth in foreign imports and exports, aggregating US$474.3 billion, a growth of 31.5%. The overall consumer price index rose slightly at 0.2%, and 0.6% in urban areas.

A growing percentage of the population in China have their own homes. As people moved into new houses, electrical appliances were added or replaced. This creates demand on TV sets, air conditioners, refrigerators and washing machines. Growth of consumer demand for television was, however, limited by the persistent low income in rural area and the pressure of unemployment in urban and suburban areas. Aggravated by over-supply in the market, selling price on the average was eroded in an unprecedented price war.

In a surging China economy, computers and mobile phones are quickly seen as necessities rather than niceties. According to IDC, the global PC market growth rate is forecast to go below 12.5% in 2001. Ironically, the Asian market maintains a buoyant growth rate of 38% in 2000. It is forecast that, in 2001, the personal computer market in this region will maintain its spectacular growth trend. In particular, the PC market in China is forecast to sustain average annual growth rates of 30%. Internet users and PC penetration are expected to climb from the current levels of 3.3% in urban areas.

Key Success Drivers

Branding

Best Brand Name in China 2000

Brand		Best Value Rmb billion
1	Hong Ta Shan	43.900
2	Haier	33.000
3	Chonghong	26.000
4	Wu Liang Ye	12.058
5	TCL	10.593
6	Legend	10.320
7	Yi Qi	9.660
8	Kelon	9.618
9	Konka	9.539
10	999	7.388

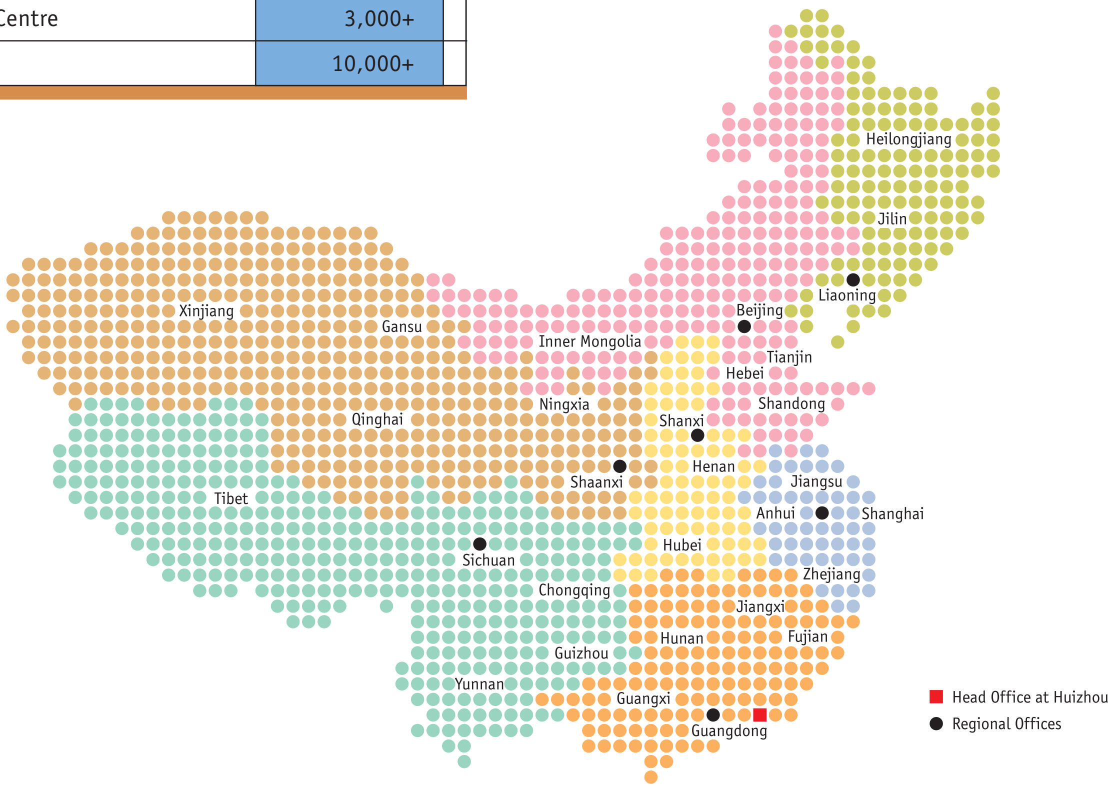
With consistent quality and innovation in products and services, TCL has long been recognised as one of China's most valuable brands. Since 1981, the Group has make great success in establishing itself as a household name throughout the PRC and it is now an industry and market leader in colour TVs. TCL's TV market share increased to 17% in the market.

In 2000, TCL Holdings was rated by the Beijing Brand Name Asset Appraisal Firm as the fifth most valuable brand in China, valued at RMB10.593 billion, compared to RMB7.556 billion in 1999.

One of TCL's greatest advantages over domestic and foreign competitors is its access to TCL Holdings' national distribution network. It will further develop and expand from the current 34 branches, 198 sales offices, 87 representative offices, more than 10,000 agents and over 3,000 service centers. The computerisation of this distribution network, kindled in 1999, will definitely improve the operating efficiency.

Distribution Network

Distribution Network	Number
Branch	34
Sales Office	198
Respresentative Office	87
Service Centre	3,000+
Dealer	10,000+



Making information more accessible,

through digital technology and

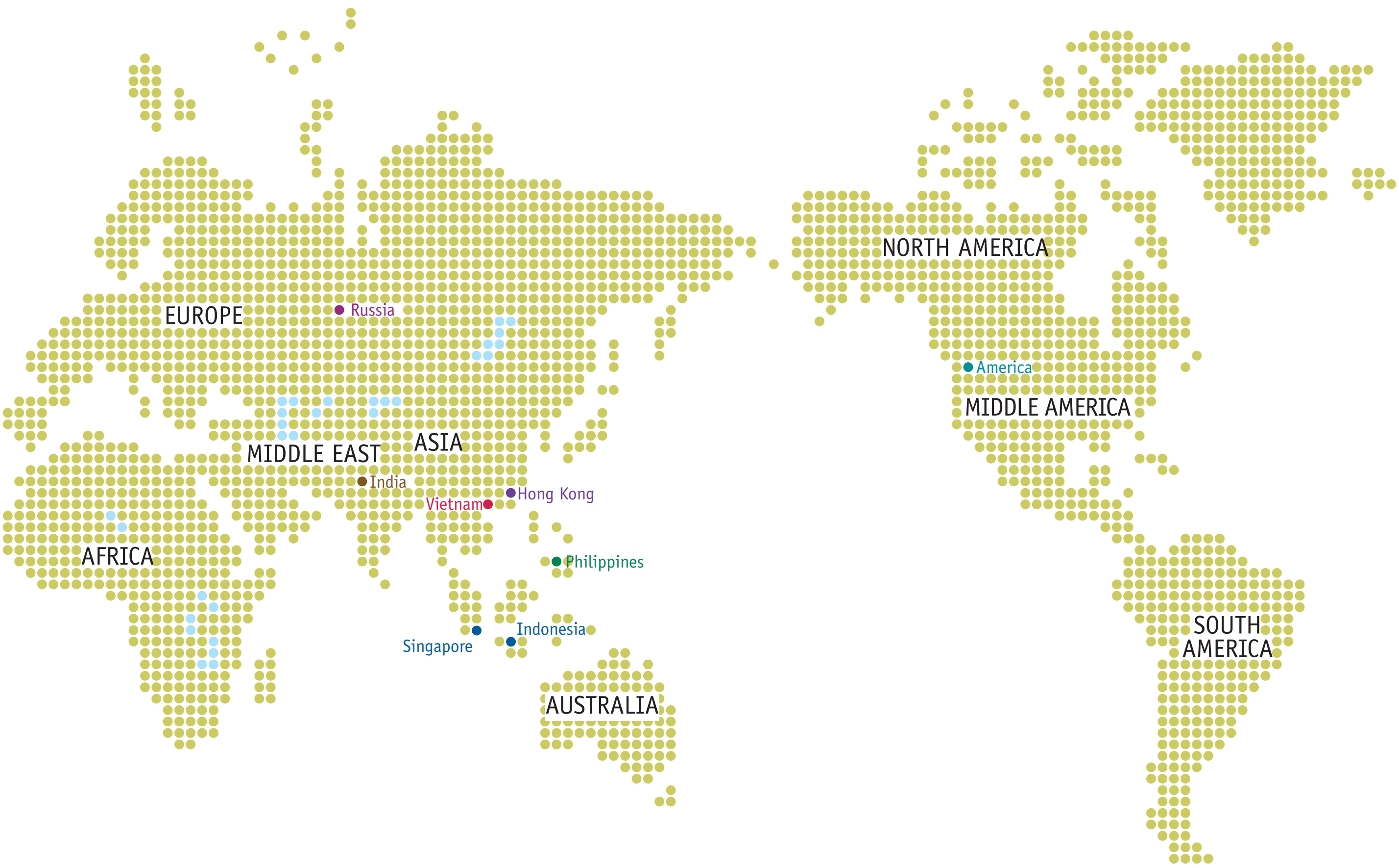
the “Inter-lifestyle”.

INFORMATIVE

Overseas Expansion

In 2000, overseas television sales reached 700,000 sets, surpassing that of previous year by 77%. The tremendous growth came mainly from the surging OEM demand. TCL's unrivalled plant capacity, effective cost, high quality and outstanding on-time delivery service have attracted multinational OEM business.

During 2000, TCL entered joint ventures with local partners in the Philippines and India and set up a wholly owned subsidiary through an acquisition in Vietnam to boost its export sales in the long run. Within a short period, these operations have captured 5% to 8% of market share in their respective market. By teaming up with local partners having well-established nationwide sales and distribution network, TCL gained essential edge in capturing market share.



Following the successful joint ventures and acquisition, TCL's management is exploring other international expansion opportunities. The Group extends its competitiveness to international markets with its innovative and reliable products.

After-sales Services

TCL believes that excellent after-sales services is important to continued success. The philosophy of TCL has always been "the provision of the best services". It has pledged to provide speedy, friendly and professional services to end users. In order to fulfil the corporate commitments, TCL has set up a comprehensive service network catering for customers' needs. There are more than 3,000 direct and appointed service outlets with nearly 10,000 direct and appointed service engineers. TCL is strengthening its customer relationship management (CRM) with a customer base of over 10 million.

Products

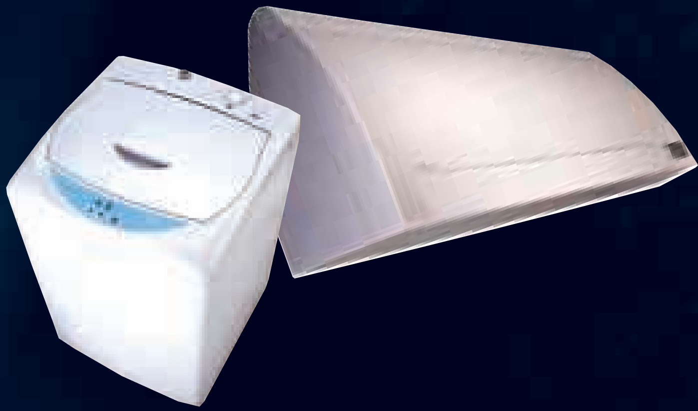
Television Business

According to Ministry of Information Industry, the total production volume of colour television in China in 2000 was 37.54 million sets, a decrease of 2.8% over last year. Total sales were 38.33 million sets, an increase of 1.6%, with domestic sales at 28.01 million sets and exports at 10.32 million sets. Sales is predicated to grow at about 8% in urban areas and 10% in rural over the next few years.

