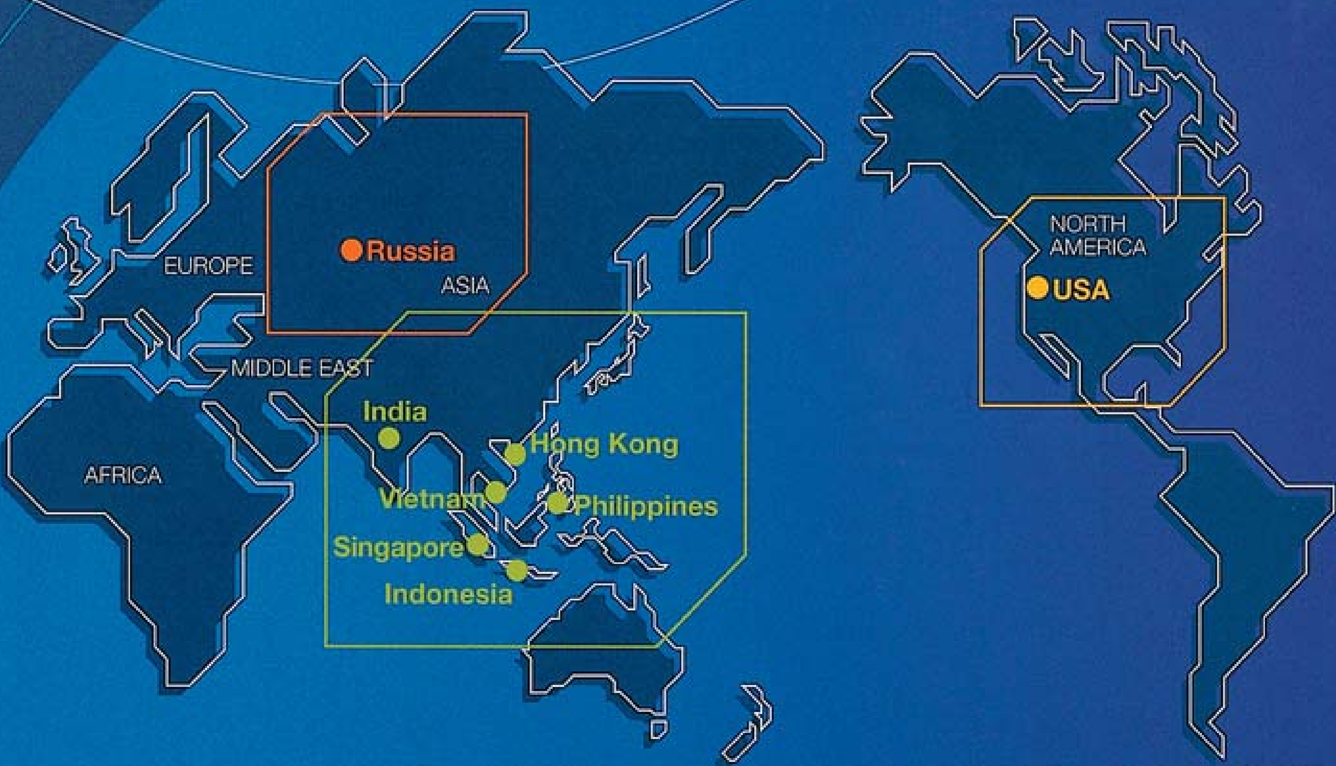
TCL International Holdings Limited

Annual Report 2001

going global



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 arenas 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 TCL brand name. Overseas sales of TCL brand and OEM products are made through TCL overseas subsidiaries.

Corporate Profile

Mission

TCL's aim is to facilitate the consumer's embrace of a new lifestyle by making innovative, intelligent, interactive and informative technologies part of his or her every day life.

Business Philosophy

As an outstanding corporate citizen, TCL constantly strives to provide great value for its customers, promising career opportunities for its employees and significant contribution to society as a whole.

Guiding Principles

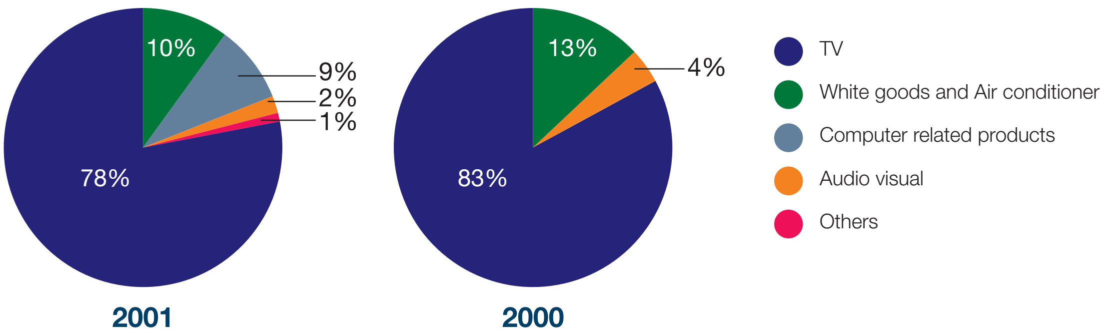
- The reputation of TCL's brand name is built on the quality of its products and services.
- TCL commits to the digital technology of the future and invests substantially in Research and Development corresponding to market demands.
- TCL's products can only be connected to the consumers through an effective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

Turnover

HK$' million	2001	2000	Change%
TV	7,476	7,070	+6%
Refigerator	239	363	-34%
Washing Machine	258	403	-36%
Air-conditioner	439	385	+14%
Computer related products	865	—	N/A
AV	242	342	-29%
Others	91	6	+1,416%
Total	**9,610**	8,569	+12%
Gross profit	**1,719**	1,699	+1%
Net profit attributable to shareholders	**292**	428	-32%

Revenue Breakdown by Businesses



Financial Position

HK$' million	2001	2000
Fixed assets	853	646
Net current assets	1,566	1,828
Cash and time deposits	1,084	1,103
Interest bearing debts	30	269
Net assets/Shareholders' funds	2,934	2,567


HiD
家庭信息显示器
TCL

international

worldwide preference

Headquartered in Huizhou, Guangdong, TCL has established an extensive nationwide and international sales & distribution network. The total sales rise rapidly that its TV and mobile phone ranked No.1 in the PRC and No.3 amongst domestic players in the country respectively. With the brand value of over RMB14 billion, TCL becomes one of the most valuable brands in China and has developed into a multi-national corporation with sales offices in over 10 countries.

Year in Review

Jan | **Feb** | Mar | Apr | May | Jun | **Jul** | **Aug** | **Sept** | **Oct** | **Nov** | **Dec**

Feb

Added PC to the Group's business portfolio — Completed acquisition of 100% interest in TCL Computer Technology Company Ltd

Started to launch TCL brand products in Malaysia and Indonesia to further enhance market presence in Southeast Asia

Jul

Appointed sales and distribution representative in Middle-East for TCL products

Aug

Acquired 65% interest in Shenzhen TCL Industrial Institute Ltd to enhance R&D capability

Acquired 51% interest in TCL Electrical Appliance Sales Co. Ltd (distribution network)

Sept

Appointed by the Chinese authorities as one of the 20 authorized manufacturers of CDMA handsets in the PRC

Oct

According to the MII, for the 10 months ended 31 October, 2001, TCL sold over 4,800,000 TV sets and outperformed other market players in the PRC

Nov

Signed a commercial subscriber unit license and technology transfer agreement with QUALCOMM Incorporated to develop mobile technology, manufacture and sell CDMA handsets

Commenced business in Russia

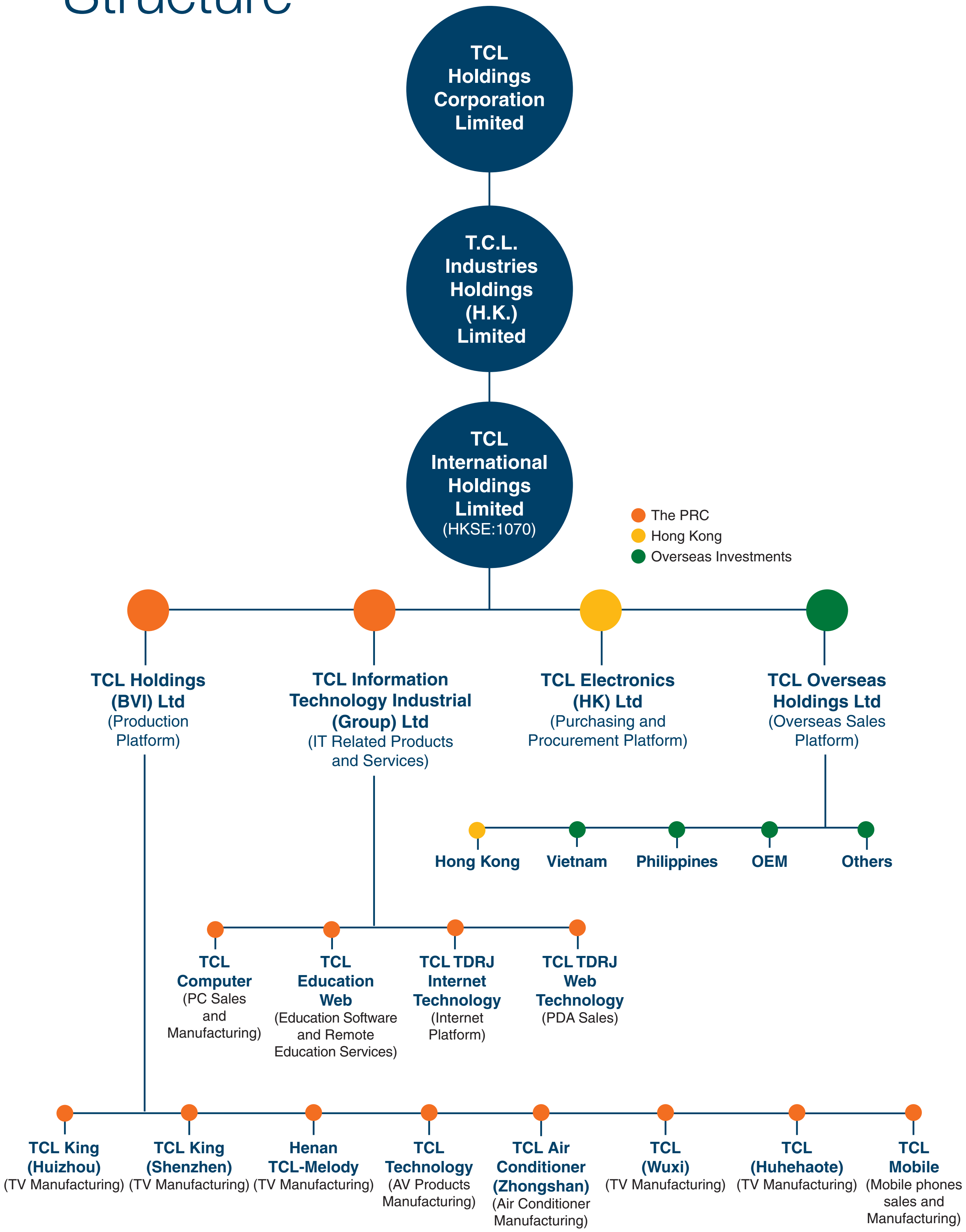
Commenced delivery of quarterly results to enhance corporate transparency

Dec

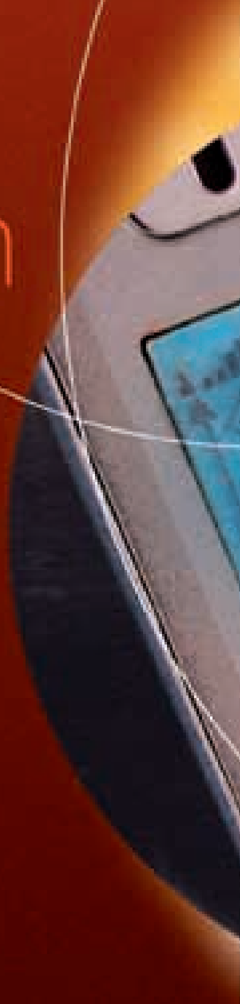
Announced to further acquire 10% interest in Huizhou TCL Mobile, in addition to the 20% stake held previously

Gained 6% of TV market share in Hong Kong according to market information

Business Structure



stylish
design



Aimed to create an internationalized mobile communication enterprise, TCL Mobile Communication committed to R&D, manufacturing and sales to enhance its competitiveness in China and internationally. A series of stylish and hi-tech digital mobile phones has been developed to strengthen its leading position in China and capture market share in the international market.