Albeit competitors were slashing prices to clear inventory in 2000, TCL's high-quality and affordable prices made its TV products popular choices for consumers. TCL's domestic sales were 5.03 million sets. TCL's market share was approximately 17% and ranked second nationwide. The sales in the last quarter of 2000 revealed that the effects of price wars on TCL had been minimal. Gross profit is predicated to improve moderately because of the reduction in production costs and the higher margin of new products.

TCL employed the philosophy of "designing and producing the best products, providing the best services and establishing the best brand name". Enhancing corporate competitive capability with innovative products not only helped sustain market share and profitability, but also achieved brand building. In 2000, TCL has launched 5 series of new concept colour television, over 50 new products, including solo audio television, super-thin television, lightning resistant television, changeable shell television and digital television. These products were the first of their kinds in the PRC and had achieved excellent results. Apart from improving the overall profit margin of the TV business, those new models asserted the Group as the industry leader.

TV business is exposed to relentless competition in 2001. TCL tides over the constant price erosion by fast introduction of new products to market and containing product cost. TCL will put weight on high-end products such as network television, high resolution digital television and other information household products and other distinguished feature products as to meet consumer demand, and improve the overall profit margin. The



INNOVATIVE

Innovation is crucial to our business development and, together with effective R&D and quality products, contributes immensely to the Group's success.

recent launch of HiD (Home Information Display) is well-received in the market and commended as fully compatible with all digital systems.

Besides, TCL will maintain its leading edges through restructure of the sales and distribution, institution of ERP system and engineering effort to improve introduction time for new products. These are in conjunction with the fundamental accomplishments in quality, services and price.

TV industry undergoes incessant consolidation. TCL will benefit in the process by virtue of its mass and flexible manufacturing capacity, effective sales network, advanced technology and qualified management. Inefficient manufacturers in the industry will soon be displaced and likely become a contract manufacturing plant for major market contenders.

PC Business

In December 2000, TCL announced the acquisition of 100% interest in TCL Computer Technology Company Ltd at a consideration of HK$341.8 million. The transaction was completed on 28 February 2001. Goodwill of approximately HK$240 million arising from the acquisition will be amortised commencing 2001. Other than diversification of the Group's business portfolio, the PC business provides a good opportunity for TCL to achieve synergy as the businesses of home appliances and Internet access devices move towards convergence.

TCL Computer Technology Company Ltd. was established in 1998 and is principally engaged in the research, design, manufacture and sale of personal computers and peripheral products in the PRC under the TCL brand name. It is one of the top for consumer PC manufacturers in China, and ranked in the top three of China's consumer desktop PCs in Q3 2000. Its revenue for 2000 was RMB1.24 billion, generating a guaranteed profit of not less than RMB38.5 million.

The penetration rate of the PRC PC market is low at 3.3%. This presents a huge potential in this market. The growing demand is due to increase personal usage, popularity of the Internet, improvement in bandwidths and reductions in fee tariffs. According to IDC, the total domestic sales of desktop PC in 2000 amounted to 6.45 million sets, an increase of 42.4% over 4.53 million sets in 1999. It is forecasted that domestic sales of desktop PC shall reach 8.55 million sets, an increase of 32.6% over 2000, with household and commercial PC sales accounting for 3.27 million and 5.28 million respectively. For the next few years up to 2004, the Mainland China market will maintain a high growth rate of over 27%.

TCL PC's strategy is a focus on the high-end consumer market in which each PC unit is priced at an average of RMB6,500. Sales volume has grown rapidly from 117,000 units to 260,000 units in 2000. TCL PCs are positioned in shopping malls where TCL has a sales force of more than 900 people together and 900 authorized dealers across China. The Group has 27

service centers, 120 representative repair points, 200 authorized repair centers and 25 training centers to ensure that customers enjoy a well-established service network.

IDC recently reported that "TCL Computer had been gaining market share. Local vendors, especially TCL with their strong background in home electronics products, have quickly gained a large share of the market." According to the market report for the fourth quarter of 2000 by IDC, TCL computers ranked third in the PRC consumer PC market, and fourth in the personal computer market with a market share of 3.4%.

TCL has collaborated with Intel being first in launching the Pentium 4 computer and the first PRC manufacturer in mass produce of the series. With respect to electronic commerce, TCL strives to establish a support system for the future mode of sales operation. An ERP system developed in cooperation with Oracle has commenced trial runs in March 2001 and scheduled implementation in July 2001. By that time, TCL will become the industry leader in the implementation of ERP system that will greatly enhance the overall management and operation effectiveness.

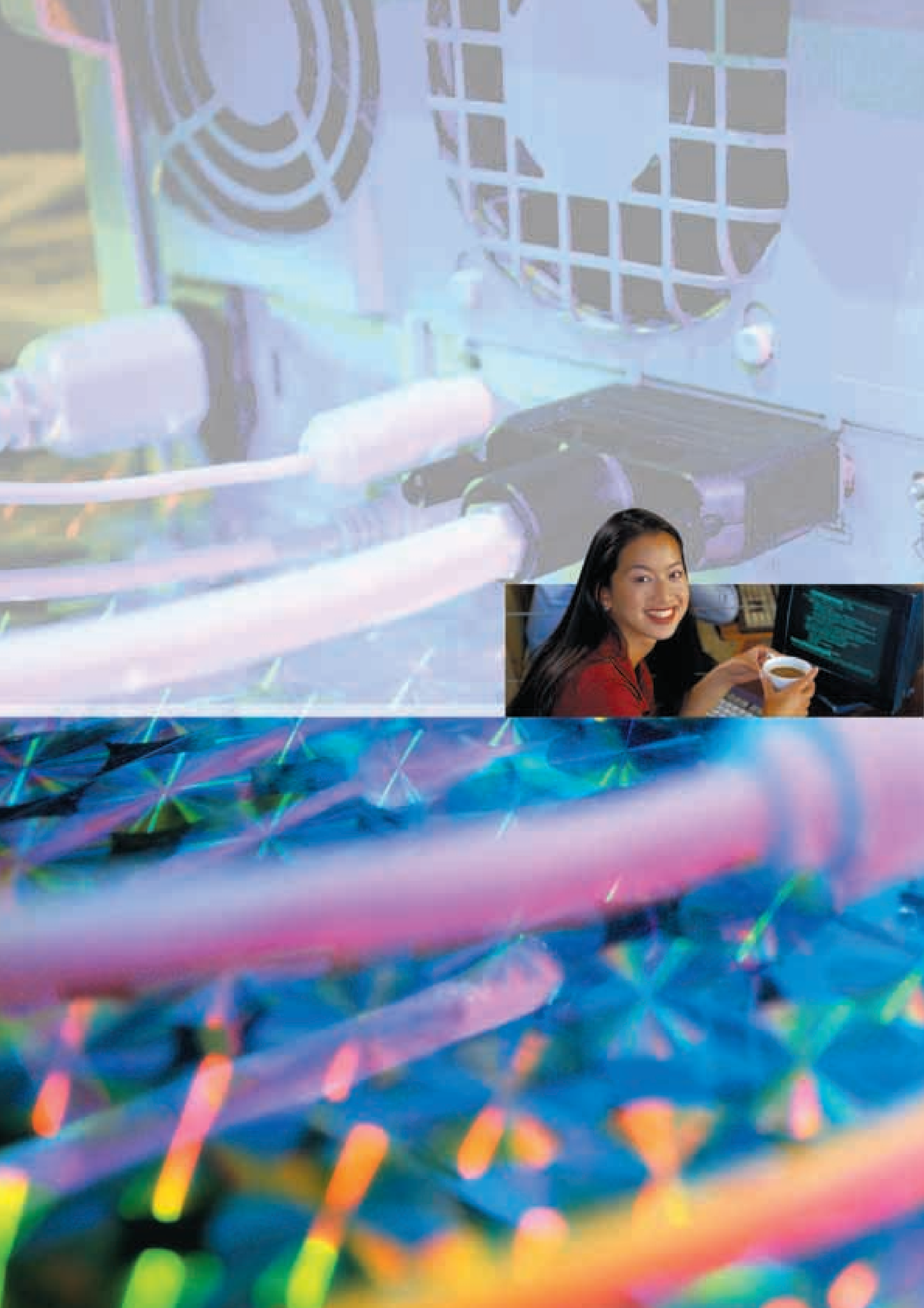
TCL will keep abreast of advanced technology on new products and lastest software application technology to differentiate its products from those of other market players. TCL Computer is not merely confined to a personal computer manufacturer but to complement the Company's mission of being a "creator of inter-lifestyle".

With the increasing popularity of person computers and the Internet in China, TCL Computer is poised to become one of the revenue and profit contributors and mainstream business for TCL's growth.

White Goods Business

Capitalising on a reputable brand name and nationwide distribution network, the sales performance of refrigerators, washing machines and air-conditioners fared well in a highly competitive market. In 2000, sales quantity of the white goods business grew by 50% over last year, of which about 250,000 refrigerators, 140,000 automatic washing machines and 470,000 double-tumbler washing machines were sold. The air-conditioning business division was established in October 1999 with its products being formally launched in January 2000. 170,000 sets were sold in last year.

TCL has developed 8 series/27 models in washing machines, 6 series/26 models in refrigerators and 4 series/over 60 models of window, hanging and cabinet air conditioners. The 搓揉王 and 精洗王 series of washing machines, the 自由 2000 series of refrigerators and the exclusive 小風神 series of vertical flow air-conditioners are flagship white goods of TCL. TCL has achieved good sales results amidst market competition and successfully secured leading position through innovative designs, reliable quality, comprehensive customer services and complementary internet services. Market outlook are optimistic for 2001 and beyond in view of the extremely low penetration rate in rural areas. This presents huge potental for the Group.



Through the PC and the Internet,

TCL creates an intelligent environment.

INTELLIGENT

TCL formed a 75:25 joint venture with the local government of Zhongshan to acquire production facilities of 中山卓越空調器廠 for about RMB55 million. This factory has an annual production capacity of 300,000 units. Production began in December 2000.

As in urban sales, TCL has always been placing particular emphasis on the rural market through proactive sales and distribution. It helps capturing market share on the entry phase of this burgeoning business. Because of the product quality and Internet service support, the first batch of TCL's air-conditioners was awarded the quality inspection exemption certificate for the split-type wall-hanging air-conditioner series by the State Technology Supervision Bureau at the end of 2000.

Internet Access Devices

In 2000, TCL Group has formulated the overall strategy of "expanding from a successful household electrical appliance manufacturer and seller to the creator of inter-lifesytle in the PRC". Connecting household appliances through internet access devices will provide household with related value-added information services and applications.

Operating on the vision of providing value-added information service, the Group opened the internet platform of www.ejiajia.com in October 2000. On website, TCL established the household electrical appliance electronic commerce mall in December 2000, and has been establishing the technology platform for the long-distance education. Ejiajia portal and the e-commerce platform are complementary to the current strong sales network with TCL's online internet access.

TCL's investment in the Teleweb project to produce Internet set-top boxes and content for the Shanghai market was met by poor consumer for the market was at the low end of maturity continuum. TCL management decided a provision of HK$37 million made for the project. Nevertheless, the Group still has faith on information appliances product and with time to cultivate, this market is still positive and TCL is focusing on hardware products.

PDA production began in September 2000 and sales of the Silva 800 are forecast at 60,000 units in 2001. A new model, priced at about RMB1,000, will be launched to compete in the market, and sales are predicated in the neighbourhood of 50,000 units in 2001.

Long Distance Learning Projects

TCL has embarked on a Long Distance Education Project via a wholly-owned subsidiary TCL Education Web Ltd. TCL collaborates with China Central Radio and Television University on the first project of its kind between a commercial enterprise and a university approved by the Central Education Bureau. Learning courses and materials will be provided on-line. This marks the beginning of the world's largest commercial Long Distance Education System and is a big step in TCL's efforts to create the Inter-lifestyle.

AV Business

Amidst competition, TCL's AV products have showed distinguished results ranking top seven in terms of volume.

Commencing 2001, the directions of the production operation of AV Division are to make certain adjustments by shifting the focus of its AV product mix from producing visual products to middle to high-end home theatre products.

Research and Development

In order to maintain competitiveness,measures are taken to strengthen TCL's Research and Development capabilities.

In 2000,the Group has successfully developed rear projection TV and HiD (Home Information Display). TCL Multimedia Electronics R&D Center was found at the end of year 2000. Under this center, a multitude of departments with product specialty has been formed. The department of PC monitors was formed to design PC monitors, the department of TV firmware was created to better utilize our software resources and standardize the user interface of our TVs, the department of Information Appliances and Digital Systems was created to tackle opportunities in the IA space and to design Digital TV receivers, the department of product management was formed to better manage our design process and coordinate among departments within the R&D center.

TCL has its own R&D team of over 450 professionals who focus on TV and audio/visual products, digital products (including PCs, mobile phones and PDAs) and white goods. Walking with new strategic partnerships such as those with Philips, Toshiba, Sanyo, Samsung, Thomson and more, TCL has tremendous access to the latest technology and innovative products.

Human Resources

TCL kept investing on human capital to sustain business growth and operation efficiency. In 2000, the Group appointed Mr Vincent Yan as the Executive Director, Mr Felipe Suen as the Chief Operations Officer, Mr Bruce Ren as the Chief Technology Officer of TCL International Holdings Limited, and Mr Myung Jun Ahn as the General Manager of TCL Overseas Holdings Ltd. This is in line with the Group's corporate strategies to stress on R&D and overseas business.

The Group seeks to engage talented individuals and provides ongoing training to well equip employees to discharge their work effectively and foster a learning culture in the organisation.

2001 Market Outlook

WTO

On China's accession to the World Trade Organisation, domestic players face new challenges and need to develope the necessary strategies to compete. Lower tariffs will open up competition and inevitable hasten consolidation of local manufacturers. Perhaps the most beneficial way for multinational companies to establish a foothold in China is to team up with established domestic players. Particularly market leaders. As a well-qualified manufacturer, TCL sets to benefit from its own brand name and its nationwide distribution network.


INTERACTIVE

TCL provides the technology platform supporting the distance learning project, e-commerce and infotainment.

TCL's Business Outlook

In 2001, TCL is confident that it can maintain its leading position in the China market and expand its overseas market with competitive and innovative products. TV products are a major profit contributor. The other businesses will prosper and increase in significance in the Group's business portfolio.

TCL will continue to fortify a premier brand name and create the Inter-lifestyle in China, while building a world-class enterprise as it pursues tremendous growth in international and domestic markets.

In a world of globalization where resources are efficiently allocated, TCL can benefit from economies of scale to improve efficiency and operating cost. It is poised to reap from growing demand in various markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The analysis of the Group's turnover and operating results for the year ended 31 December 2000 is as follows:

Turnover and operating results

	2000 HK$M	1999 HK$M
Turnover	**8,569**	6,158
Operating profit	**527**	617
EBITDA	**591**	666
Profit before taxation	**459**	573
Taxation	**(33)**	(63)
Profit for the year	**428**	510
Earnings per share (HK cents)	**18**	27

Turnover:

Leveraged on its widely recognized brand name, innovative products, nation wide distribution network and services, the Group's turnover continued to increase. In the year 2000, turnover grew remarkably by 39% from HK$6.2 billion to HK$8.6 billion. The rise in turnover was also a result of:

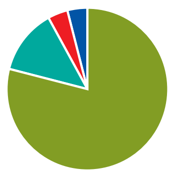
- the outstanding performance of the TV division as compared with our competitors. Television sets continue to be the Group's major contributor to revenue. In the year 2000, sales quantity of television sets increased approximately by 30% to over 5.8 million sets

- the Group's successful launching of new consumer electronic businesses, diversifying the Group's core business from a traditional TV manufacturer and marketer to a provider of broad spectra of home infotainment and household appliances. In the year 2000, non TV product categories contributed 21% to the Group's turnover (1999: 15%).

In addition, part of the increase in turnover was attributed to the effect of a distribution agreement ("Distribution Agreement") entered into between the Group and TCL Appliances Sales Co., Ltd. ("Sales Co."), a fellow subsidiary of the Group, in November 1999. Such sales arrangement has led to a change in the recognition of revenue and expenses. As a result of the Distribution Agreement, additional revenue of HK$1,040 million was recognized.

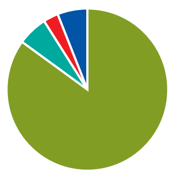
Revenue structure

2000



Television sets	79%
White goods and air conditioner	13%
Audio and visual product	4%
Others	4%

1999



Television sets	85%
White goods	6%
Audio and visual product	3%
Others	6%

Television sets remained the Group's profit contributor while the other businesses such as IT related products, white goods, air conditioners marked its significance by bringing considerable revenues to the Group, creating a more diversified and balanced business portfolio.

Operating profit

Operating profit decreased slightly by 15% comparing with that of year 1999 while outperformed other major industry contenders in PRC market. The declined profits was mainly attributed to the following factors:

Severe competition of TV market — Since 1999, clearing glut of inventory through relentless price cut by some TV manufacturers has turned PRC market in chaos and a tough operating environment. Severe competition persisted and the Group, as one of the biggest industry players, was also affected. Profit margin fell short of expectation. In response to this, the Group reacted swiftly. By launching new TV models and new household electronics such as air conditioners and white goods which provided better margin, the Group was able to diversify and mitigate the adverse impact of the profit erosion resulting from the severe price competition.

Set up expenses of IT business — the Group's IT division was set up during the year. Most of the businesses were still at their development stage. All the pre-operating expenses were written off during the year, resulting in the overall operating loss of the IT division in the amount of approximately HK$20 million.

The situation would be improved in 2001 when the operation and business models of these investments are established. In addition, the high-growth PC business which was acquired in February 2001 will definitely become one of the major profit contributor to the IT business result.

Gross profits

The overall gross margin of the Group increased from 14.7% in 1999 to 19.8% in 2000. This was attributed to the Distribution Agreement with the Sales Co., which came into effect in November 1999 after the Group's listing.

Before the Distribution Agreement, the majority of the Group's products were sold to the Sales Co. and the gross margin represented margin earned from direct sales to the Sales Co.. Pursuant to the Distribution Agreement, the Sales Co. was appointed as the Group's non-exclusive agent for the promotion and sale of the Group's products. Goods were consignment in nature. Sales were recognized only when the goods were sold to the ultimate consumers. As a result of such arrangement, the Group took up part of the profits originally earned by the Sales Co. In return, a 10% commission was paid to the Sales Co. which explained the substantial increase in selling expenses as detailed below. Taking into account this 10% commission, the gross margin for the year was in fact reduced by 5%. This was the result of the severe price competition in the PRC TV market detailed in the paragraph above.

With the injection of the PC business in February 2001, the overall gross margin will further decline as the gross margin of the PCs at approximately 10–13% is relatively lower than that of TV. However, the high growth potential of the PC business also implies:

- rooms for reductions on purchasing and operating cost as the business volume grows.

- rapid growth in sales volume can compensate the relatively lower gross margin.

In summary, the management is confident that overall gross margin of the Group will gradually be improved with business diversification, in particular, when the TV business price war becomes stabilized and PCs and IT business operations mature.

Other revenue

Other revenue was mainly represented by interest income earned during the year. Some of the proceeds of HK$1 billion derived from the successful flotation of the Company in November 1999 that was not for immediate and short term applications was placed in time deposits. As a result,interest income increased substantially as compared to the same period last year.

Selling Expenses

Selling expenses accounted for approximately 11.6% of the total turnover, a substantial increase as compared to 2.6% in the year 1999. This was mainly due to the payment of 10% commission to the Sales Co. pursuant to the Distribution Agreement as discussed previously.

Administrative expenses

Administrative expenses accounted for 2.7% of the Group's turnover, a slight increase as compared to 2.5% in 1999. This was mainly due to the write-off of pre-operating expenses of the IT division, the contribution to turnover of which was minimal in 2000.

Finance costs

The substantial reduction in finance cost was mainly due to the fact that:

- part of the proceeds of the initial public offering at the end of last year was applied in repaying the Group's debts and reducing its additional requirement for borrowings.

- there was an overall reduction in the Group's borrowing rates, both in Hong Kong and in the PRC.

Taxation

In the year 2000, effective tax rate reduced from 10.9% to 7.2%. This was mainly due to:

- certain of the Group's newly incorporated subsidiaries enjoyed the concession of full tax exemption of corporate income tax in their first year of operation,

- some of the profits generated from the PRC operation was reinvested in new subsidiaries in the PRC. As a result of such, the Group enjoyed refund of certain corporate income tax from the PRC tax authority.

Share of results of jointly controlled entities

The results of the Group's jointly controlled entities were far from satisfactory as compared to 1999. This was mainly due to the following reasons:

- One of the Group's joint venture companies, Henan TCL-Melody Electronics Co., Ltd was mainly responsible for the production of TV sets of 25 inches and below. They were models which were most common in the PRC hardest hit by the severe price competition in 2000. Gross margin was eroded and profits were substantially reduced.

- The market response of the Group's Teleweb project in Shanghai, a 50% joint venture with Lotus Pacific, Inc., was far from satisfactory. The new concept of set-top box and its relatively high price received lower than expected demand and loss of approximately HK$44 million was incurred. TCL shared half of the loss of the joint venture. In addition, a provision of HK$14 million was made for the shareholders loan due from this joint venture.

Profitability

Net profit margin

	2000 HK$M	1999 HK$M
Net profit	428	510
Sales turnover	8,569	6,158
Net profit margin	5.00	8.29

Return on equity

	2000 HK$M	1999 HK$M
Net profit	428	510
Closing balance of equity*	2,567	2,131
ROE (%)	16.67	23.95

* before proposed final dividend

The fierce competition in the domestic home appliance market has resulted in a substantial erosion of the Group's profit. With certain of the competitors cutting price to unload excess inventory, gross margin was under tremendous pressure and was decreased by 5% in 2000. In addition, the substantial set up cost incurred by the IT division and the provision for and the share of loss of the teleweb project as discussed above also attributed to the reduction in net profit margin and return of equity in 2000.