選擇
退出

Corporate Information

Board of Directors

Chairman
Mr Li Dong Sheng, Tomson

Vice Chairman
Mr Yuan Xin Cheng

Executive Director
Ms Lu Zhong Li
Mr Hu Qiu Sheng
Ms Wu Shi Hong
Mr Yan Yong

Non-Executive Director
Mr Wong Toe Yeung

Independent Non-Executive Directors
Mr Hon Fong Ming
Mr Albert Thomas da Rosa, Junior

Company Secretary
Ms Pang Sin Yin, Solicitor, Hong Kong

Principal Bankers
Bank of China (Hong Kong) 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
15/F, Hutchison House
10 Harcourt Road
Central, Hong Kong

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
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
Strategic Financial Relations (China) Limited
Unit A, 29/F Admiralty Centre
18 Harcourt Road
Hong Kong

Directors and Senior Management

Directors

Executive Directors

Mr Li Dong Sheng, aged 44, 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 19 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 50, 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 30 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 Hunan, the PRC.

Ms Lu Zhong Li, aged 56, is a director, vice president and chief accountant of TCL Holdings. Ms Lu has over 36 years of experience in financing, taxation, accounting and financial management. Ms Lu is an accountant and graduated from Hubei University, the PRC.

Mr Hu Qiu Sheng, aged 42, 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 19 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 44, is responsible for overseeing the business in respect of information technology related products and services of the Group. Ms Wu has almost 17 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 39, 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 Director

Mr Wong Toe Yeung, aged 62, 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 — Mobile Communication Company Limited. Mr. Wong has over 30 years of experience in the consumable electronic products industry.

Independent Non-executive Directors

Dr Hon Fong Ming, aged 34, is the Chairman and CEO of Dragoncom (Asia) Asset Management Limited, and the director of First Tractor Co. Ltd. and Luoyang Glass Co. Ltd. He has over 10 years' experience in capital market management and corporate finance. An expert in the history and modernisation of South East Asia, he is now a research fellow of the Asia Pacific Research Institute of Beijing University as well as a Visiting Professor of Fairbank Center for East Asian Research, Harvard University (Starting from April 2000).

Mr Albert Thomas da Rosa, Junior, aged 48, 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, Felipe, aged 47, General Manager — Operations of TCL International Holdings Ltd. Mr. Suen has had over 20 years of working experience in general and business management with renowned multinational and public-listed companies. Prior to joining TCL, he was with AST Computers, a US corporation, as General Manager. His responsibilities comprised manufacturing, product marketing, sales administration, finance and general management. He assumed both country and regional roles. In his earlier careers, he worked at Mattel Toys and Elec & Eltek group. Mr. Suen has a Bachelor degree in Business Administration from the Chinese University of Hong Kong.

Mr Myung Jun Ahn, aged 46, Managing Director — 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 Foreign Language and International Trade.

Mr Bruce Ren, aged 39, 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.

Ms Shao Guang Jie, aged 40, 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 18 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 62, is the production technology director of the Group. He joined the Group in 2000. Mr Chikao 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 58, is the Chief Engineer of the Group. He is responsible for research and development of the Group's product. Prior to joining The Group in 1996 he served Rediffusion, Television Broadcasting Limited and Luks, Industrial Company Limited and has gained over 33 years of experience in electronics engineering. He is also the holder of a number of patent rights.

Mr Yu Guang Hui, aged 34, General Manager — Overseas Business. He is responsible for the overseas sales of the Group's multimedia products business. Mr Yu joined the Group in 1996 and has over 7 years of experience in production, planning and material management. He was one of the chief coordinators in the early construction and management of the TCL King colour television's production base and later oversees the whole purchasing function of the Group's multimedia business. Graduated with a Master of Science's degree in physics, he is now pursuing an MBA degree in Beijing University.

Ms Lam Man Ying, aged 35, 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 both the Chartered Association of Certified Accountants of the United Kingdom and the Hong Kong Society of Accountants.

Chairman's Statement

The combination of a dwindling global economy and benign domestic economic growth meant that TCL International Holdings Limited weathered a tough year of ferocious competition within the industry. Nevertheless, by upholding the principle "innovative reform, in tune with the market situation and acting in unison", the Group managed to sustain profit at a time when other consumer electronics manufacturers saw their bottom lines suffer in 2001. Growth in sales revenue and market share further solidified our leading position in the home appliance industry in the PRC.

China's successful accession to the WTO will offer both threats and opportunities. Faced with these new challenges and opportunities, we will not be complacent but will proactively strengthen our management and further upgrade our overall corporate competitiveness. Concurrent with our efforts to sustain a stable domestic growth, we will actively develop and expand our overseas markets. We believe that the Group, by leveraging on its many distinguishing qualities during the globalisation of the worldwide economy, the reallocation of the value chain in the industry and the consolidation of the domestic industry, will be able to capitalize greatly on development opportunities and become more competitive in the worldwide market.

Performance Overview

During the 2001 financial year, turnover grew by 12% over the previous year to HK$9.6 billion; profit attributable to shareholders slipped by 32% to HK$290 million. The growth in turnover was attributed primarily to the PC business acquired during the year, while the decline in profit was linked to the slowdown in economic growth and relentless competition in the industry.

In 2001, the Group outranked all its competitors by selling 6.3 million television sets, an increase of 9% over the previous year, and secured a 20% share of the domestic market. Despite a decline in the gross profit margin of the television business in the wake of price competition, the Group is still the most profitable enterprise in the PRC's television industry. As one of the PRC's largest television enterprises, the Group's long-term objective is to be a competitive international enterprise by becoming a global mainstream manufacturer and distributor of television as well as by solidifying our current leading position in the domestic market. In this respect, the Group acquired a 51% equity interest in TCL Electrical Appliances Sales Co., Ltd. from its parent company in August 2001. We firmly believe that this acquisition will have far-reaching and critical effects in enhancing the overall competitiveness of TCL.

Although the white goods business was less satisfactory in 2001, we believe that, after a year of review and adjustment, and by leveraging on the strength of the TCL brand name and the competitive advantages of our sales network, the air-conditioner, refrigerator and washing machine business will return to healthy growth.

In the information technology sector, despite difficulties in the market place, our PC business retained much of its already secured market position. The implementation of ERP information management system last year in the consumer desktop PC arena has built a solid foundation. Subsequent to a short period of adjustment, we will further enhance the level of quality and services, secure stable growth in the PC business as well as actively develop our personal consumer digital products. I have every reason to believe that the PC business will turn around in 2002.

Regarding our information value-added services, the Group's Remote Education Project is progressing smoothly and has begun marketing and sales activities. In view of the development of the PRC education information market, and despite its current small scale, this sector is not only lucrative but will also stimulate sales growth in hardware.

The Group encountered certain difficulties in our overseas business in 2001 as a result of a global dismal economic climate as well as the absence of major overseas investment.

Nevertheless, the Group's overseas business achieved a sales revenue of HK$645 million, an increase of 16% over the previous year. The Group was especially cautious in controlling the pace of overseas expansion, strengthening the management and adhering to a prudent risk management policy. With China's accession to the WTO, our overseas business is expected to expand swiftly.

The most encouraging aspect of 2001 was the rapid growth in the mobile phone business. Both sales and profit reached 1.25 million sets and HK$300 million respectively, and thus far exceeded our pre-set goals. This business has already become one of the Group's important sources of profit.

Taking into account of the world economy and the conditions of the domestic industry, the Group is still the most outstanding player in the industry, albeit a downturn in last year's performance. During the past year of hardships, we have gained valuable insights into recognising our strengths and are determined to turn any shortcomings into advantages when taking on bigger challenges in the future. Indeed, we plan to further enhance our overall competitiveness and capture the spectacular opportunities ahead.

2002 Prospects

Despite China's accession to the WTO, Beijing's success in winning the bid for the 2008 Olympic Games and the reduction in domestic interest rates that will help boost the PRC economy and

In 2001, the Group's television business registered a 6% growth in turnover, with a 20% market share in the PRC.

personal consumption rates, the slowdown in economic growth in 2001 may have a lingering impact on 2002 and prevent the economy from attaining the sort of exorbitant growth in the past years.

In the home appliances industry, the increasing influx of foreign investment and excessive competition among domestic manufacturers will likely lead to consolidation of the domestic industry and acceleration of more cooperation with international enterprises. Well aware of this paradigm shift and the market opportunities it is expected to bring, the Group will therefore take pragmatic and proactive steps by responding promptly to the ever-changing tastes of both domestic and international markets. We firmly believe that challenges always come with opportunities.

We will further explore our potentials, make effective use of our resources, renew sales strategies, strengthen channel building, speed up market responses, establish strategic cooperation, emphasize quality and added-value on product development, and improve operating efficiencies so as to solidify and expand our leading position within the industry.

The Group is very confident about sustaining its leading position in the domestic television market, as well as proactively enhancing its sales capability and profits in white goods. The television business will continue to be our principal source of profit, although its overall relationship to our total profit will decline as a result of growth in the contributions made by the Group's diverse businesses.

Subsequent to China's accession to the WTO, trade barriers to PRC exports will gradually be dismantled. With the expected gradual recovery of the global economy, the Group is optimistic about its overseas business for the current year. We will strengthen market promotion efforts, expand product lines, accelerate the pace in introducing new products and upgrade after-sales services in overseas markets in order to actively snatch a larger pie in overseas markets.

In the information technology business, the Group will optimise hardware product lines, including PCs, strengthen remote education as one of the principal content applications, fully leverage on the prestigious TCL brand name and make use of the established Internet-based educational products to facilitate other product line sales. Despite the fact that the Group's information technology business was unable to contribute profit in 2001, the business has enormous growth potential. We still firmly believe that this investment will bring satisfactory returns to shareholders in the future after surviving the temporary difficult situation.

In 2001, the mobile phone business was instinctively aggressive and innovative, with a sales of 1.25 million sets.

In 2002, the Group has increased its equity interest in the mobile phone business to 30% by acquiring an additional 10% interest in Huizhou TCL Mobile Communication Co., Ltd., which is expected to sustain enormous growth.

Following China's accession to the WTO this year, the Group will vigorously pursue its philosophy of "creating value for customers, opportunities for employees and benefits for society", as well as face challenges positively and sustain a continued healthy corporate growth. As a shareholder of one of the leading companies in the PRC, your future return is promising.

Finally, I would like to express my respect and gratitude to the Group's management team and all staff for their dedication, as well as my appreciation to the shareholders, auditors and associates.