Liquidity

Current ratio

	2000 HK$M	1999 HK$M
Current assets	4,646	4,338
Current liabilities*	2,819	2,578
Current ratio (times)	1.65	1.68

* before proposed final dividend

With the Group's prudent management of its resources and careful investment strategy, the Group's liquidity stayed at a satisfactory level. The management is confident that by the efficient allocation and matching of short term and long term funding and resources, the Group's financial position will remain at a healthy level and be able to meet future obligations without difficulties.

Leverage

Interest cover

	2000 HK$M	1999 HK$M
EBITDA	591	666
Interest expenses	43	65
Interest cover (times)	13.74	10.25

Debt/Equity ratio		
	2000 HK$M	1999 HK$M
Total interest bearing debt	269	496
Closing balance of equity*	2,567	2,131
Debt/Equity ratio	0.10	0.23

* before proposed final dividend

Part of the IPO proceeds in 1999 was ultilised to repay the Group's debt to reduce interest cost. At the same time, the Group's equity base continued to increase through earning. As a result, the debt equity ratio was improved. A low leverage ratio is beneficial for future growth, the board will nevertheless make full use of different sources of funding to finance the expansion and operation.

Operation Activity

Operating cycle		
	2000 Days	1999 Days
Inventory turnover	135	163
Trade receivable collection period	35	29
Operating cycle	170	192

The total operating cycle was contained to a more healthy level from 192 days in 1999 to 170 days in 2000. This was mainly due to:

- Towards the end of 1999, consumers held back their consumption and waited for cheaper imports in anticipation of China's entry into the WTO. Consumption resumed at the beginning of 2000 when consumers recognized that the reduction of import duties would not be crystallized in near future.
- In response to the highly dynamic market during the TV price war, stock level was kept at an adequate minimum level in order to enable the Group a quick response to any industry price adjustment.
- The increased sale of TV in 2000 helped to shorten the stock turnover period considerably.

Use of Proceeds from the Initial Public Offering

The proceeds from the IPO, after deducting relating expenses, in the amount of HK$999 million was utilized and applied in accordance with the manner as set out in the prospectus, as follows:

- HK$252 million was used as working capital for the Group's sales and production in the PRC and overseas markets;
- HK$53 million for production facilities and working capital for the manufacture and sale of white goods;
- HK$200 million for the repayment of loans advanced by the ultimate holding company, TCL Holdings Corporation Ltd. to the Group;
- HK$37 million for the setting up of TCL International, Inc, a joint venture company with Lotus Pacific, Inc. in the USA for the design, development, manufacture and sale of internet related products under the TCL brand name.
- the balance for working capital purposes.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 13 to the financial statements. During the year, the Group commenced the businesses of the manufacture and sale of information technology related products and the provision of Internet value-added services. Other than this, there were no changes in the nature of the Group's principal activities during the year.

Segmental information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity for the year ended 31 December 2000 is as follows:

	Turnover		Contribution to profit from operating activities	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
By activity:				
Sales of colour television sets	**6,750,078**	5,217,368	**412,400**	593,308
Sales of other audio visual products	**342,427**	160,795	**7,140**	4,154
Sales of white goods and air-conditioners	**1,149,786**	363,241	**125,072**	18,588
Sales of raw materials and components	**320,419**	407,580	**1,265**	875
Others	**6,488**	8,890	**(19,032)**	213
	8,569,198	6,157,874	**526,845**	617,138

More than 90% of the Group's turnover and contribution to trading results was derived from activities in the People's Republic of China mainland.

Results and dividends

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 91.

The directors recommend the payment of a final dividend of 3.5 HK cents per share in respect of the year to shareholders on the register of members on 30 May 2001. This recommendation has been incorporated in the financial statements.

Summary financial information

A summary of the results of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 92. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 13 to the financial statements.

Associate and jointly-controlled entities

Particulars of the Group's interests in its associate and jointly-controlled entities are set out in notes 14 and 15 to the financial statements, respectively .

Bank and other borrowings

Details of the bank and other borrowings of the Group are set out in notes 25 and 26 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, sale or redemption of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

Distributable reserves

As at 31 December 2000, the Company's reserves, including share premium account, available for cash distribution and/ or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK$1,868,245,000. Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 33 to the financial statements.

Major customers and suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	9%
— five largest suppliers combined	35%
Sales	
— the largest customer	4%
— five largest customers combined	7%

Major customers and suppliers (continued)

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

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

Directors

The directors of the Company during the year and up to date of this report were:

Executive directors:

Li Dong Sheng, Tomson (Chairman)	
Yuan Xin Cheng (Vice-Chairman)	
Hu Qiu Sheng	
Wu Shi Hong	
Yan Yong	(appointed on 25 October 2000)
Tse On Kin, John	(resigned on 1 November 2000)

Non-executive directors:

Lu Zhong Li	
Wong Toe Yeung	
Luk King Tin	(resigned on 22 January 2001)
Hon Fong Ming*	
Albert Thomas da Rosa, Junior*	

* Independent non-executive directors

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

In accordance with article 116 of the Company's articles of association, Messers Li Dong Sheng, Tomson, Yuan Xin Cheng and Hu Qiu Sheng retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Emoluments of directors and the five highest paid individuals

Details of the emoluments of the directors of the Company and the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements, respectively.

Directors' service contracts

Save for one executive director whose service contract with the Group is for a term of 2 years commencing from 1 March 1999, all the remaining executive directors of the Company have service contracts for a term of three years commencing from 1 November/December 1999 and will continue thereafter until terminated by three months' notice in writing served by either party.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 34 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party during the year.

Directors' interests in shares

As at 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Interests in the Company:

	Shares of the Company	
Name of director	**Nature of interest**	**Number of shares held**
Li Dong Sheng, Tomson	Personal	7,890,000
Luk King Tin	Corporate (Note 1)	100,000,000

Interests in associated corporation:

Name of associated corporation	Name of director	Nature of interest
TCL Holdings Corporation Ltd. ("TCL Holdings") (Note 2)	Li Dong Sheng, Tomson	Personal
	Yuan Xin Cheng	Personal
	Hu Qiu Sheng	Personal
	Lu Zhong Li	Personal
	Wu Shi Hong	Personal

Note 1: The interests of Mr. Luk King Tin in the shares of the Company are held by Luks Industrial Company Limited, a company in which Mr. Luk King Tin has 38% interest in aggregate (including personal, corporate and family interests).

Directors' interests in shares (continued)

Note 2: TCL Holdings held 1,246,470,000 shares in the Company through its wholly-owned subsidiary, T.C.L. Industries Holdings (H.K.) Ltd. TCL Holdings is an associated corporation by virtue of its being a controlling shareholder of the Company. Messers Li Dong Sheng, Tomson, Yuan Xin Cheng, Hu Qiu Sheng, Lu Zhong Li and Wu Shi Hong have a 7.30%, 1.39%, 0.97%, 1.31% and 0.45% interest in TCL Holdings, respectively.

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

Directors' rights to acquire shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's shares in favour of certain directors, the details of which are as follows:

	Number of share options						
Name of director	Outstanding at 31 December 1999	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 December 2000	Exercise period	Exercise price HK$
Li Dong Sheng, Tomson	12,000,000	—	—	—	12,000,000	15 November 1999 to 14 May 2003	2.236
Yuan Xin Cheng	6,000,000	—	—	—	6,000,000	15 November 1999 to 14 May 2003	2.236
Hu Qiu Sheng	5,000,000	—	—	—	5,000,000	15 November 1999 to 14 May 2003	2.236
Lu Zhong Li	5,000,000	—	—	—	5,000,000	15 November 1999 to 14 May 2003	2.236
Wong Toe Yeung	3,000,000	—	—	—	3,000,000	15 November 1999 to 14 May 2003	2.236
Wu Shi Hong	3,000,000	—	—	—	3,000,000	15 November 1999 to 14 May 2003	2.236
Yan Yong	—	300,000	—	—	300,000	1 June 2000 to 14 May 2003	2.508
Luk King Tin (Note)	5,000,000	—	—	5,000,000	—	15 November 1999 to 22 January 2001	2.236
Tse On Kin, John	6,000,000	—	6,000,000	—	—	15 November 1999 to 1 November 2000	2.236
	45,000,000	300,000	6,000,000	5,000,000	34,300,000		

Note: The share options were granted to Mr. Luk King Tin's spouse, who had been a director of certain subsidiaries of the Company during the year.

Directors' rights to acquire shares (continued)

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were such rights exercised by them; or was the Company, its subsidiaries, its holding companies or its fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 28 to the financial statements.

Substantial shareholders

As at 31 December 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
T.C.L. Industries Holdings (H.K.) Ltd.	1,246,470,000 (Note)	51.82
TCL Holdings Corporation Ltd.	1,246,470,000 (Note)	51.82
TCL Electronics Corporation	1,246,470,000 (Note)	51.82

Note: T.C.L. Industries Holdings (H.K.) Ltd. is a direct wholly owned subsidiary of TCL Electronics Corporation (a state-owned enterprise established under the laws of the People's Republic of China) which in turn is a direct wholly-owned subsidiary of TCL Holdings Corporation Ltd. Therefore, the shares in which T.C.L. Industries Holdings (H.K.) Ltd. is shown to be interested are also the shares in which TCL Electronics Corporation and TCL Holdings Corporation Ltd. are interested.

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

Connected transactions

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

	HK$'000
Jointly-controlled entity — Henan TCL – Melody Electronics Co., Ltd.	
Sales of raw materials	307,628
Ultimate holding company — TCL Holdings Corporation Ltd.	
Interest income	2,212
Interest expense	30,436
Companies controlled by the ultimate holding company:	
Purchases of raw materials	
Huizhou TCL Hua Tong Paper Products Co., Ltd.	18,586
TTK Electrical Appliances Co., Ltd.	10,518
Huizhou Hua Tung Foam Rubber Co., Ltd.	36,086
TCL Computer Technology Co., Ltd.	1,313
Cash discounts	
TCL Electrical Appliances Sales Co., Ltd.	22,434
Sales commission	
TCL Electrical Appliances Sales Co., Ltd.	772,100
Subcontracting fees	
Inner-Mongolia TCL Electrical Appliance Company Limited	30,984

Further details of the terms of the above connected transactions are set out in note 34 to the financial statements.

The Group has also entered into other connected transactions during the year which are listed as follows:

(a) On 12 May 2000, TCL Information Technology Industrial (Group) Company Limited ("TCL Information"), a wholly-owned subsidiary of the Company, formed a sino-foreign equity joint venture ("JV") in the PRC with TCL Holdings Corporation Ltd., the ultimate controlling shareholder of the Company.

The total investment amount and the registered capital of JV is RMB5,000,000 (equivalent to approximately HK$4,673,000) in which TCL information contributed RMB2,450,000 (equivalent to approximately HK$2,290,000), being 49% of the registered capital of JV.

Connected transactions (continued)

(b) On 7 July 2000, TCL Holdings (BVI) Limited, a wholly-owned subsidiary of the Company, acquired from an independent third party interests in the following companies:

Name of company acquired	Percentage of interest acquired	Consideration
Huizhou TCL-Telital Mobile Communication Company Limited ("Huizhou-Telital")	20%	HK$11.7 million
TCL Mobile Communication (HK) Company Limited ("HK Mobile")	20%	HK$1 million

TCL Holdings Corporation Ltd., the ultimate controlling shareholder of the Company, is also the ultimate controlling shareholder of TCL Communication Equipment Company Limited which held a 40% interest in each of Huizhou-Telital and HK Mobile.