Overseas sales of the Group's AV products doubled in 2001

research & development

innovative

Dedicating to the research and development of the best product, TCL believes that technology innovation is the never-ending power to drive the corporation. TCL's R&D centre is recognised as one of the most advanced R&D centres for home appliances in the PRC.


Global Search Too
TCL

Management Discussion and Analysis

— Operations Review

— Financial Review

Operations Review

Television Business

In 2001, the PRC television market grew modestly by 2% over the previous year. Despite ferocious competition within the market, the Group's television business registered a 6% growth in turnover, with a 20% market share. TCL became the hottest television brand name in the PRC and outranked all its competitors.

Prices of television sets continued to decline in 2001, due not only to the continual price reductions of parts and components, but also to the pressures of competition. However, TCL was left relatively unscathed by such price adjustments and succeeded in sustaining the Group's competitive price advantage by reducing and accelerating turnover in inventory, upgrading overall operating efficiencies, judging the market situation accurately, and devoting itself to technological innovations and complementary product rollouts. In 2001, the Group launched seven series of television sets, featuring over 50 different models, in order to cater to various market and consumer tastes. In the prevailing economic environment, the success of the Group's television business in achieving better results than its peers hinged on its relentless devotion to developing a high-end market, actively driving product innovation, being instinctively aggressive, introducing international-standard advanced technology, and buttressing research and development capabilities to reap reasonable profitability and returns with new high-end models.

Currently, TCL has the most diverse product range in the PRC, created by a lightning pace in new product rollouts. The Group's products are well received by consumers for their outstanding image, as well as the accurate market positioning designed to satisfy the needs of different consumers.

TCL's washing machines were the first batches of "quality inspection exempted" home appliances in the PRC last year.

TCL places particular emphasis on technological innovation. It responds to individual market needs by catering to different consumers with different product features. Characteristic designs make it possible for consumers to fully enjoy the fruits of advanced technologies.

White Goods Business

Amidst fierce competition in the air-conditioner market in 2001, the decline in overall prices was higher than expected. Although the Group's air-conditioning business recorded a 14% increase in turnover to HK$440 million, the deviations in pricing policies as a result of misinterpreting market changes led to an unsatisfactory performance in profitability. Nevertheless, TCL's air-conditioner business, adhering to the motto of "Trendy, Technology, People", with revamped organisational structure, established nationwide distribution channels, and enhanced quality and cost awareness, looks poised for better results this year .

Last year, the Group's sales of 176,000 refrigerators and 402,000 washing machines slipped in view of mismatched timing of new product rollouts and market demand. In order to address this situation, TCL has boosted its research and development capability and established a sales department solely for white goods. With professional sales teams, a gradual improvement in the distribution network and the implementation of related management measures, the sales figures for 2002 are expected to rise considerably.

TCL's washing machines and refrigerators were the first batches of "quality inspection exempted" home appliances in the PRC last year, being accredited by the State Bureau of Quality and Technical Supervision, which recognised the quality of TCL's products, as well as provided a reference and proof of confidence for consumers when they purchase our home appliances. The Group believes that the white goods business has ample room for growth next year.

AV Business

In 2001, the Group's domestic sales decreased by 39% while its sales in overseas markets doubled. The constant emergence of new technologies led to downward price adjustments, as well as ferocious competition in the DVD market, affecting domestic sales to a certain extent.

In view of this and to facilitate growth, the Group has set a new direction for its AV products by concentrating on individual features and establishing a direct and swift network of distribution channels. As far as future product lines are concerned, the Group has plans to improve interconnectivity with loudspeakers and televisions as well as overall appearance consistency. The Group has also strengthened scientific research and quality control associated with its AV products, upgraded market monitoring and forecasts, as well as repositioned its AV products from a more professional perspective. Management believes that there is room for development in the domestic market for AV products, and also considerably better sales prospects in overseas markets. In conclusion, TCL's AV products have tremendous potential for development.

PC Business

Affected by the global market environment, the PRC's home PC market grounded to a halt, with occasional phases of negative growth, in 2001. Monopoly within the industry and price wars among manufacturers also led to a massive price cuts.

Influenced by the overall environment, TCL Computer failed to meet pre-determined objectives for sales, profit and growth. However, TCL Computer managed to maintain a good market position, with a market share of approximately 6.8% in home PCs and approximately 3.5% in desktop PCs, ranking third and fourth in the respective domestic markets.

TCL Computer launched two new product series targetted at the household market in 2001, namely Rui Xiang (銳翔) and Rui Li (銳麗) series. Rui Xiang was designed and produced in June 2001 to complement the Group's Pentium 4 strategy. Rui Li, a mid-market model based on the P4 and Windows XP platforms, was rolled out in December to tie in with digital consumption.

In August 2001, TCL Computer started to implement ERP information management system. This system helps to optimise overall operations and sales flow, and lay a solid foundation for its business expansions.

Currently, the Group has entered into strategic alliances with internationally recognised suppliers and manufacturers, including Microsoft and Intel. These alliances will not only affirm TCL's leading position within the industry, but also bestow competitive advantages for the Group in the home PC market, thereby leading to growth in market share and sales.

The Group currently has 27 representative offices and over 800 distributors in the PRC. TCL has adopted the sales network model of "wholesaler system plus core distributors" by deploying wholesalers in second- and third-tier regions and cities to develop appointed dealers. It also employs P4 and ejiajia (億家家) sales specialty centres under core distributors. With its effective sales policies, the Group sales performance has enhanced and has boosted overall operational efficiency.

Looking ahead, the Group's strategy is to "establish a strong and effective avenue for consumer digital products". TCL Computer's strategy in the future is to solidify its competitive advantages in the home PC sector, proactively establish its market position in business PCs and create a new TCL consumer digital brand name in the personal consumer digital product sector.

Internet Business

In 2001, the growth of the IT industry was static due to the global economic slowdown, in particular the United States. The Group's Internet business leverages on the advantageous resources of TCL to actively provide customers with a quality portal, network devices and distance learning services.

Last year, the Group successfully marketed its network devices, which won a number of awards, including the "Best in Functions and Price" award from the "China Computer Newspaper". It also secured a 4% market share in the network device market and established a quality brand image within the industry.

Operation of the Group's portal for distance learning education programmes and marketing of its education platform for classes at the Central Television Broadcasting University has been underway. The Group believes that it will benefit from the establishment of a unified distance education market system and a commercialised operation.

The Group's Internet business is still in its investment stage and, has yet to contribute to profit. In 2002, the Group will centralise its resources in developing network devices and distance education projects, strengthen management and operation, and contain costs in order to lay a solid foundation for the development of electronic digitalisation in the PRC.

Research and Development

In 2001, the Group was successful in developing an extensive series of new products, such as the "Picturesque" Television, the "One Key" Set-Top Box, the DVB-S Digital Television Satellite Receiver, the LCD Display Monitor, the PDA and the 16 X 9 HDTV Ready HiD. TCL also set up a research and development team for specialised display devices that is responsible for the development of the PDP, the LCD Rear Projection Television and the LCOS Television. These products are expected to be placed in the market in 2002.

During the year under review, the Group also actively explored technologies related to digital circuit designs and software development. IT technology, such as the 32-bit CPU application and embedded operating system, was also incorporated into the Group's consumer electronic products.

Overseas Business

To become a world-class PRC enterprise has always been TCL's stated objective. To achieve this goal, the Group has been active in exploring all kinds of opportunities in overseas business. During the year under review, TCL exported over 740,000 television sets, representing a 5% increase previous year. Sales of AV products reached over 84,000. In 2001, total sales, comprising TCL and OEM brands amounted to HK$645 million.

The TCL brand name has successfully made its way into the top five or six on lists of the best-selling television brand names in individual markets. Despite last year's quiet operating environment, the Group did not match the significant price cuts prevailing in the market to boost sales, but actively optimised its products to secure orders. The Group is in the process of reorganising the operational structure of its joint venture company in India and rationalising its local operating strategies.

As the overseas markets were generally weak last year, the Group did not make any large-scale overseas investments but maintained its interests in Vietnam, the Philippines, Hong Kong, Singapore, Indonesia, India, Russia and the United States. In addition to actively driving local sales, TCL also reviewed its operating models, and strengthened management and financial controls in order to further consolidate the status of the TCL brand name in these markets, and also enhanced operational efficiency.

Subsequent to China's accession to the WTO, the gradual dismantling of the trade barriers between China and other member states will attract an influx of overseas investors and large international customers to the PRC. The ensuing prevalence of unprecedented business opportunities and favourable circumstances will be highly beneficial to the development of the Group's overseas business. With the gradual recovery of the global economy anticipated in 2002, the Group is very optimistic about its overseas business for the coming year. Looking ahead, TCL will capitalise on its current competitive advantages by introducing new products and models, upgrading after-sales services and increasing modestly its overseas advertising promotion and marketing. In markets with potential, such as Vietnam, the Philippines, Hong Kong and Indonesia, the Group will capitalise on its mature sales network and competitive advantages by expanding product lines to include AV, air-conditioning, white goods and mobile phones, as well as lifting the economies of scale in sales.

Regarding market development, the Group has completed its market research in Russia, established primary contacts with local customers and adopted respective sales model. TCL is expecting Russia to begin profit contribution in 2002. In South America, the Group will rely on its US subsidiary to drive sales and establish a local distribution network. Elsewhere, the Group is actively studying the feasibility of developing TCL brand business in the Middle East, South Africa and Malaysia. The Group believes that the overseas markets for home appliances have tremendous growth potential and could offer significant returns for the Group.

Mobile Phone Business

Encouraged by a swiftly growing market, TCL Mobile owed its excellent performance since establishment to its well-experienced management team and its buoyant research and development capability. In order to enhance the Group's future profitability and value to shareholders', the Group obtained the shareholders' approval in the Extraordinary General Meeting in January 2002, to acquire an additional 10% of its mobile phone business for approximately HK$280 million (with an implied price earnings ratio of 10 based on the guaranteed profit), bringing its total investment to 30%. The transaction is expected to be completed at the end of March 2002.

Despite several foreign brands' leading positions in the PRC market , headed by Nokia and Motorola, the PRC Ministry of Information Industry revealed that some of these large enterprises suffered losses last year. Other well-known enterprises, such as Ericsson and Phillips, have announced that they will gradually withdraw from the mobile phone manufacturing sector. This demonstrates clearly that mobile phone manufacturing is shifting towards Asian and Chinese enterprises, most notably by TCL.

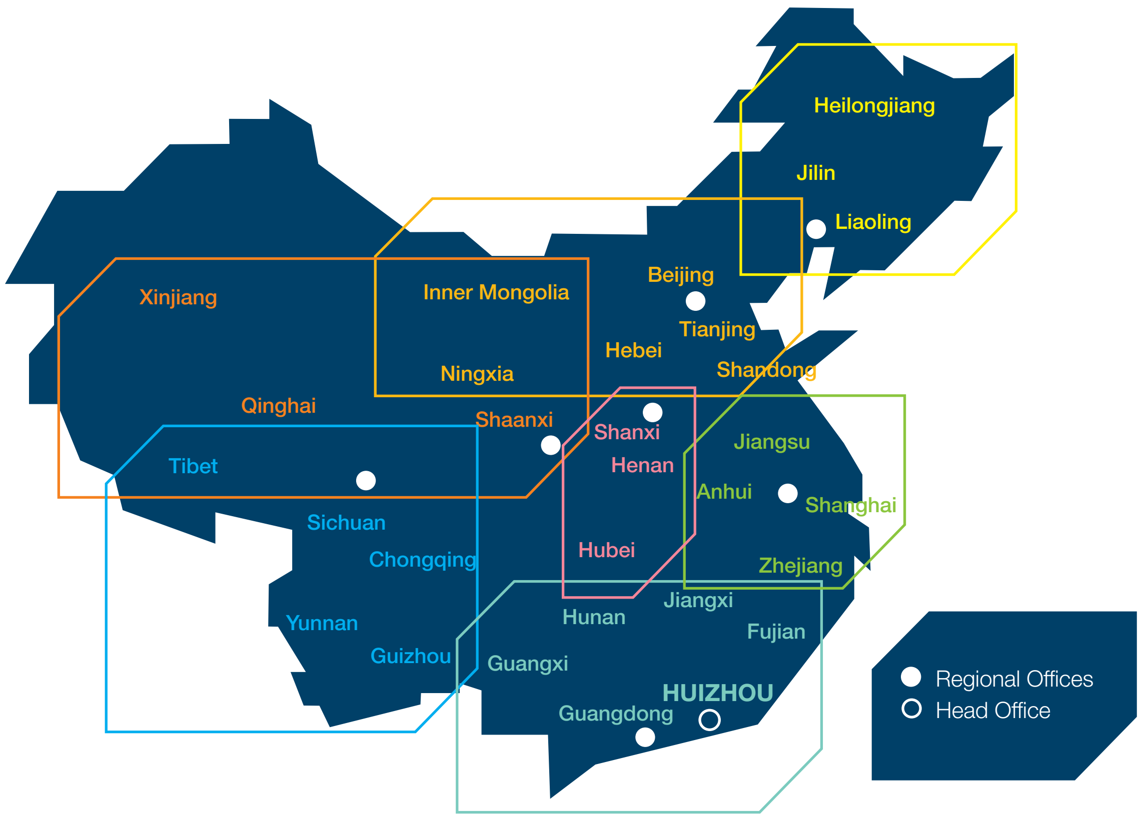
In 2001, the mobile phone business was instinctively aggressive and innovative. Some 1.25 million sets were sold during the year, a surge of 4.6 times over the 0.22 million sets sold in 2000, and realising a market share close to 3%. Total sales revenue last year was HK$2.0 billion, 7 times over the previous year's HK$254 million. Net profit also exceeded the guaranteed profit set in January 2002.

The Company will consistently apply its operating strategy of "horizontal and vertical integration, and in-depth distribution", and create new core competitiveness with value-added services. In 2002, it also plans to introduce a number of highly competitive mobile phones to capture a higher market share.

Distribution Network

In June 2001, the Group announced the acquisition of a 51% equity interest in Huizhou TCL Electrical Appliances Sales Co., Ltd. from its parent company for the sum of HK$26 million. The transaction was completed in September 2001.

TCL Electrical Appliances Sales Co., Ltd., established in 1996, currently controls and operates a distribution and after-sales service network. The network comprises 27 branch



companies, 174 sales offices, 80 representative offices, over 10,000 agents, 3,950 service centres, and over 20,000 distributors and retailers. It is also regarded as the most comprehensive and efficient distribution network for electronic consumer goods.

The Group believes that the acquisition of the distribution network will greatly enhance its competitive advantages and bring it much closer to the market than the contractual interest derived from the distribution agreement. It will help the Group to obtain more opportunities and information, secure greater coverage and room for development, reduce costs further, to enhance service standards, quicken product flows and upgrade operational efficiencies, and eventually boost the overall competitiveness and profitability of the Group considerably.

Financial Review

Performance indicators

	2001	2000
Gross Margin	17.9%	19.8%
Net Margin	3%	5%
Return on equity	9.95%	16.67%
Current ratio	1.56 times	1.65 times
Interest cover	17.44 times	13.74 times
Debt/Equity ratio	0.01	0.10
Inventory turnover	94 days	135 days
Trade receivable collection period	36 days	35 days

Television — Market competition and price war among the industry players become less ferocious in the second half of the year. Sales volume increased by 9% with sales revenue increased by 6% to HK$7,476 million. In order to allow the Group to react swiftly to this highly dynamic market, the Group allocated more resources on ameliorating operations efficiency and reducing its stock level. At the end of the year, more than 30% of decrease in stocks was recorded. Coupled with the Group's emphasis on higher end models which entailed higher margin, gross margin of the TV division could be maintained at 19%. It is encouraging to note that TCL is able to maintain its leading position in the industry and is the best performer, both in terms of profitability and market share.

White Goods — The overall performance of other home appliances businesses was far from expectation. Established since 1999, the white goods division has still been at its initial stage of development. Over-optimistic pricing policy and the delay in product rollout largely contributed to the lower-than-expected sales. In the air-conditioner subdivision, higher profit margin of the industry has enticed more players to enter the market. Low level of sales made it difficult for the Group to take advantage of the economies of scale, in particular, when the newly acquired manufacturing facility in Zhongshan went into operation in early 2001. Gross margin of white goods decreased by 5%.

Computer related products — The burst of the internet bubble has led to a worldwide reduction in PC demands. Continuous price cuts caused delay in consumption and sales target was unable to attain. Together with the provision of certain obsolete stock, gross margin was eroded by 5% and the division has made a loss of 17.5 million in 2001. The management believes that the situation is only temporary. We are confident that with the gradual pick-up of the worldwide economy and gradual streamlined flow of sales and operation resulting from a full-scale restructuring of the ERP system and distribution network, the performance of the division will soon have a turnaround in the near future.

Associated Company and Jointly Controlled Entities

— The mobile phone business in which the Group had a 20% stake in 2001 has experienced encouraging results. Unit sales have increased from 220,000 sets in 2000 to 1,250,000 sets in 2001. Share of profits before tax attributed to the Group amounted to HK$61 million. Subsequent to the year end in January 2002, the Group acquired an additional 10% interest in the mobile phone business. It is believed that the mobile phone business will become the Group's major profit contributor in the future.

Performance of mobile phone business:

	2001	2000
Unit sales (units)	1,250,000	220,000
Turnover (HK$'m)	1,990	254
Gross Margin	34%	16%
Net Margin	15%	2%
Net Profit (HK$'m)	307	5
Net Asset Value (HK$'m)	388	78

— The economy of India and not to mention the television market was badly hit by the disastrous earthquake in January 2001. The performance of our JV in India was further aggravated by the financial difficulties of our JV partner there, which was handling the assembly and distribution and therefore has tremendous impact on the ultimate profitability of the JV. The future of this JV is still under consideration and for prudence sake, a full provision for investment in the amount of HK$8 million is made. In addition, trade receivable from the JV partner in the amount of HK$38 million is fully provided and included in other operating expenses.

— The Group's another major joint venture — Henan TCL Melody Electronics Co., Ltd was able to turn around from its previous loss-making position recorded as in 2000. With the production of the more-profitable 29 inches TVs, gross margin as well as overall results were improved.

— Other newly invested joint ventures such as the distance learning projects, the compressors manufacturing factory were still at their initial stage of development with no profit contributions to the Group.

Liquidity, Financial Resources and Borrowings

With the Group's efficient management of resources, financial position of the Group remains healthy. Cash on hand amounted to HK$1 billion of which HK$63 million was pledged as security for trade finance facilities in the PRC. Bank loans reduced by HK$100 million to HK$30 million.

During the year, a total of 105,619,289 shares were issued at a price of HK$1.78 per share as partial consideration for the acquisition of the Group's PC business from our holding company. Apart from the above, there was no major equity financing during the year.

production quality

Through an ongoing process of diversification, TCL has established its wide range of home appliances with advanced digital functions. As the leading home appliance manufacturer in China, TCL's products bring every Chinese consumer in contact with digital information conveniently and in the comfort of their homes.

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 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 91.

The directors recommend the payment of a final dividend of 3 HK cents per share in respect of the year to shareholders on the register of members on 10 May 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

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

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 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 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK$2,018,408,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
— the largest supplier	7%
— five largest suppliers combined	32%
Sales	
— the largest customer	6%
— five largest customers combined	9%

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.

Report of the Directors

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)
Lu Zhong Li (ceased to be a non-executive director and became an executive director on 1 November 2001)
Hu Qiu Sheng
Wu Shi Hong
Yan Yong

Non-executive directors:

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

* Independent non-executive directors

In accordance with article 116 of the Company's articles of association, Messrs Lu Zhong Li, Wu Shi Hong and Yan Yong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive director will cease to hold such office at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, 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	20,006,000

Interests in associated corporation:

Name of associated corporation	Name of director	Nature of interest	Percentage of interest in associated corporation
TCL Holdings Corporation Ltd. ("TCL Holdings") (Note)	Li Dong Sheng, Tomson	Personal	7.30%
	Yuan Xin Cheng	Personal	1.39%
	Lu Zhong Li	Personal	1.31%
	Hu Qiu Sheng	Personal	0.97%
	Wu Shi Hong	Personal	0.45%

Note: TCL Holdings held 1,384,995,289 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.

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.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEMES

On 30 October 2001, the share option scheme adopted by the Company on 15 November 1999 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted by shareholders of the Company. As a result, the Company can no longer grant any further option under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. The purpose of the New Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Schemes include the Company's executive directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for three and a half years from the date of adoption.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted under the New Scheme is such number of the shares, when aggregated with shares subject to any other scheme (including the Old Scheme), representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the New Scheme and any other scheme (including the Old Scheme)). The maximum number of shares in respect of which options may be granted to any one participant shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the New Scheme. The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than three and a half years from the date of the offer of the share options. The subscription price for the share in respect of which option are granted is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company's share.

At 31 December 2001, the number of shares issuable under share options granted under both the Old Scheme and the New Scheme was 186,889,000, which represented approximately 7.4% of the Company's shares in issue as at that date.

SHARE OPTION SCHEMES (continued)

On 1 September 2001, Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") was amended whereby if the Company wishes to continue to grant options under the New Scheme on or after 1 September 2001, it must also comply with the new requirements set out therein.