(c) On 21 November 2000, TCL Overseas Holdings Limited, a wholly-owned subsidiary of the Company, acquired the entire issued capital of Luks Technology Development Company Limited from Luks Industrial Company Limited ("Luks") for a cash consideration of HK$10.7 million. Mr. Luk King Tin, a non-executive director of the Company, controls the exercise of over 35% of the voting rights of Luks. Further details of the transaction are included in note 34(c) to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the above connected transactions were: (i) entered into in the ordinary and usual course of the Group's business; (ii) entered into on terms that were fair and reasonable so far as the shareholders of the Company are concerned; (iii) carried out in accordance with the terms of the respective agreements governing such transactions or where there were no such agreements, on terms no less favourable than terms available to or from independent third parties; and (iv) within the maximum expected extent or amounts as stated in the Company's prospectus dated 17 November 1999.

Pension scheme

Details of the pension scheme of the Group and the Group's pension costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

Code of Best Practice

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

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LI Dong Sheng, Tomson
Chairman

Hong Kong
20 April 2001

REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members

TCL International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 46 to 91 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

20 April 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2000

	Notes	2000 HK$'000	1999 HK$'000
Turnover	3	**8,569,198**	6,157,874
Cost of sales		**(6,870,267)**	(5,253,400)
Gross profit		**1,698,931**	904,474
Other revenue		**57,186**	28,889
Selling and distribution costs		**(995,708)**	(157,447)
Administrative expenses		**(232,277)**	(152,889)
Other operating expenses		**(1,287)**	(5,889)
Profit from operating activities	4	**526,845**	617,138
Finance costs	5	**(43,029)**	(65,467)
Share of profits and losses of:			
Jointly-controlled entities		**(10,626)**	21,399
Associate		**74**	—
Provision for amount due from a jointly-controlled entity		**(14,067)**	—
Profit before tax		**459,197**	573,070
Tax	8	**(32,888)**	(62,592)
Profit before minority interests		**426,309**	510,478
Minority interests		**1,456**	—
Net profit from ordinary activities attributable to shareholders	9	**427,765**	510,478
Dividends	10	**(87,893)**	(70,000)
Retained profit for the year	29	**339,872**	440,478
Earnings per share	11		
Basic		**17.79 cents**	27.43 cents
Diluted		**17.69 cents**	27.43 cents

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2000

	Notes	2000 HK$'000	1999 HK$'000
Exchange differences on translation of the financial statements of foreign entities	29	**(52)**	—
Net losses not recognised in the profit and loss account		**(52)**	—
Net profit for the year attributable to shareholders		**427,765**	510,478
Total recognised gains and losses		**427,713**	510,478
Goodwill eliminated directly against reserves	29	**(5,085)**	—
		422,628	510,478

CONSOLIDATED BALANCE SHEET

31 December 2000

	Notes	2000 HK$'000	1999 HK$'000
Non-current assets			
Fixed assets	12	**646,303**	520,439
Interest in an associate	14	**784**	—
Interests in jointly-controlled entities	15	**116,088**	89,732
Long term investment	16	**1,682**	—
		764,857	610,171
Current assets			
Inventories	17	**2,547,337**	2,350,471
Trade and bills receivable	18	**897,903**	623,731
Other receivables	21	**98,506**	66,757
Pledged bank deposits	22	**101,790**	115,220
Cash and bank balances		**1,000,928**	1,181,692
		4,646,464	4,337,871
Current liabilities			
Trade and bills payable	23	**2,287,406**	2,099,729
Tax payable		**68,495**	51,594
Other payables and accruals	24	**288,835**	165,910
Interest-bearing bank and other borrowings	25	**122,822**	142,712
Loan from the ultimate holding company	26	**139,131**	117,813
		2,906,689	2,577,758
Net current assets		**1,739,775**	1,760,113
Total assets less current liabilities		**2,504,632**	2,370,284

	Notes	2000 HK$'000	1999 HK$'000
Non-current liabilities			
Interest-bearing bank and other borrowings	25	**7,006**	96
Loan from the ultimate holding company	26	**—**	235,626
Deferred tax	27	**1,915**	3,100
		8,921	238,822
Minority interests		**16,993**	—
		2,478,718	2,131,462
Capital and reserves			
Issued capital	28	**240,560**	240,000
Reserves	29	**2,238,158**	1,891,462
		2,478,718	2,131,462

LI Dong Sheng, Tomson
Director

YAN Yong
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

	Notes	2000 HK$'000	1999 HK$'000
Net cash inflow from operating activities	30(a)	**256,600**	522,922
Returns on investments and servicing of finance			
Interest received		**36,955**	19,116
Interest paid		**(42,864)**	(65,482)
Interest element of finance lease rental and hire purchase contract payments		**(165)**	(834)
Dividends received from a jointly-controlled entity		**8,100**	11,479
Dividends paid		**—**	(110,000)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**2,026**	(145,721)
Tax			
Hong Kong profits tax paid		**(5,176)**	(5,565)
Overseas taxes paid		**(10,662)**	(8,690)
Taxes paid		**(15,838)**	(14,255)
Investing activities			
Purchases of fixed assets		**(179,363)**	(125,480)
Proceeds from disposal of fixed assets		**434**	206
Decrease/(increase) in pledged bank deposits		**13,430**	(37,438)
Acquisition of subsidiaries	30(b)	**(9,811)**	—
Disposal of subsidiaries	30(c)	**—**	(25)
Acquisition of an associate		**(1,000)**	—
Acquisition/formation of jointly-controlled entities		**(49,032)**	—
Purchase of a long term investment		**(1,682)**	—
Net cash outflow from investing activities		**(227,024)**	(162,737)

	Note	2000 HK$'000	1999 HK$'000
Net cash inflow before financing activities		**15,764**	200,209
Financing activities	30(d)		
New bank loans		**129,918**	4,920
Repayment of bank and other loans		**(139,901)**	(34,636)
Proceeds from issue of share capital		**12,521**	1,050,000
Share issue expenses		**—**	(51,102)
Capital element of finance lease rental and hire purchase contract payments		**(2,997)**	(3,024)
Decrease in amount due to the ultimate holding company		**—**	(78,024)
Repayment of loan from the ultimate holding company		**(214,308)**	(137,990)
Contribution from minority shareholders		**16,162**	—
Advance from a minority shareholder		**2,306**	—
Net cash inflow/(outflow) from financing activities		**(196,299)**	750,144
Increase/(decrease) in cash and cash equivalents		**(180,535)**	950,353
Cash and cash equivalents at beginning of year		**1,181,692**	231,339
Effect of foreign exchange rate changes, net		**(229)**	—
Cash and cash equivalents at end of year		**1,000,928**	1,181,692
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**1,000,928**	1,181,692

BALANCE SHEET

31 December 2000

	Notes	2000 HK$'000	1999 HK$'000
Non-current assets			
Interests in subsidiaries	13	**2,101,561**	1,981,516
Current assets			
Other receivables	21	**100,268**	1,210
Cash and bank balances		**869**	100,175
		101,137	101,385
Current liabilities			
Other payables and accruals	24	**93,893**	549
Net current assets		**7,244**	100,836
		2,108,805	2,082,352
Capital and reserves			
Issued capital	28	**240,560**	240,000
Reserves	29	**1,868,245**	1,842,352
		2,108,805	2,082,352

LI Dong Sheng, Tomson
Director

YAN Yong
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. Corporate Information

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

— Manufacture and sale of color television sets

— Manufacture and sale of other audio visual products

— Trading of white goods and air-conditioners

— Trading of raw materials and components

— Manufacture and sale of information technology related products

— Provision of Internet value-added services

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

2. 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 and presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The consolidated financial statements for the year ended 31 December 1999 have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group's reorganisation for the financial year, rather than from the date of their acquisition through the Group's reorganisation on 15 November 1999. Accordingly, the consolidated results of the Group for the year ended 31 December 1999 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Summary of Significant Accounting Policies (continued)

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associate

An associate is a company, not being a subsidiary or a joint venture, 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 its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of the 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 provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

2. Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

When the Group contributes or sells assets to a joint venture and the assets are retained by the joint venture, the Group recognises only that portion of the gain which is attributable to the interests of the other venturers and investors. The Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

When the Group purchases assets from a joint venture, the Group does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. When a loss is resulted from the transaction, the Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

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 provision for diminution in value, other than that considered to be temporary in nature, deemed necessary by the directors.

Goodwill and capital reserve

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates and jointly-controlled entities represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. The capital reserve arising on the consolidation of subsidiaries and on the acquisition of associates and jointly-controlled entities represents the excess of fair values ascribed to the net underlying assets acquired over the purchase consideration paid. On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of the attributable goodwill or capital reserve previously dealt with in reserves is realised and included in the calculation of the gain or loss on disposal.

2. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation. 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 the 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%
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, and is stated at cost 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.

2. Summary of Significant Accounting Policies (continued)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

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

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

2. Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. 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.

Each of the subsidiaries operating in the PRC mainland has participated in the Central Pension Scheme ("CPS") operated by the PRC government for all of its staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the profit and loss account as they become payable in accordance with the rules of the CPS.

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; and

(c) rental income, on a time proportion basis over the lease terms.

2. 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 equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

3. Turnover

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

4. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging:

	Group	
	2000	1999
	HK$'000	HK$'000
Cost of inventories sold	**6,870,267**	5,253,400
Depreciation:		
Owned fixed assets	**63,315**	47,447
Leased and hire purchased fixed assets	**1,276**	1,276
	64,591	48,723
Operating lease rentals for land and buildings	**15,297**	6,417
Auditors' remuneration	**3,000**	2,275
Exchange losses, net	**563**	1,553
Staff costs (including directors' remuneration — note 6):		
Wages and salaries	**134,894**	108,446
Pension scheme contributions	**3,982**	1,587
	138,876	110,033
Loss on disposal of fixed assets	**1,287**	4,730
and after crediting:		
Net rental income from leasing of machinery	**4,298**	—
Interest income	**36,955**	19,116

5. Finance Costs

	Group	
	2000	1999
	HK$'000	HK$'000
Interest on bank loans, and other loans wholly repayable within five years	**42,864**	64,633
Interest on finance leases and hire purchase contracts	**165**	834
	43,029	65,467

6. Directors' Remuneration

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

	Group	
	2000	1999
	HK$'000	HK$'000
Fees	**490**	170
Other emoluments:		
Salaries, allowances and benefits in kind	**6,869**	3,053
Bonuses	**59**	670
Pension scheme contributions	**1**	—
	7,419	3,893

Fees include HK$100,000 (1999: HK$100,000) payable to the independent non-executive directors.

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK$1,000,000	**9**	8
HK$1,000,001 to HK$1,500,000	**2**	2
	11	10

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

No value is included in director's remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

7. Five Highest Paid Employees

The five highest paid employees during the year included four (1999: three) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining one (1999: two) non-director, highest paid employee are as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,192**	1,854
Performance related bonuses	**46**	143
Pension scheme contributions	**1**	—
	1,239	1,997

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
Nil to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	1	2

No value is included in the remuneration of the five highest paid employees in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

8. Tax

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	2000 HK$'000	1999 HK$'000
Group:		
Hong Kong	**5,322**	5,835
Elsewhere	**28,493**	56,644
Under/(over)provision in prior years	**(1,076)**	171
Rebates received related to prior year	**—**	(58)
Deferred tax (note 27)	**(1,185)**	—
	31,554	62,592
Share of tax attributable to:		
Jointly-controlled entities	**1,334**	—
Tax charge for the year	**32,888**	62,592

9. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$101,825,000 (1999: HK$349,000).