The following share options were outstanding under the Schemes during the year:

	Number of share options							
Name or category of participant	**At 1 January 2001**	**Granted during the year**	**Lapsed during the year**	**At 31 December 2001**	**Date of grant**	**Exercise price** HK$	**Exercise period**	**Price of Company's shares at date of grant#** HK$
Directors								
Li Dong Sheng,	12,000,000	—	—	12,000,000	3 December 1999	2.236	Note 1	3.075
Tomson	—	1,500,000	—	1,500,000	2 May 2001	0.928	Note 2	1.130
	12,000,000	1,500,000	—	13,500,000				
Yuan Xin Cheng	6,000,000	—	—	6,000,000	3 December 1999	2.236	Note 1	3.075
	—	1,200,000	—	1,200,000	2 May 2001	0.928	Note 2	1.130
	6,000,000	1,200,000	—	7,200,000				
Lu Zhong Li	5,000,000	—	—	5,000,000	3 December 1999	2.236	Note 1	3.075
	—	1,000,000	—	1,000,000	2 May 2001	0.928	Note 2	1.130
	—	10,000,000	—	10,000,000	28 May 2001	1.042	Note 3	1.430
	5,000,000	11,000,000	—	16,000,000				
Hu Qiu Sheng	5,000,000	—	—	5,000,000	3 December 1999	2.236	Note 1	3.075
	—	1,000,000	—	1,000,000	2 May 2001	0.928	Note 2	1.130
	5,000,000	1,000,000	—	6,000,000				
Wu Shi Hong	3,000,000	—	—	3,000,000	3 December 1999	2.236	Note 1	3.075
	—	1,000,000	—	1,000,000	2 May 2001	0.928	Note 2	1.130
	3,000,000	1,000,000	—	4,000,000				

SHARE OPTION SCHEMES (continued)

Name or category of participant	At 1 January 2001	Granted during the year	Lapsed during the year	At 31 December 2001	Date of grant	Exercise price HK$	Exercise period	Price of Company's shares at date of grant# HK$
	Number of share options							
Directors (continued)								
Yan Yong	300,000	—	—	300,000	1 June 2000	2.508	Note 4	3.200
	—	400,000	—	400,000	2 May 2001	0.928	Note 2	1.130
	300,000	400,000	—	700,000				
Wong Toe Yeung	3,000,000	—	—	3,000,000	3 December 1999	2.236	Note 1	3.075
	—	300,000	—	300,000	2 May 2001	0.928	Note 2	1.130
	3,000,000	300,000	—	3,300,000				
Other employees	68,180,000	—	(68,150,000)	30,000	1 June 2000	2.508	Note 4	3.200
	—	52,356,000	(432,000)	51,924,000	2 May 2001	0.928	Note 2	1.130
	—	10,000,000	—	10,000,000	28 May 2001	1.042	Note 3	1.430
	—	21,000,000	—	21,000,000	30 August 2001	0.794	Note 3	0.960
	—	53,235,000	—	53,235,000	29 October 2001	0.994	Note 5	0.990
	660,000	—	(660,000)	—	15 June 2000	2.816	Note 3	3.275
	42,000,000	—	(42,000,000)	—	30 August 2000	1.676	Note 3	2.200
	110,840,000	136,591,000	(111,242,000)	136,189,000				
	145,140,000	152,991,000	(111,242,000)	186,889,000				

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

Note 2 Half of such share options are exercisable after the expiry of 9 months from the date of grant, and the remaining half exercisable after the expiry of 18 months from the date of grant, up to 14 May 2003.

Note 3 Such options are exercisable at any time from the date of grant to 14 May 2003

Note 4 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third exercisable after the expiry of 18 months from the date of grant, and the remaining one-third exercisable after the expiry of 27 months from the date of grant, up to 14 May 2003.

Note 5 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third exercisable after the expiry of 18 months from the date of grant, and the remaining one-third exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

SHARE OPTION SCHEMES (continued)

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

Summary details of the Company's share option schemes are also set out in note 31 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation cannot be determined, such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, 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.	1,384,995,289 (Note)	55.15
TCL Electronics Corporation	1,384,995,289 (Note)	55.15
TCL Holdings Corporation Ltd.	1,384,995,289 (Note)	55.15

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$
Jointly-controlled entity — Henan TCL-Melody Electronics Co., Ltd.:	
Sales of raw materials	534,070,000
Purchases of raw materials	16,197,000
Sales commission income	38,792,000
Companies controlled by the ultimate holding company:	
Purchases of raw materials:	
Chinaway Paper Production (Huizhou) Co., Ltd.	38,999,000
Chinaway Polyfoam Plastics (Huizhou) Co., Ltd.	29,044,000
Huizhou Sumitronics Company Limited	2,829,000
TCL International Electrical (Huizhou) Co., Ltd.	3,746,000
Cash discounts payable:	
TCL Electrical Appliance Sales Co., Ltd.	13,442,000
Sales commission expense:	
TCL Electrical Appliance Sales Co., Ltd.	482,403,000
Subcontracting fee expense:	
Inner-Mongolia TCL Electrical Appliance Company Limited	17,285,000

Further details of the terms of the above connected transactions are set out in note 37 to the financial statements.

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

(a) On 28 February 2001, TCL Holdings (BVI) Limited ("TCL BVI"), a wholly-owned subsidiary of the Company, completed the acquisition from TCL Holdings Corporation Ltd. ("TCL Holdings") and T.C.L. Industries Holdings (H.K.) Ltd., the Company's holding companies, the entire registered capital of TCL Computer Technology Co., Ltd. for an aggregate consideration of approximately HK$341.8 million, satisfied by a cash consideration of approximately HK$153.8 million and the issuance of 105,619,289 new shares of the Company.

CONNECTED TRANSACTIONS (continued)

(b) On 29 June 2001, the Company through its subsidiaries, TCL King Electrical Appliances (Wuxi) Co., Ltd. ("TCL Wuxi") and TCL King Electrical Appliances (Huhehaote) Co., Ltd. ("TCL Huhehaote"), entered into agreements for the contracted operation of two associates of TCL Holdings, TCL Digital Science & Technology (Wuxi) Co., Ltd. ("Digital Wuxi") and Inner-Mongolia TCL Electrical Appliance Company Limited ("TCL Inner-Mongolia"), respectively.

    Under the agreement, the Group is required to pay Digital Wuxi or TCL Inner-Mongolia, as the case may be, an annual contract fee which is the sum of (i) a fee equivalent to 8% of their respective audited net asset value as at the end of their respective preceding financial year, and (ii) their respective depreciation costs for the respective financial period subject to caps of approximately HK$21.5 million and approximately HK$15.0 million for Digital Wuxi and TCL Inner-Mongolia, respectively.

(c) On 20 August 2001, TCL King Electronics (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, acquired from TCL Holdings a 65% equity interest in Shenzhen TCL Industrial Institute Limited for a cash consideration of approximately HK$30.7 million.

(d) On 30 August 2001, TCL King Electrical Appliances (Huizhou) Co., Ltd., a wholly-owned subsidiary of the Company, acquired from TCL Holdings a 51% equity interest in TCL Electrical Appliance Sales Co., Ltd. for a cash consideration of approximately HK$26.4 million.

(e) On 20 December 2001, TCL BVI entered into a sale and purchase agreement with Jasper Ace Limited, which is controlled by Wong Toe Yeung, a non-executive director of the Company, to acquire a 10% equity interest in Huizhou TCL Mobile Communication Co., Ltd., which was held as to 20% by TCL BVI at that time, from Jasper Ace Limited for a cash consideration of approximately HK$282.7 million. The transaction was completed on 21 January 2002.

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

CODE OF BEST PRACTICE

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

Report of the Directors

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

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

ON BEHALF OF THE BOARD

LI Dong Sheng, Tomson
Chairman

Hong Kong
13 March 2002

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 42 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 2001 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
13 March 2002

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
TURNOVER	5	**9,609,735**	8,569,198
Cost of sales		**(7,891,035)**	(6,870,267)
Gross profit		**1,718,700**	1,698,931
Other revenue and gains		**135,888**	57,186
Selling and distribution costs		**(1,123,776)**	(995,708)
Administrative expenses		**(386,322)**	(217,755)
Other operating expenses		**(60,216)**	(15,809)
PROFIT FROM OPERATING ACTIVITIES	6	**284,274**	526,845
Finance costs	7	**(24,185)**	(43,029)
Share of profits and losses of:			
Jointly-controlled entities		**65,237**	(10,626)
Associate		**—**	74
Provision for impairment of a jointly-controlled entity		**(8,614)**	—
Provision for advances to a jointly-controlled entity		**—**	(14,067)
PROFIT BEFORE TAX		**316,712**	459,197
Tax	10	**(25,780)**	(32,888)
PROFIT BEFORE MINORITY INTERESTS		**290,932**	426,309
Minority interests		**898**	1,456
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**291,830**	427,765
DIVIDEND	12		
Proposed final		**75,455**	87,893
EARNINGS PER SHARE	13		
Basic		**11.70 cents**	17.79 cents
Diluted		**11.64 cents**	17.69 cents

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
Exchange differences on translation of the financial statements of foreign entities	32	**(1,376)**	(52)
Net losses not recognised in the profit and loss account		**(1,376)**	(52)
Net profit for the year attributable to shareholders		**291,830**	427,765
Total recognised gains and losses		**290,454**	427,713
Goodwill eliminated directly against reserves	32	**—**	(5,085)
		290,454	422,628

Consolidated Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	**853,364**	646,303
Goodwill	15	**306,046**	—
Interests in associates	17	**14,953**	784
Interests in jointly-controlled entities	18	**237,048**	116,088
Long term investment	19	**1,682**	1,682
		1,413,093	764,857
CURRENT ASSETS			
Inventories	20	**2,039,045**	2,547,337
Trade and bills receivable	21	**937,463**	897,903
Other receivables	24	**301,563**	98,506
Pledged bank deposits	25	**63,112**	101,790
Cash and bank balances		**1,021,009**	1,000,928
		4,362,192	4,646,464
CURRENT LIABILITIES			
Trade and bills payable	26	**2,151,096**	2,287,406
Tax payable		**20,895**	68,495
Other payables and accruals	27	**600,638**	200,942
Interest-bearing bank borrowings	28	**23,667**	122,822
Loan from the ultimate holding company	29	**—**	139,131
		2,796,296	2,818,796
NET CURRENT ASSETS		**1,565,896**	1,827,668
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,978,989**	2,592,525

	Notes	2001 HK$'000	2000 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**6,628**	7,006
Deferred tax	30	**1,915**	1,915
		8,543	8,921
MINORITY INTERESTS		**36,508**	16,993
		2,933,938	2,566,611
CAPITAL AND RESERVES			
Issued capital	31	**251,122**	240,560
Reserves	32	**2,607,361**	2,238,158
Proposed final dividend	12	**75,455**	87,893
		2,933,938	2,566,611

LI Dong Sheng, Tomson
Director

YAN Yong
Director

Consolidated Cash Flow Statement

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	33(a)	**721,769**	256,600
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**35,947**	36,955
Interest paid		**(24,185)**	(42,864)
Interest element of finance lease rental and hire purchase contract payments		**—**	(165)
Dividends received from a jointly-controlled entity		**4,860**	8,100
Dividends paid		**(87,893)**	—
Net cash inflow/(outflow) from returns on investments and servicing of finance		**(71,271)**	2,026
TAX			
Hong Kong profits tax paid		**(2,060)**	(5,176)
Overseas taxes paid		**(76,265)**	(10,662)
Taxes paid		**(78,325)**	(15,838)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(123,781)**	(179,363)
Proceeds from disposal of fixed assets		**14,614**	434
Decrease in pledged bank deposits		**38,678**	13,430
Acquisition of subsidiaries	33(b)	**(96,254)**	(9,811)
Acquisition/formation of associates		**(14,953)**	(1,000)
Acquisition/formation of jointly-controlled entities		**(70,162)**	(49,032)
Purchase of a long term investment		**—**	(1,682)
Net cash outflow from investing activities		**(251,858)**	(227,024)

	Notes	2001 HK$'000	2000 HK$'000
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		**320,315**	15,764
FINANCING ACTIVITIES	33(c)		
New bank loans		**28,038**	129,918
Repayment of bank and other loans		**(192,992)**	(139,901)
Proceeds from issue of share capital		**—**	12,521
Capital element of finance lease rental and hire purchase contract payments		**—**	(2,997)
Repayment of a loan from the ultimate holding company		**(139,131)**	(214,308)
Contribution from minority shareholders		**4,122**	16,162
Advance from a minority shareholder		**—**	2,306
Net cash outflow from financing activities		**(299,963)**	(196,299)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**20,352**	(180,535)
Cash and cash equivalents at beginning of year		**1,000,928**	1,181,692
Effect of foreign exchange rate changes, net		**(271)**	(229)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,021,009**	1,000,928
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,021,009**	1,000,928

Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**2,279,054**	2,101,561
CURRENT ASSETS			
Other receivables	24	**233**	268
Cash and bank balances		**1,126**	869
		1,359	1,137
CURRENT LIABILITIES			
Tax payable		**1,900**	—
Other payables and accruals	27	**8,983**	6,000
		10,883	6,000
NET CURRENT LIABILITIES		**(9,524)**	(4,863)
		2,269,530	2,096,698
CAPITAL AND RESERVES			
Issued capital	31	**251,122**	240,560
Reserves	32	**1,942,953**	1,768,245
Proposed final dividend	12	**75,455**	87,893
		2,269,530	2,096,698

LI Dong Sheng, Tomson
Director

YAN Yong
Director

Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

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

— manufacture and sale of colour television sets, and trading of related components

— manufacture and sale of other audio visual products

— manufacture and sale of white goods

— manufacture and sale of computer related products

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

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 34 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11, 24 and 32 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment for the reasons detailed in note 15 to the financial statements. The required new additional disclosures are included in notes 15, 18 and 32 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Joint venture companies

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of 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 impairment losses.

Long term investment

A long term investment is a non-trading investment in unlisted equity securities intended to be held on a long term basis. It is stated at cost less any impairment in value, other than that considered to be temporary in nature.

Goodwill

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In prior years, goodwill arising on acquisitions was eliminated against reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001 to remain eliminated against reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

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

Impairment of assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

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

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

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

Leased assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable 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.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates 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 has operated since 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) dividends, when the shareholders' right to receive payment has been established; and

(d) sales commission income, when the sale has been completed.

Research and development costs

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised) have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 11, 12 and 32 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Cash 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 were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the television segment manufactures colour television sets and trades related components;

(b) the audio visual segment manufactures audio visual products;

(c) the white goods segment manufactures and trades home electrical appliances;

(d) the computer segment manufactures personal computers and peripheral products; and

(e) the others segment comprises the information technology and other businesses.

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

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Television		Audio visual		White goods		Computer		Others		Eliminations		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:														
Sales to external customers	**7,476,257**	7,070,497	**241,954**	342,427	**935,606**	1,149,786	**864,720**	—	**91,198**	6,488	**—**	—	**9,609,735**	8,569,198
Intersegment sales	**14,178**	29,524	**36,717**	27,461	**6,034**	—	**67,697**	—	**26,845**	—	**(151,471)**	(56,985)	**—**	—
Total	**7,490,435**	7,100,021	**278,671**	369,888	**941,640**	1,149,786	**932,417**	—	**118,043**	6,488	**(151,471)**	(56,985)	**9,609,735**	8,569,198
Segment results	**387,935**	442,405	**(14,799)**	7,140	**28,953**	125,071	**(17,552)**	—	**(38,959)**	(19,032)	**—**	—	**345,578**	555,584
Amortisation of goodwill	**(2,825)**	—	**—**	—	**—**	—	**(22,487)**	—	**—**	—	**—**	—	**(25,312)**	—
Corporate expenses													**(35,992)**	(28,739)
Profit from operating activities													**284,274**	526,845
Finance costs													**(24,185)**	(43,029)
Share of profits less losses of:														
Jointly-controlled entities	**4,960**	10,065	**—**	—	**(1,232)**	—	**—**	—	**61,509**	(20,691)	**—**	—	**65,237**	(10,626)
Associates	**—**	—	**—**	—	**—**	—	**—**	—	**—**	74	**—**	—	**—**	74
Provision for impairment of a jointly-controlled entity	**(8,614)**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**(8,614)**	—
Provision for advances to a jointly-controlled entity	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(14,067)	**—**	—	**—**	(14,067)
Profit before tax													**316,712**	459,197
Tax													**(25,780)**	(32,888)
Profit before minority interests													**290,932**	426,309
Minority interests													**898**	1,456
Net profit from ordinary activities attributable to shareholders													**291,830**	427,765

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Television		Audio visual		White goods		Computer		Others		Eliminations		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**4,211,543**	4,738,886	**148,320**	178,689	**717,715**	300,867	**523,483**	—	**815,157**	85,681	**(899,610)**	(10,861)	**5,516,608**	5,293,262
Interests in associates	**—**	—	**—**	—	**14,953**	—	**—**	—	**—**	784	**—**	—	**14,953**	784
Interests in jointly-controlled entities	**94,584**	100,859	**—**	—	**32,980**	—	**—**	—	**109,484**	15,229	**—**	—	**237,048**	116,088
Unallocated assets													**6,676**	1,187
Total assets													**5,775,285**	5,411,321
Segment liabilities	**2,931,497**	3,263,123	**95,566**	101,098	**599,234**	88,683	**225,111**	—	**816,088**	102,320	**(1,926,555)**	(1,072,876)	**2,740,941**	2,482,348
Unallocated liabilities													**63,898**	345,369
Total liabilities													**2,804,839**	2,827,717
Other segment information:														
Depreciation and amortisation	**100,497**	61,846	**4,582**	1,841	**4,660**	243	**25,922**	—	**1,923**	661	**—**	—	**137,584**	64,591
Impairment losses recognised in the profit and loss account	**8,614**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**8,614**	—
Capital expenditure	**384,715**	130,707	**1,360**	13,712	**4,960**	57,681	**16,060**	—	**22,140**	12,766	**—**	—	**429,235**	214,866

(b) Geographical segments

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

Group

	The PRC, excluding Hong Kong		Hong Kong		Others		Eliminations		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**8,964,731**	8,012,342	**59,467**	25,915	**585,537**	530,941	**—**	—	**9,609,735**	8,569,198
Segment results	**317,294**	507,525	**22,903**	15,930	**5,381**	32,129	**—**	—	**345,578**	555,584
Other segment information:										
Segment assets	**4,561,702**	4,228,161	**876,188**	1,011,469	**78,718**	53,632	**—**	—	**5,516,608**	5,293,262
Capital expenditure	**426,804**	175,848	**1,677**	2,560	**754**	36,458	**—**	—	**429,235**	214,866

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5. TURNOVER

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

6. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2001	2000
	HK$'000	HK$'000
Cost of inventories sold	**7,891,035**	6,870,267
Depreciation	**112,272**	64,591
Amortisation of goodwill*	**25,312**	—
Research and development costs	**18,247**	11,845
Minimum lease payments under operating leases for land and buildings	**40,065**	15,297
Auditors' remuneration	**2,623**	3,000
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	**279,390**	134,894
Pension scheme contributions	**12,694**	3,982
	292,084	138,876
Loss on disposal of fixed assets	**1,984**	1,287
Exchange losses, net	**2,344**	563
Bad debt provision	**31,322**	14,522
Interest income	**(35,947)**	(36,955)
Commission income	**(38,792)**	—

* The amortisation of goodwill for the year is included in "Other operating expenses" in the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	HK$'000
Interest on bank loans, and other loans wholly repayable within five years	**24,185**	42,864
Interest on finance leases and hire purchase contracts	**—**	165
	24,185	43,029

8. 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	
	2001	2000
	HK$'000	HK$'000
Fees	**340**	490
Other emoluments:		
Salaries, allowances and benefits in kind	**4,796**	6,869
Performance related bonuses	**—**	59
Pension scheme contributions	**12**	1
	5,148	7,419

Fees include HK$100,000 (2000: HK$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2001	2000
Nil to HK$1,000,000	**10**	9
HK$1,000,001 to HK$1,500,000	**—**	2
	10	11

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

During the year, 16,400,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on page 34. No value in respect of the share options granted during the year has been charged to the profit and loss account.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2000: four) director(s), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2000: one) non-director, highest paid employee(s) are as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,215**	1,192
Amounts paid as an inducement to join the Group	**2,600**	—
Performance related bonuses	**—**	46
Pension scheme contributions	**24**	1
	6,839	1,239

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2001	2000
HK$1,000,001 to HK$1,500,000	**3**	1
HK$3,500,001 to HK$4,000,000	**1**	—
	4	1

During the year, 1,176,000 share options were granted to the four non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures set out under the heading "Share option schemes" in the Report of the Directors on page 34. No value in respect of the share options granted during the year has been charged to the profit and loss account.

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

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

Taxes on profits assessable elsewhere 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.

	2001	2000
	HK$'000	HK$'000
Group:		
Hong Kong	**5,401**	5,322
Elsewhere	**22,204**	28,493
Overprovision in prior years	**(2,574)**	(1,076)
Deferred (note 30)	**—**	(1,185)
	25,031	31,554
Share of tax attributable to:		
Jointly-controlled entities	**749**	1,334
Tax charge for the year	**25,780**	32,888

There was no significant unprovided deferred tax in respect of the year (2000: Nil).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company was HK$95,959,000 (2000: HK$1,825,000).

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net debit of HK$100,000,000 to the Company's net profit for that year and a net credit of the same amount to the dividend receivable in the Company's balance sheet. The prior year adjustment reversed a dividend from a subsidiary which was declared and approved by the subsidiary after the prior year's balance sheet date, but which was recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in no change to the amount of retained profits as at 1 January 2000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 32 to the financial statements.

The effect of this change in accounting policy on the Company's net profit for the current year was to increase the net profit by HK$100,000,000 to HK$95,959,000, as disclosed above.

12. DIVIDEND

	2001	2000
	HK$'000	HK$'000
Proposed final — 3.0 (2000: 3.5) HK cents per share	**75,455**	87,893

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

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of HK$87,893,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000 by HK$87,893,000.

The effect of this change in accounting policy as at 31 December 2001 is that the current year's proposed final dividend of HK$75,455,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years, it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$291,830,000 (2000: HK$427,765,000) and the weighted average of 2,494,435,950 (2000: 2,404,057,377) shares in issue during the year.

The calculation of diluted earnings per share is also based on the net profit attributable to shareholders for the year of HK$291,830,000 (2000: HK$427,765,000). The weighted average number of shares used in the calculation is the 2,494,435,950 (2000: 2,404,057,377) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 13,086,174 (2000: 14,547,802) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

14. 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	364,038	7,379	377,222	47,544	21,972	24,828	842,983
Additions	8,683	903	22,177	44,189	6,839	40,990	123,781
Acquisition of subsidiaries	51,685	37,923	561	136,689	73,369	5,227	305,454
Disposals	(2,953)	(1,802)	(10,500)	(4,688)	(6,488)	—	(26,431)
Transfers	10,051	—	32,222	2,765	—	(45,038)	—
Exchange realignments	(173)	—	(631)	(79)	(58)	(1)	(942)
At 31 December 2001	431,331	44,403	421,051	226,420	95,634	26,006	1,244,845
Accumulated depreciation:							
At beginning of year	44,340	3,503	118,014	22,431	8,392	—	196,680
Provided during the year	17,605	7,792	50,904	26,718	9,253	—	112,272
Acquisition of subsidiaries	4,922	15,124	34	48,627	24,428	—	93,135
Disposals	(357)	(491)	(2,512)	(3,987)	(2,486)	—	(9,833)
Exchange realignments	(94)	—	(581)	(56)	(42)	—	(773)
At 31 December 2001	66,416	25,928	165,859	93,733	39,545	—	391,481
Net book value:							
At 31 December 2001	364,915	18,475	255,192	132,687	56,089	26,006	853,364
At 31 December 2000	319,698	3,876	259,208	25,113	13,580	24,828	646,303

14. FIXED ASSETS (continued)

Group (continued)

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

	2001	2000
	HK$'000	HK$'000
Hong Kong	**22,884**	25,818
Elsewhere	**408,447**	338,220
	431,331	364,038

At 31 December 2001, the Group's land and buildings and plant and machinery with a net book value amounting to HK$10,529,000 (2000: HK$131,777,000) were pledged to secure general banking facilities and bank loans granted to the Group (note 28).

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 a net book value amounting to HK$17,461,000 (2000: HK$43,895,000).

15. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amount of the goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group
	HK$'000
Cost:	
At beginning of year	—
Acquisition of subsidiaries	331,358
At 31 December 2001	331,358
Accumulated amortisation:	
At beginning of year	—
Amortisation provided during the year	25,312
At 31 December 2001	25,312
Net book value:	
At 31 December 2001	306,046

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against reserves. Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against reserves for any impairment. The amount of goodwill remaining in reserves, arising from the acquisition of a subsidiary prior to 1 January 2001, was HK$1,819,000 as at 1 January and 31 December 2001, representing its cost.

16. INTERESTS IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted shares, at cost	**1,148,255**	1,148,255
Due from subsidiaries	**1,130,799**	953,306
	2,279,054	2,101,561

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company 2001 %	Percentage of equity attributable to the Company 2000 %	Principal activities
Shenzhen TCL Industrial Institute Limited*	The PRC	RMB50,000,000	65	—	Research and development of electronic consumer products
Shenzhen TCL New Technology Co., Ltd.	The PRC	HK$10,000,000	100	100	Manufacture and sale of audio visual products
TCL Air Conditioner (Zhongshan) Co., Ltd.	The PRC	US$6,800,000	75	75	Manufacture and sale of white goods
TCL Computer Technology Co., Ltd.	The PRC	RMB100,000,000	100	—	Manufacture and sale of personal computers and peripheral products
TCL Electrical Appliance Sales Co., Ltd.	The PRC	RMB30,000,000	51	—	Sales and distribution of electronic consumer products
TCL Electronics (HK) Limited@	Hong Kong	Ordinary HK$30,000,000	100	100	Trading of audio visual products and components

16. 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 2001 %	2000 %	Principal activities
TCL Electronics (Singapore) Pte Ltd.	Singapore	S$900,000	85	85	Trading of audio visual products
TCL Holdings (BVI) Limited@	The British Virgin Islands	US$25,000	100	100	Investment holding
TCL Information Technology Industrial (Group) Co., Ltd.@	The British Virgin Islands	US$4,500,000	100	100	Investment holding
TCL King Electrical Appliances (Huhehaote) Co., Ltd.	The PRC	HK$20,000,000	100	—	Manufacture of audio visual products
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 components and white goods
TCL King Electrical Appliances (Wuxi) Co., Ltd.	The PRC	HK$10,000,000	70	—	Manufacture of audio visual products
TCL King Electronics (Shenzhen) Co., Ltd.	The PRC	HK$100,000,000	100	100	Manufacture of audio visual products
TCL OEM Sales Limited	Hong Kong	Ordinary HK$2	100	100	Trading of audio visual products and components
TCL Overseas Marketing Limited	The British Virgin Islands	US$1	100	100	Trading of audio visual products and components
TCL Retail (HK) Limited	Hong Kong	Ordinary HK$10,000	100	100	Trading of audio visual products

16. 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 2001 %	2000 %	Principal activities
TCL Technoly Electronics (Huizhou) Co., Ltd.	The PRC	HK$43,000,000	100	100	Manufacture and sale of audio visual products
TCL (Vietnam) Corporation Ltd.	Vietnam	VND37,135,000,000	100	100	Manufacture and sale of audio visual products
TCL 天地人家信息技術（深圳）有限公司	The PRC	HK$29,300,000	100	—	Research and development of Internet access devices
TCL 萬維科技（深圳）有限公司	The PRC	HK$25,000,000	100	100	Manufacture and sale of personal digital assistants and other information technology related products
北京天地人家網絡技術有限公司*	The PRC	RMB5,000,000	49**	49**	Development and manufacture of computer software and hardware products; and provision of Internet related services
上海梯西愛爾盛得電子技術有限公司*	The PRC	RMB3,000,000	60	—	Software development and sale of electronic products

@ Direct subsidiaries of the Company.

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

** By virtue of an arrangement between the Group and the joint venture partner which holds 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 the Group's 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.

17. INTERESTS IN ASSOCIATES

	Group 2001 HK$'000	2000 HK$'000
Share of net assets	**14,953**	784

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

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2001 %	2000 %	Principal activities
上海TCL雙菱空調器製造有限公司*	Corporate	The PRC	20	—	Manufacture and sale of air-conditioners
TCL Mobile Communication (HK) Company Limited+	Corporate	Hong Kong	—	20	Trading of mobile phones and components

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

\+ Pursuant to a reorganisation during the year, this company became a wholly-owned subsidiary of Huizhou TCL Mobile Communication Co., Ltd., a jointly-controlled entity which is held as to 20% by the Group. As a result, the Group's effective interest in this company remains unchanged and is included in its interest in Huizhou TCL Mobile Communication Co., Ltd. in note 18 to the financial statements as at 31 December 2001.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2001 HK$'000	2000 HK$'000
Share of net assets	**245,662**	116,088
Provision for impairment	**(8,614)**	—
	237,048	116,088

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The amount of goodwill remaining in reserves, arising from the acquisition of jointly-controlled entities prior to 1 January 2001, was HK$3,266,000 as at 1 January and 31 December 2001, representing its cost.

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	Percentage of Ownership interest	Percentage of Voting power of the board	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Corporate	The PRC	52%	57%	52%	Manufacture and sale of audio visual products
Huizhou TCL Mobile Communication Co., Ltd.	Corporate	The PRC	20%	20%	20%	Manufacture and sale of mobile phones
TCL Electrical Appliances (Shaanxi) Co., Ltd.*	Corporate	The PRC	70%	60%	70%	Manufacture and sale of white goods
TCL Rechi (Huizhou) Refrigeration Equipment Ltd.*	Corporate	The PRC	50%	50%	50%	Manufacture and sale of refrigeration equipment
TCL Sun, Inc.	Corporate	The Philippines	49%	49%	49%	Trading of audio visual products
電大在綫遠程教育技術有限公司*	Corporate	The PRC	50%	45%	50%	Provision of remote education services
湖北華大網絡教育技術有限責任公司*	Corporate	The PRC	21%	21%	21%	Provision of remote education services

* Acquired or formed during the year.

19. LONG TERM INVESTMENT

	Group	
	2001	2000
	HK$'000	HK$'000
Unlisted equity investment, at cost	**1,682**	1,682

20. INVENTORIES

	Group	
	2001	2000
	HK$'000	HK$'000
Raw materials	**527,689**	1,053,465
Work in progress	**46,567**	61,311
Finished goods	**1,464,789**	1,432,561
	2,039,045	2,547,337

The carrying amount of inventories carried at net realisable value included in the above balance was HK$5,888,000 (2000: HK$16,531,000) as at the balance sheet date.

21. TRADE AND BILLS RECEIVABLE

		Group	
		2001	2000
	Notes	**HK$'000**	HK$'000
Due from third parties:			
Trade receivable		**266,643**	241,152
Bills receivable		**605,792**	436,587
		872,435	677,739
Due from related parties	22	**56,351**	105,550
Due from jointly-controlled entities	23	**8,677**	114,614
		937,463	897,903

21. TRADE AND BILLS RECEIVABLE (continued)

The majority of the Group's sales in the PRC were made on cash-on-delivery basis and on commercial bills guaranteed by banks with credit period ranging from 30 days to 90 days. For overseas sales, the Group usually requires settlement by letter of credit with tenure ranging from 90 days to 180 days. An aged analysis of the trade and bills receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Current to 90 days	**744,785**	649,479
91 days to 180 days	**152,559**	235,295
181 days to 365 days	**14,619**	10,188
Over 365 days	**25,500**	2,941
	937,463	897,903

22. DUE FROM/TO RELATED PARTIES/ULTIMATE HOLDING COMPANY

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

23. 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% per annum if the amount exceeds the credit period.

24. OTHER RECEIVABLES

		Group		Company	
		2001	2000	**2001**	2000
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
					(Restated)
Prepayments, deposits and other receivables		**282,090**	98,506	**233**	268
Due from jointly-controlled entities	23	**19,473**	—	**—**	—
Dividend receivable		**—**	—	**—**	—
		301,563	98,506	**233**	268

24. OTHER RECEIVABLES (continued)

The dividend receivable by the Company in the prior year has been adjusted for the effect of the prior year adjustment of HK$100,000,000 in respect of dividends proposed after the prior year's balance sheet date, as further explained in note 11 to the financial statements.

25. PLEDGED BANK DEPOSITS

At 31 December 2001, the Group's bank deposits of HK$63,112,000 (2000: HK$101,790,000) were pledged to secure general banking facilities granted by the banks.

26. TRADE AND BILLS PAYABLE

		Group	
		2001	2000
	Notes	**HK$'000**	HK$'000
Due to third parties:			
Trade payable		**1,210,907**	1,481,228
Bills payable		**696,978**	657,851
		1,907,885	2,139,079
Due to related parties	22	**130,332**	148,327
Due to jointly-controlled entities	23	**112,879**	—
		2,151,096	2,287,406

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

	Group	
	2001	2000
	HK$'000	HK$'000
Current to 90 days	**1,925,597**	1,891,100
91 days to 180 days	**199,948**	382,090
181 days to 365 days	**10,545**	6,807
Over 365 days	**15,006**	7,409
	2,151,096	2,287,406

27. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2001	2000	**2001**	2000
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
			(Restated)		(Restated)
Other payables and accruals		**583,089**	199,458	**8,983**	6,000
Due to ultimate holding company	22	**935**	—	**—**	—
Due to jointly-controlled entities	23	**16,614**	1,484	**—**	—
Proposed final dividend	12	**—**	—	**—**	—
		600,638	200,942	**8,983**	6,000

28. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK$'000	HK$'000
Bank loans:		
Secured	**6,931**	85,903
Unsecured	**23,364**	43,925
	30,295	129,828
Bank loans repayable:		
Within one year	**23,667**	122,822
In the second year	**312**	158
In the third to fifth years, inclusive	**998**	580
Beyond five years	**5,318**	6,268
	30,295	129,828
Portion classified as current liabilities	**(23,667)**	(122,822)
Long term portion	**6,628**	7,006

28. INTEREST-BEARING BANK 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$10,529,000 (2000: HK$131,777,000).

(ii) the Group's bank deposits of HK$ nil (2000: HK$40,000,000).

(b) Unsecured bank loans amounting to HK$4,673,000 (2000: HK$43,925,000) were guaranteed by the Company's ultimate holding company.

29. LOAN FROM THE ULTIMATE HOLDING COMPANY

The loan from the ultimate holding company was unsecured, bore interest at 6.4% per annum and was fully repaid during the year.

30. DEFERRED TAX

	Group	
	2001	2000
	HK$'000	HK$'000
Balance at beginning of year	**1,915**	3,100
Credit for the year (note 10)	**—**	(1,185)
At 31 December	**1,915**	1,915

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

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

31. SHARE CAPITAL

Shares

	Company	
	2001	2000
	HK$'000	HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,511,219,289 (2000: 2,405,600,000) shares of HK$0.10 each	**251,122**	240,560

During the year, 105,619,289 shares of HK$0.10 each were agreed to be issued at a price of HK$1.78 per share to the Group's immediate holding company, T.C.L. Industries Holdings (H.K.) Ltd., as part of the consideration for the acquisition of TCL Computer Technology Co., Ltd. In accordance with SSAP 30, these shares were accounted for in the Company's balance sheet at an issue price of HK$1.56 per share which represented the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited at the date of the completion of the transaction (note 37(d)).

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

	Numbers of shares issued	**Paid-up nominal value**
		HK$'000
Issued capital at 1 January 2000	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
New issue of shares for the acquisition of a subsidiary	105,619,289	10,562
Issued capital at 31 December 2001	2,511,219,289	251,122

Share options

The Company operates two share option schemes, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on page 34.