10. Dividends

	Group 2000 HK$'000	Group 1999 HK$'000
Special	—	70,000
Proposed final — 3.5 (1999: Nil) HK cents per share	**87,893**	—
	87,893	70,000

The dividends for the year ended 31 December 1999 were paid by a subsidiary of the Company to its then shareholders prior to the Group reorganisation and the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

11. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$427,765,000 (1999: HK$510,478,000) and the weighted average of 2,404,057,377 (1999: 1,860,821,918) shares in issue during the year.

The calculation of diluted earnings per share is also based on the net profit from ordinary activities attributable to shareholders for the year of HK$427,765,000 (1999: HK$510,478,000). The weighted average number of shares used in the calculation is 2,404,057,377 (1999: 1,860,821,918) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 14,547,802 (1999: 106,635) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

12. 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	309,738	3,722	277,845	24,398	12,837	4,267	632,807
Additions	46,957	3,657	77,277	20,852	7,058	23,562	179,363
Acquisition of subsidiaries	7,147	—	23,827	2,110	2,419	—	35,503
Disposals	(101)	—	(2,826)	(453)	(277)	—	(3,657)
Transfers	493	—	1,797	711	—	(3,001)	—
Exchange realignments	(196)	—	(698)	(74)	(65)	—	(1,033)
At 31 December 2000	**364,038**	**7,379**	**377,222**	**47,544**	**21,972**	**24,828**	**842,983**
Accumulated depreciation:							
At beginning of year	26,973	2,139	69,066	9,954	4,236	—	112,368
Provided during the year	14,689	1,364	34,238	11,173	3,127	—	64,591
Acquisition of subsidiaries	2,836	—	16,986	1,479	1,187	—	22,488
Disposals	(53)	—	(1,649)	(120)	(114)	—	(1,936)
Exchange realignments	(105)	—	(627)	(55)	(44)	—	(831)
At 31 December 2000	**44,340**	**3,503**	**118,014**	**22,431**	**8,392**	**—**	**196,680**
Net book value:							
At 31 December 2000	**319,698**	**3,876**	**259,208**	**25,113**	**13,580**	**24,828**	**646,303**
At 31 December 1999	282,765	1,583	208,779	14,444	8,601	4,267	520,439

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

	2000 HK$'000	1999 HK$'000
Hong Kong	**25,818**	25,818
Elsewhere	**338,220**	283,920
	364,038	309,738

12. Fixed Assets (continued)

Certain land and buildings and plant and machinery with a net book value amounting to HK$131,777,000 (1999: HK$143,512,000) were pledged to secure general banking facilities, bank loans and other loan granted to the Group (note 25).

The Group is in the process of obtaining the land use right certificates and property certificates of certain land and buildings in the PRC with net book values amounting to HK$43,895,000 (1999: HK$15,518,000). Subsequent to year end on 13 April 2001, the Group has obtained the land use right certificates of certain land and buildings with a net book value amounting to HK$4,831,000.

The net book value of the fixed assets of the Group held under finance leases and hire purchase contracts included in the total amount of plant and machinery at 31 December 1999 amounted to HK$9,782,000.

13. Interests in Subsidiaries

	Company	
	2000	1999
	HK$'000	HK$'000
Unlisted shares, at cost	**1,148,255**	1,083,105
Due from subsidiaries	**953,306**	898,411
	2,101,561	1,981,516

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

13. Interests in Subsidiaries (continued)

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 2000	1999	Principal activities
TCL Holdings (BVI) Limited@	The British Virgin Islands	US$25,000	100	100	Investment holding
T.C.L. Electronics (H.K.) Limited@	Hong Kong	Ordinary HK$30,000,000	100	100	Trading of audio visual products, raw materials and components
TCL King Electrical Appliances (Huizhou) Co., Ltd.	The PRC	HK$256,000,000	100	100	Manufacture and sale of audio visual products and trading of raw materials, components and household electrical products
TCL King Electronics (Shenzhen) Co., Ltd.	The PRC	HK$100,000,000	100	100	Manufacture of audio visual products
TCL Retail (HK) Limited	Hong Kong	Ordinary HK$10,000	100	100	Trading of audio visual products
TCL 通力電子(惠州)有限公司	The PRC	HK$43,000,000	100	—	Manufacture and sale of audio visual products
深圳 TCL 新技術有限公司	The PRC	HK$10,000,000	100	—	Manufacture and sale of audio visual products

13. 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 2000	1999	Principal activities
TCL Information Technology Industrial (Group) Co., Ltd. @	The British Virgin Islands	US$4,500,000	100	—	Investment holding
北京天地人家網絡技術有限公司*	The PRC	RMB5,000,000	49**	—	Development and manufacture of computer software and hardware products and provision of Internet related services
TCL 萬維科技(深圳)有限公司*	The PRC	HK$25,000,000	100	—	Manufacture and sale of personal digital assistants and other information technology related products
TCL 空調器(中山)有限公司*	The PRC	US$6,800,000	75	—	Manufacture and sale of household electrical products
TCL (Vietnam) Corporation Ltd.	Vietnam	VND37,135,000,000	100	—	Manufacture and sale of audio visual products

13. 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 2000	1999	Principal activities
TCL Electronics (Singapore) Pte Ltd.*	Singapore	S$900,000	85	—	Trading of audio visual products
TCL Education Web Limited*	The British Virgin Islands	US$1	100	—	Provision of remote education services

@ Direct subsidiaries of the Company.

* The financial statements of the subsidiaries were not audited by Ernst & Young.

** By virtue of an arrangement between the Group and the joint venture partner holding the remaining 51% beneficial interest in this company, the Group is entitled to all of the company's profits and is liable for all its losses by paying a fixed fee to the joint venture partner annually. The company is accounted for as a subsidiary by virtue of control over the entity.

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.

14. Interest in an Associate

	Group 2000 HK$'000	1999 HK$'000
Share of net assets	784	—

14. Interest in an Associate (continued)

Particulars of the associate, which is indirectly held by the Company, are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group 2000	1999	Principal activity
TCL Mobile Communication (HK) Company Limited	Corporate	Hong Kong	20%	—	Trading of mobile phones

The financial statements of the associate were not audited by Ernst & Young.

15. Interests in Jointly-Controlled Entities

	Group 2000 HK$'000	1999 HK$'000
Share of net assets	**116,088**	89,732

15. Interests in Jointly-Controlled Entities (continued)

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

Name	Business structure	Place of incorporation/ registration and operations	Ownership interest	Voting power of the board	Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Corporate	The PRC	52%	57%	52%	Manufacture and sale of audio visual products
TCL Sun, Inc.*	Corporate	Philippines	40%	40%	40%	Trading of audio visual products
TCL Baron India Limited*	Corporate	India	51%	50%	51%	Trading of audio visual products
Huizhou TCL Telital Mobile Communication Co., Ltd.*	Corporate	The PRC	20%	20%	20%	Manufacture and sale of mobile phones
TCL International, Inc.*	Corporate	The United States of America	50%	50%	50%	Investment holding
上海天時網絡信息有限公司*	Corporate	The PRC	50%	50%	50%	Manufacture and sale of set-top-boxes

* Acquired or formed during the year.

16. Long Term Investment

	Group 2000 HK$'000	Group 1999 HK$'000
Unlisted equity investment, at cost	**1,682**	—

17. Inventories

	Group 2000 HK$'000	Group 1999 HK$'000
Raw materials	**1,053,465**	702,964
Work in progress	**61,311**	53,603
Finished goods	**1,432,561**	1,593,904
	2,547,337	2,350,471

The carrying amount of inventories carried at net realisable value included in the above is HK$16,531,000 (1999: Nil).

18. Trade and Bills Receivable

	Notes	Group 2000 HK$'000	Group 1999 HK$'000
Due from third parties:			
Trade receivable		**241,152**	157,690
Bills receivable		**436,587**	104,856
		677,739	262,546
Due from related parties	19	**105,550**	201,806
Due from jointly-controlled entities	20	**114,614**	159,379
		897,903	623,731

18. Trade and Bills Receivable (continued)

The Group generally grants a credit period of 60 to 120 days to its trade debtors. The ageing analysis of the year end trade and bills receivable is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Current to 90 days	**649,479**	544,534
91 days to 180 days	**235,295**	52,874
181 days to 365 days	**10,188**	6,358
Over 365 days	**2,941**	19,965
	897,903	623,731

19. Due From/To Related Parties

The amounts due from/to related companies are unsecured, repayable within one year and are interest-free, except for the amount due from TCL Electrical Appliances Sales Co., Ltd. which, if it exceeds the credit period granted, will bear interest at the rate of 5.1% (1999: 6.6%) per annum.

20. Due From/To Jointly-Controlled Entities

The amounts due from/to jointly-controlled entities are unsecured, repayable within one year and bear interest at 6.1% (1999: 8.4%) per annum if the amount exceeds the credit period.

21. Other Receivables

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other receivables	**98,506**	54,059	**268**	1,210
Due from ultimate holding company	**—**	12,698	**—**	—
Dividend receivable	**—**	—	**100,000**	—
	98,506	66,757	**100,268**	1,210

22. Pledged Bank Deposits

At 31 December 2000, the Group's bank deposits of HK$101,790,000 (1999: HK$115,220,000) were pledged to secure general banking facilities granted by the banks.

23. Trade and Bills Payable

		Group	
		2000	1999
	Note	**HK$'000**	HK$'000
Due to third parties:			
Trade payable		**1,481,228**	1,226,709
Bills payable		**657,851**	737,860
		2,139,079	1,964,569
Due to related parties	19	**148,327**	135,160
		2,287,406	2,099,729

23. Trade and Bills Payable (continued)

The ageing analysis of the year end trade and bills payable is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Current to 90 days	**1,891,100**	1,609,503
91 days to 180 days	**382,090**	486,729
181 days to 365 days	**6,807**	827
Over 365 days	**7,409**	2,670
	2,287,406	2,099,729

24. Other Payables and Accruals

		Group		Company	
		2000	1999	**2000**	1999
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables and accruals		**199,458**	164,912	**6,000**	549
Due to shareholders		**—**	998	**—**	—
Due to jointly-controlled entities	20	**1,484**	—	**—**	—
Proposed final dividend	10	**87,893**	—	**87,893**	—
		288,835	165,910	**93,893**	549

25. Interest-Bearing Bank and Other Borrowings

	Group	
	2000	1999
	HK$'000	HK$'000
Bank loans:		
Secured	**85,903**	60,747
Unsecured	**43,925**	76,636
	129,828	137,383
Other loan, secured	**—**	2,428
Finance lease and hire purchase contract payables	**—**	2,997
	129,828	142,808
Bank loans repayable:		
Within one year	**122,822**	137,383
In the second year	**158**	—
In the third to fifth years, inclusive	**580**	—
Beyond five years	**6,268**	—
	129,828	137,383
Other loan repayable:		
Within one year	**—**	2,428
Finance lease and hire purchase contract payables repayable:		
Within one year	**—**	2,901
In the second year	**—**	96
	—	2,997
	129,828	142,808
Portion classified as current liabilities	**(122,822)**	(142,712)
Long term portion	**7,006**	96

25. Interest-Bearing Bank and Other Borrowings (continued)

(a) Certain of the bank loans were secured by:

(i) The Group's land and buildings and plant and machinery with a net book value amounting to HK$131,777,000 (1999: HK$135,223,000).

(ii) The Group's bank deposits of HK$40,000,000 (1999: HK$42,895,000).

(b) The unsecured bank loans were guaranteed by the Company's ultimate holding company.

26. Loan from the Ultimate Holding Company

	Group	
	2000	1999
	HK$'000	HK$'000
Amounts repayable:		
Within one year	**139,131**	117,813
In the second year	**—**	117,813
In the third to fifth years, inclusive	**—**	117,813
	139,131	353,439
Portion classified as current liabilities	**(139,131)**	(117,813)
Long term portion	**—**	235,626

The loan from the ultimate holding company is unsecured, bears interest at 6.4% (1999: 6.9% to 9.8%) per annum and is repayable within one year.

27. Deferred Tax

	Group	
	2000	1999
	HK$'000	HK$'000
Balance at beginning of year	**3,100**	3,137
Credit for the year (note 8)	**(1,185)**	—
Disposal of subsidiaries	**—**	(37)
At 31 December	**1,915**	3,100

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

There are no significant potential deferred tax liabilities for which provision has not been made.

28. Issued Capital

Shares

	Company	
	2000	1999
	HK$'000	HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,405,600,000 (1999: 2,400,000,000) shares of HK$0.10 each	**240,560**	240,000

During the year, the subscription rights attaching to 5,600,000 (1999: Nil) share options were exercised at a subscription price of HK$2.236 per share, resulting in the issue of 5,600,000 shares of HK$0.10 each for a total cash consideration of HK$12,521,000.

28. Issued Capital (continued)

Shares (continued)

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

	Numbers of shares issued	Paid-up nominal value HK$'000
Pro forma issued capital at 1 January 1999	1,800,000,000	180,000
New issue of shares on public listing	600,000,000	60,000
Issued capital at 31 December 1999	2,400,000,000	240,000
Share options exercised	5,600,000	560
Issued capital at 31 December 2000	2,405,600,000	240,560

Share options

On 15 November 1999, the Company adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to any employee and/or executive director of the Group to subscribe for the Company's shares. According to the share option scheme, the consideration payable by a participant for the grant of an option will be HK$1.00. The subscription price is determined by the directors but is not less than the higher of the nominal value of the shares and 80% of the average of the official closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date on which the relevant option is offered to the employee and/or executive director. The maximum number of shares in respect of which options may be granted under the Scheme and any other scheme of the Company shall not exceed 10% of the share capital of the Company in issue from time to time (except shares issued upon exercise of options granted pursuant to the Scheme). The Scheme will remain in force for a period of three and a half years from the date of adoption thereof.

28. Issued Capital (continued)

Share options (continued)

Details of movements of the share options are set out below:

	Number of share options				
Exercise price HK$	**Outstanding at 31 December 1999**	**Granted during the year**	**Lapsed during the year**	**Exercised during the year**	**Outstanding at 31 December 2000**
2.236	46,000,000	—	6,400,000	5,600,000	34,000,000
2.508	—	71,190,000	2,710,000	—	68,480,000
2.816	—	660,000	—	—	660,000
1.676	—	42,000,000	—	—	42,000,000
	46,000,000	113,850,000	9,110,000	5,600,000	145,140,000

The above share options entitle the holders to subscribe for shares of the Company at any time from the expiry of three years from the date of office/employment of each grantee with the Group to 14 May 2003.

29. 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 1999	—	70,000	38,018	262	403,806	512,086
Issue of shares on public listing	990,000	—	—	—	—	990,000
Share issue expenses	(51,102)	—	—	—	—	(51,102)
Retained profit for the year	—	—	—	—	440,478	440,478
Transfer from retained profits	—	—	114,189	—	(114,189)	—
At 31 December 1999	938,898	70,000	152,207	262	730,095	1,891,462
Issue of shares upon exercise of share options	11,961	—	—	—	—	11,961
Goodwill on acquisition of:						
— subsidiaries	—	(1,819)	—	—	—	(1,819)
— associate	—	(290)	—	—	—	(290)
— jointly-controlled entities	—	(2,976)	—	—	—	(2,976)
Exchange realignments	—	—	—	(52)	—	(52)
Retained profit for the year	—	—	—	—	339,872	339,872
Transfer from retained profits	—	—	60,684	—	(60,684)	—
At 31 December 2000	**950,859**	**64,915**	**212,891**	**210**	**1,009,283**	**2,238,158**
Reserves retained by:						
Company and subsidiaries	950,859	64,915	183,394	(150)	1,024,922	2,223,940
Associate	—	—	—	—	74	74
Jointly-controlled entities	—	—	29,497	360	(15,713)	14,144
At 31 December 2000	**950,859**	**64,915**	**212,891**	**210**	**1,009,283**	**2,238,158**
Reserves retained by:						
Company and subsidiaries	938,898	70,000	149,460	262	698,998	1,857,618
Jointly-controlled entities	—	—	2,747	—	31,097	33,844
At 31 December 1999	938,898	70,000	152,207	262	730,095	1,891,462

* Pursuant to the relevant laws and regulations for Sino-Foreign Joint Venture Enterprises and Sole Foreign Investment Enterprises, 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.

29. Reserves (continued)

Company

	Share premium account HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
Arising from the issue of shares for the acquisition of subsidiaries	—	903,105	—	903,105
Issue of shares on public listing	990,000	—	—	990,000
Share issue expenses	(51,102)	—	—	(51,102)
Retained profit for the year	—	—	349	349
At 31 December 1999	938,898	903,105	349	1,842,352
Issue of shares upon exercise of share options	11,961	—	—	11,961
Retained profit for the year	—	—	13,932	13,932
At 31 December 2000	**950,859**	**903,105**	**14,281**	**1,868,245**

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.

30. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000 HK$'000	1999 HK$'000
Profit from operating activities	**526,845**	617,138
Depreciation	**64,591**	48,723
Loss on disposal of fixed assets	**1,287**	4,730
Interest income	**(36,955)**	(19,116)
Increase in inventories	**(190,757)**	(1,655,195)
Increase in trade and bills receivable from third parties	**(413,878)**	(116,634)
Increase in prepayments, deposits and other receivables	**(42,354)**	(40,942)
Decrease/(increase) in amount due from the ultimate holding company	**12,698**	(12,698)
Decrease in net amounts due from related parties	**109,423**	780,412
Decrease/(increase) in net amounts due from jointly-controlled entities	**32,182**	(90,567)
Increase in trade and bills payable to third parties	**161,555**	989,027
Increase in other payables and accruals	**32,961**	44,599
Decrease in amounts due to shareholders	**(998)**	(26,555)
Net cash inflow from operating activities	**256,600**	522,922

30. Notes to Consolidated Cash Flow Statement (continued)

(b) Acquisition of subsidiaries

	2000 HK$'000
Net assets acquired:	
Fixed assets	13,015
Inventories	6,109
Cash and bank balances	979
Trade receivable	1,315
Prepayments, deposits and other receivables	2,093
Trade payable	(12,955)
Other payables and accruals	(1,585)
	8,971
Goodwill on acquisition	1,819
	10,790
Satisfied by:	
Cash	10,790

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

	2000 HK$'000
Cash consideration	(10,790)
Cash and bank balances acquired	979
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(9,811)

The subsidiaries acquired during the year contributed HK$33,923,000 to the Group's turnover and incurred a loss of HK$2,106,000 for the year. The subsidiaries acquired contributed HK$2,987,000 to the Group's net operating cash flows, but had no significant impact in respect of the investing and financing activities.

30. Notes to Consolidated Cash Flow Statement (continued)

(c) Disposal of subsidiaries

	1999 HK$'000
Net assets disposed of:	
Cash and bank balances	125
Prepayments, deposits and other receivables	23
Tax payable	(11)
Deferred tax	(37)
	100
Satisfied by:	
Cash	100

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

	1999 HK$'000
Cash consideration	100
Cash and bank balances disposed of	(125)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(25)

The results of the subsidiaries disposed of had no significant impact on the Group's turnover, consolidated net profit from ordinary activities attributable to shareholders or consolidated cash flows for the year ended 31 December 1999.

30. Notes to Consolidated Cash Flow Statement (continued)

(d) Analysis of changes in financing during the year

	Share capital and share premium HK$'000	Finance lease and hire purchase contract payables HK$'000	Bank and other loans HK$'000	Due to ultimate holding company HK$'000	Loan from the ultimate holding company HK$'000	Minority interests HK$'000
Balance at 1 January 1999	180,000	6,021	108,780	78,024	552,176	—
Refinancing of loans	—	—	60,747	—	(60,747)	—
Cash inflow/(outflow) from financing activities, net	998,898	(3,024)	(29,716)	(78,024)	(137,990)	—
Balance at 31 December 1999	1,178,898	2,997	139,811	—	353,439	—
Cash inflow/(outflow) from financing activities, net	12,521	(2,997)	(9,983)	—	(214,308)	18,468
Share of losses	—	—	—	—	—	(1,456)
Share of exchange fluctuation reserve	—	—	—	—	—	(19)
Balance at 31 December 2000	**1,191,419**	**—**	**129,828**	**—**	**139,131**	**16,993**

31. Commitments

(a) Capital commitments

	Group	
	2000	1999
	HK$'000	HK$'000
Capital commitments contracted for in respect of:		
Purchases of fixed assets	**25,946**	17,656
Capital contribution to a jointly-controlled entity	**35,010**	—
	60,956	17,656

In addition, the Group's share of capital commitments of a jointly-controlled entity not included in the above is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Capital commitments contracted for	**—**	345

(b) Commitments under operating leases

At 31 December 2000, the Group's had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Land and buildings expiring:		
Within one year	**2,412**	1,304
In the second to fifth years, inclusive	**4,803**	1,675
After five years	**3,382**	—
	10,597	2,979

31. Commitments (continued)

(c) At 31 December 2000, the Company and the Group had contracted to acquire the entire registered capital of TCL Computer Technology Co., Ltd. for an aggregate consideration of approximately HK$341.8 million. Further details of the transaction are set out in note 33.

32. Contingent Liabilities

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

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable endorsed to suppliers	**226,082**	352,977	**—**	—
Bills discounted with recourse	**22,983**	34,239	**—**	—
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**423,740**	—
	249,065	387,216	**423,740**	—

As at 31 December 2000, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$47 million (1999: Nil).

In addition, the Group's share of contingent liabilities of a jointly-controlled entity not included in the above was as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Bills receivable endorsed to suppliers	**8,096**	24,102

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

33. Post Balance Sheet Event

On 18 December 2000, the Company entered into an agreement (the "Agreement") in relation to the acquisition by TCL Holdings (BVI) Limited, a wholly-owned subsidiary of the Company, from TCL Holdings Corporation Ltd. ("TCL Holdings") and T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries") the entire registered capital of TCL Computer Technology Co., Ltd. for an aggregate consideration of approximately HK$341.8 million. The aggregate consideration was satisfied by cash for a sum of approximately HK$153.8 million to TCL Holdings and by the issue of 105,619,289 new shares of HK$0.10 each in the capital of the Company at a price of HK$1.78 per share to TCL Industries. Before the completion of the Agreement, TCL Holdings, through TCL Industries, beneficially owned an aggregate of approximately 51.82% of the issued capital of the Company.

The Agreement was completed subsequent to the balance sheet date on 28 February 2001. Upon the completion, the issued share capital of the Company increased from 2,405,600,000 shares to 2,511,219,289 shares and the aggregate shareholding of TCL Holdings and TCL Industries in the Company increased to approximately 53.84% of the enlarged issued share capital.

Further details of the above transaction are set out in the Company's circular dated 9 January 2001.

34. Related Party Transactions

(a) Continuing transactions with

	Notes	Group 2000 HK$'000	Group 1999 HK$'000
Jointly-controlled entity:			
Sales of raw materials	(i)	**307,628**	391,598
Purchases of raw materials	(i)	**—**	32,234
Interest income	(ii)	**3,585**	1,191
Rental income	(iii)	**4,298**	—
Shareholder of the Company:			
Purchases of raw materials	(iv)	**—**	34,139
Ultimate holding company:			
Interest income	(v)	**2,212**	5,591
Interest expense	(vi)	**30,436**	55,445
Companies controlled by the ultimate holding company:			
Sales of raw materials	(vii)	**—**	920
Purchases of raw materials	(viii)	**282,292**	127,122
Cash discounts	(ix)	**22,434**	37,677
Sales bonus	(x)	**—**	19,698
Sales commission	(xi)	**772,100**	36,230
Subcontracting fees	(xii)	**31,773**	9,441
Rental expense	(xiii)	**—**	186
Companies controlled by a jointly-controlled entity:			
Purchases of raw materials	(viii)	**70,332**	77,010

Notes: (i) The Group sold and purchased raw materials to/from a jointly-controlled entity at cost.

(ii) The interest income from a jointly-controlled entity related to trading balances, further details of which are included in note 20.

(iii) The rental income was charged with reference to market value.

(iv) The purchases of raw materials from a shareholder were made at the same prices as purchases from independent third party suppliers plus interest of 9.5% per annum for the extended credit term granted by the shareholder.

34. Related Party Transactions (continued)

(v) The interest income from the ultimate holding company was charged at the PRC bank savings rate.

(vi) The interest expense paid to the ultimate holding company was charged at 6.4% (1999: 6.9% to 9.8%) per annum.

(vii) The Group sold the raw materials at a mark-up of 7%.

(viii) The purchases of raw materials were made at prices similar to those set by independent third party suppliers.

(ix) Cash discounts paid were calculated as follows:

(1) For amounts settled within the credit period, the cash discount was calculated at the monthly rate of 0.5% (1999: 0.55%).

(2) For settlement within the credit period, the amount of settlement by cash over the amount of settlement by bills, subject to a maximum of 70% of the total receipt, would attract a cash discount calculated at 0.5% (1999: 0.55%).

(x) The sales bonus paid was calculated at 0.123% of the actual cash proceeds and 2% on an agreed amount, if the actual cash proceeds exceeds the predetermined target.

(xi) The sales commission paid was calculated at 10% of the retail price of the Group's products sold through the related party.

(xii) The subcontracting fees were determined by reference to subcontracting fees charged in the market in respect of similar services rendered.

(xiii) The rental expense charged was similar to fair market value.

(b) Non-continuing transactions with

	Notes	**2000 HK$'000**	1999 HK$'000
Shareholders of the Company:			
Sales of raw materials	(i)	**—**	9
Purchases of fixed assets	(ii)	**—**	45
Interest expense	(iii)	**—**	59
Companies controlled by the ultimate holding company:			
Sales of finished goods	(iv)	**—**	5,064,712
Sales of computers	(v)	**—**	7,668
Sales of raw materials	(vi)	**—**	7,734
Purchases of finished goods	(vii)	**—**	367

34. Related Party Transactions (continued)

Notes: (i) The raw materials sold were made at an average mark-up of approximately 2%.

(ii) The purchases were undertaken at consideration approximating the fair market value of the fixed assets.

(iii) The interest expense was charged at the rate of 5% per annum.

(iv) The finished goods were sold to the related party at agreed prices calculated at a 13.5% discount of the estimated price sold to independent customers.

(v) The sales of computers were made at a mark-up of approximately 1%.

(vi) The sales of raw materials were made at cost.

(vii) The purchases of finished goods were made at average prices charged by the related party to independent third party customers.

(c) During the year, the Group acquired a 100% interest in Luks Technology Development Company Limited ("Luks Technology") from Luks Industrial Company Limited, in which a non-executive director of the Company has a beneficial interest, for a cash consideration of HK$10.7 million. The consideration was agreed after arm's length negotiation between the parties with reference to the net asset value of Luks Technology.

(d) Further details of the amounts due from/to related parties and jointly-controlled entities are included in notes 18, 19, 20, 23 and 24. Further details of the loan from the ultimate holding company are included in note 26.

(e) Further details of the guarantees given by the ultimate holding company in respect of general banking facilities and bank loans granted to the Group are included in note 25.

35. Approval of the Financial Statements

The financial statements were approved by the board of directors on 20 April 2001.

SUMMARY FINANCIAL INFORMATION

The following table summarises the consolidated/combined results of the Group for the last five financial years, as extracted from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications which would have been necessary if the current Group structure had been in existence throughout these financial years.

	Year ended 31 December				
	2000	1999	1998	1997	1996
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**8,569,198**	6,157,874	3,871,393	2,052,512	649,245
Profit before tax	**459,197**	573,070	328,711	208,809	56,048
Tax	**(32,888)**	(62,592)	(5,198)	(4,905)	(1,109)
Profit before minority interests	**426,309**	510,478	323,513	203,904	54,939
Minority interests	**1,456**	—	—	—	36
Net profit from ordinary activities attributable to shareholders	**427,765**	510,478	323,513	203,904	54,975

Note: As the Company was incorporated on 23 April 1999, the only published consolidated balance sheets of the Group which have been prepared are those set out on pages 48 and 49 of the financial statements.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company shall be held at Tang Room 1, 4/F, Furama Hotel, One Connaught Road Central, Hong Kong at 10:00 a.m. on 30 May 2001 to transact the following ordinary business:

1. To receive and consider the consolidated audited financial statements and the reports of the directors and auditors for the year ended 31 December 2000.

2. To declare a final dividend in respect of the year ended 31 December 2000.

3. To re-elect the retiring directors and authorise the board of directors to fix their remuneration.

4. To appoint auditors and authorise the board of directors to fix their remuneration.

and by way of special business to consider, and if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

5. "THAT the Share Option Scheme ("New Share Option Scheme"), a copy of which has been submitted to the Meeting marked "A" signed for identification by the Chairman thereof, be and is hereby approved and adopted in place of the share option scheme adopted by the Company on 15 November 1999 (the "Existing Share Option Scheme") and that the date of expiry of those options granted under the Existing Share Option Scheme the grantees of which consent be amended to expire upon the passing of this resolution and that the directors of the Company be and were authorised to do all things and deeds to implement the New Share Option Scheme and to do all things and deeds pursuant thereto including but not limited to the offer or grant of options and the issue and allotment of shares of the Company upon the exercise of any option and the directors may vote in respect of any resolution under or affecting the New Share Option Scheme notwithstanding any interest of any director."

6. "THAT the directors be and are hereby authorised to issue from time to time counter indemnities in favour of TCL Holdings Corporations Limited and/or any of its subsidiaries, excluding the Company and its own subsidiaries, (each a Relevant Entity) for obligations assumed under any guarantee by any Relevant Entity which guarantee has been given as financial assistance within Rule 14.24(8) of the Rules Governing the Listing of Securities on the Stock Exchange for the benefit of any of the Company and its subsidiaries and any one director be and is hereby authorised to take all actions and sign and deliver all documents on behalf of the Company in connection therewith and to do or cause to be done all such acts and things and to execute any documents and, where a

document is required to be sealed by the common seal of the Company, affix the common seal of the Company thereon in the presence of any two directors, in each case as shall in the sole opinion of such director be deemed necessary or appropriate in order to carry out the purpose and intent of and give effect to the foregoing."

7. "THAT

(a) a general mandate be and is hereby unconditionally given to the directors of the Company ("Directors") to exercise during the Relevant Period (as hereinafter defined) all the powers of the Company to allot, issue and deal with unissued shares of the Company ("Shares") or securities convertible into Shares or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements or options which would or might require the exercise of such powers either during or after the Relevant Period, in addition to any Shares which may be issued on a Rights Issue (as hereinafter defined) or under any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend pursuant to the Articles of Association of the Company from time to time, not exceeding twenty percent. of the aggregate nominal value of the share capital of the Company in issue as at the date of this Resolution; and

(b) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Articles of Association of the Company to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the Shareholders of the Company in general meeting.

and "Right Issue" means an offer of shares open for a period fixed by the directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or of the requirements of any recognised regulatory body or any stock exchange applicable to the Company).”

8. “THAT there be granted to the Directors an unconditional general mandate to repurchase Shares, and that the exercise by the Directors of all powers of the Company to purchase Shares subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved, subject to the following conditions:

   (a) such mandate shall not extend beyond the Relevant Period;

   (b) such mandate shall authorise the Directors to procure the Company to repurchase Shares at such price as the Directors may at their discretion determine;

   (c) the Shares to be repurchased by the Company pursuant to paragraph (a) of this Resolution during the Relevant Period shall be no more than ten percent. of the Shares in issue at the date of passing of this Resolution; and

   (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

      (i) the conclusion of the next Annual General Meeting of the Company;

      (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Articles of Association of the Company to be held; and

      (iii) the date on which the authority set out in this Resolution is revoked or varied by way of ordinary resolution of the Shareholders of the Company in general meeting.”

9. “THAT, subject to the availability of unissued share capital and conditional upon the Resolutions nos. 7 and 8 set out in the notice of the annual general meeting of the Company dated 20 April 2001 of which this resolution forms part, being passed, the aggregate nominal amount of the Shares which are repurchased by the Company pursuant to and in accordance with resolution no. 8 set out in the notice of annual general meeting of which this resolution forms part shall be added to the aggregate nominal amount of the share capital of the Company that

may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution no. 7 set out in the notice of annual general meeting of which this resolution forms part."

By Order of the Board

Pang Siu Yin

Company Secretary

Hong Kong, 20 April 2001

Notes:

1. The Hong Kong branch Register of Members will be closed from Thursday 24 May 2001 to Wednesday 30 May 2001 (both days inclusive), during which period no transfers of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting of the Company to be held on 30 May 2001, all transfers accompanied by the relevant share certificates must be lodged with the Branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Wednesday, 23 May 2001.

2. A member who is a holder of two or more shares, and who is entitled to attend and vote at the Meeting is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the Meeting and voting in person. In such event, his form of proxy will be deemed to have been revoked.

3. A form of proxy for the Meeting is enclosed. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Hoarcourt Road, Central, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjournment.

4. With regard to items 7 and 9 above, the Directors wish to state that they have no immediate plans to issue any new shares of the Company.