31. SHARE CAPITAL (continued)

Details of the movements in the share options during the year are set out below:

Outstanding at 31 December 2000	Granted during the year	Lapsed during the year	**Outstanding at 31 December 2001**	Exercise price HK$	Exercise period
	Number of share options				
34,000,000	—	—	**34,000,000**	2.236	Note 1
68,480,000	—	(68,150,000)	**330,000**	2.508	Note 2
660,000	—	(660,000)	**—**	2.816	Note 3
42,000,000	—	(42,000,000)	**—**	1.676	Note 3
—	58,756,000	(432,000)	**58,324,000**	0.928	Note 4
—	20,000,000	—	**20,000,000**	1.042	Note 3
—	21,000,000	—	**21,000,000**	0.794	Note 3
—	53,235,000	—	**53,235,000**	0.994	Note 5
145,140,000	152,991,000	(111,242,000)	**186,889,000**		

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

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

Note 3 Such options are exercisable at any time from the date of grant to 14 May 2003.

Note 4 Half of such share options are exercisable after the expiry of 9 months from the date of grant, and the remaining half exercisable after the expiry of 18 months from the date of grant, up to 14 May 2003.

Note 5 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third exercisable after the expiry of 18 months from the date of grant, and the remaining one-third exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

32. 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 2000	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:						
— subsidiary	—	(1,819)	—	—	—	(1,819)
— associate	—	(290)	—	—	—	(290)
— jointly-controlled entities	—	(2,976)	—	—	—	(2,976)
Exchange realignments	—	—	—	(52)	—	(52)
Net profit for the year	—	—	—	—	427,765	427,765
Proposed final 2000 dividend	—	—	—	—	(87,893)	(87,893)
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
Issue of shares upon acquisition of a subsidiary	154,204	—	—	—	—	154,204
Exchange realignments	—	—	—	(1,376)	—	(1,376)
Net profit for the year	—	—	—	—	291,830	291,830
Proposed final 2001 dividend	—	—	—	—	(75,455)	(75,455)
Transfer from retained profits	—	—	96,352	—	(96,352)	—
At 31 December 2001	1,105,063	64,915	309,243	(1,166)	1,129,306	2,607,361

32. RESERVES (continued)

Group (continued)

	Share premium account HK$'000	Capital reserve HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Reserves retained by:						
Company and subsidiaries	1,105,063	64,915	278,434	(526)	1,095,243	2,543,129
Jointly-controlled entities	—	—	30,809	(640)	34,063	64,232
At 31 December 2001	1,105,063	64,915	309,243	(1,166)	1,129,306	2,607,361
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

* 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.

Certain amounts of goodwill arising on the acquisition of a subsidiary and jointly-controlled entities remain eliminated against the capital reserve as explained in notes 15 and 18 to the financial statements.

Notes to Financial Statements

31 December 2001

32. RESERVES (continued)

Company

	Share premium account HK$'000	**Capital reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2000	938,898	903,105	349	1,842,352
Issue of shares upon exercise of share options	11,961	—	—	11,961
Net profit for the year (as restated)	—	—	1,825	1,825
Proposed final 2000 dividend	—	—	(87,893)	(87,893)
	950,859	903,105	(85,719)	1,768,245
At 31 December 2000:				
As previously reported	950,859	903,105	14,281	1,868,245
Prior year adjustment:				
SSAP 18 (Revised) — dividend from subsidiary no longer recognised as income for the year (notes 2 and 11)	—	—	(100,000)	(100,000)
As restated	950,859	903,105	(85,719)	1,768,245
Issue of shares upon acquisition of a subsidiary	154,204	—	—	154,204
Net profit for the year	—	—	95,959	95,959
Proposed final 2001 dividend	—	—	(75,455)	(75,455)
At 31 December 2001	1,105,063	903,105	(65,215)	1,942,953

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.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	HK$'000	HK$'000
Profit from operating activities	**284,274**	526,845
Depreciation	**112,272**	64,591
Goodwill amortisation	**25,312**	—
Loss on disposal of fixed assets	**1,984**	1,287
Interest income	**(35,947)**	(36,955)
Decrease/(increase) in inventories	**689,222**	(190,757)
Increase in trade and bills receivable from third parties	**(112,939)**	(413,878)
Increase in prepayments, deposits and other receivables	**(57,007)**	(42,354)
Decrease in an amount due from the ultimate holding company	**—**	12,698
Decrease/(increase) in net amounts due from related parties	**(39,366)**	109,423
Decrease in net amounts due from jointly-controlled entities	**97,225**	32,182
Increase/(decrease) in trade and bills payable to third parties	**(391,539)**	161,555
Increase in other payables and accruals	**147,343**	32,961
Increase in an amount due to the ultimate holding company	**935**	—
Decrease in amounts due to shareholders	**—**	(998)
Net cash inflow from operating activities	**721,769**	256,600

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

(b) Acquisition of subsidiaries

	2001 HK$'000	2000 HK$'000
Net assets acquired:		
Fixed assets	**212,319**	13,015
Inventories	**180,930**	6,109
Cash and bank balances	**115,968**	979
Trade and bills receivable	**81,757**	1,315
Prepayments, deposits and other receivables	**126,577**	2,093
Trade and bills payable	**(160,345)**	(12,955)
Due to related companies, net	**(70,570)**	—
Due to jointly-controlled entities	**(117,248)**	—
Other payables and accruals	**(236,288)**	(1,585)
Tax payable	**(5,694)**	—
Short-term bank loans	**(65,421)**	—
Minority interests	**(16,355)**	—
	45,630	8,971
Goodwill on acquisition	**331,358**	1,819
	376,988	10,790
Satisfied by:		
Issue of shares	**164,766**	—
Cash	**212,222**	10,790
	376,988	10,790

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

	2001 HK$'000	2000 HK$'000
Cash consideration	**(212,222)**	(10,790)
Cash and bank balances acquired	**115,968**	979
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(96,254)**	(9,811)

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

(b) Acquisition of subsidiaries (continued)

The subsidiaries acquired during the year contributed HK$751,887,000 (2000: HK$33,923,000) to the Group's turnover and contributed to the Group a profit of HK$5,325,000 (2000: loss of HK$2,106,000) for the year. The subsidiaries acquired contributed HK$61,728,000 (2000: HK$2,987,000) to the Group's net operating cash flows, and gave rise to financing cash outflows of HK$46,729,000 (2000: Nil), but had no significant impact in respect of the Group's cash flows for investing activities or the payment of tax.

(c) Analysis of changes in financing during the year:

	Issued capital and share premium	**Finance lease and hire purchase contract payables**	**Bank and other loans**	**Loan from the ultimate holding company**	**Minority interests**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2000	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
Cash inflow/(outflow) from financing activities, net	—	—	(164,954)	(139,131)	4,122
Arising on acquisition of subsidiaries	164,766	—	65,421	—	16,355
Share of losses	—	—	—	—	(898)
Share of exchange fluctuation reserve	—	—	—	—	(64)
Balance at 31 December 2001	1,356,185	—	30,295	—	36,508

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

(d) Major non-cash transaction

During the year, 105,619,289 shares of HK$0.10 each were agreed to be issued at a price of HK$1.78 per share to the Group's immediate holding company, T.C.L. Industries Holdings (H.K.) Ltd., as part of the consideration for the acquisition of TCL Computer Technology Co., Ltd. In accordance with SSAP 30, these shares were accounted for in the Company's balance sheet at an issue price of HK$1.56 per share which represented the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited at the date of the completion of the transaction (note 37(d)).

34. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from 2 to 5 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
		(Restated)
Within one year	**12,865**	10,597
In the second to fifth years, inclusive	**24,042**	9,220
After five years	**8,043**	3,382
	44,950	23,199

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year's comparative amounts for operating leases have been restated to accord with the current year's presentation.

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2001	2000
	HK$'000	HK$'000
Contracted for in respect of:		
Purchases of fixed assets	**22,720**	25,946
Capital contributions payable to a jointly-controlled entity	**—**	35,010
Authorised, but not contracted for	**229,725**	—
	252,445	60,956

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

	Group	
	2001	2000
	HK$'000	HK$'000
Contracted, but not provided for	**16,279**	—

(b) At 31 December 2001, the Group had contracted to acquire a 10% equity interest in Huizhou TCL Mobile Communication Co., Ltd. for a total cash consideration of approximately HK$282.7 million. Further details of the transaction are set out in note 37(h) to the financial statements.

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

Notes to Financial Statements

31 December 2001

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable endorsed to suppliers	**120,769**	226,082	**—**	—
Bills discounted with recourse	**4,673**	22,983	**—**	—
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**418,240**	423,740
	125,442	249,065	**418,240**	423,740

As at 31 December 2001, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$29 million (2000: HK$47 million).

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

	Group	
	2001	2000
	HK$'000	HK$'000
Bills receivable endorsed to suppliers	**49,444**	8,096

37. RELATED PARTY TRANSACTIONS

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

	Notes	**2001** **HK$'000**	2000 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**534,070**	307,628
Purchases of raw materials	(ii)	**28,495**	—
Interest income	(iii)	**—**	3,585
Sales commission income	(iv)	**38,792**	—
Minority shareholder of a subsidiary:			
Sales of finished goods	(v)	**40,216**	—
Ultimate holding company:			
Interest income	(vi)	**72**	2,212
Interest expense	(vii)	**79**	30,436
Companies controlled by the ultimate holding company:			
Purchases of raw materials	(ii)	**326,531**	282,292
Cash discounts payable	(viii)	**13,442**	22,434
Sales commission expense	(iv)	**482,403**	772,100
Subcontracting fee expense	(ix)	**17,285**	31,773
Companies controlled by a jointly-controlled entity:			
Purchases of raw materials	(ii)	**75,438**	70,332

Notes:

(i) The Group sold raw materials to a jointly-controlled entity at cost.

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

(iii) The interest income from a jointly-controlled entity related to trading balances, further details of which are included in note 23.

(iv) The sales commission was calculated at 10% of the retail price of the products sold.

37. RELATED PARTY TRANSACTIONS (continued)

(v) The Group sold its finished goods at a mark-up of 4%.

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

(vii) The interest expense paid to the ultimate holding company was charged at 6.4% per annum.

(viii) The cash discounts paid were calculated as follows:

(1) For amounts settled within the credit period, the cash discount was calculated at a monthly rate of 0.5% (2000: 0.5%).

(2) For settlement within the credit period, the amount of settlement by cash over 70% of the total settlement attracted a cash discount calculated at a monthly rate of 0.5% (2000: 0.5%).

(ix) The subcontracting fees were determined by reference to subcontracting fees charged by third party companies offering similar services.

(b) Details of the amounts due from/to related parties and jointly-controlled entities are included in notes 21 to 24 and 26 to 27. Details of the loan from the ultimate holding company are included in note 29.

(c) 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 28.

(d) On 28 February 2001, TCL Holdings (BVI) Limited ("TCL BVI"), a wholly-owned subsidiary of the Company, acquired from TCL Holdings Corporation Ltd. ("TCL Holdings") and T.C.L. Industries Holdings (H.K.) Limited, the Company's holding companies, the entire registered capital of TCL Computer Technology Co., Ltd. for an aggregate consideration of approximately HK$341.8 million, satisfied by a cash consideration of approximately HK$153.8 million and the issuance of 105,619,289 new shares of the Company. The purchase price was calculated based on a guaranteed profit of TCL Computer Technology Co., Ltd. at an implied price/earnings multiple of approximately 9.5 times.

(e) On 29 June 2001, the Company through its subsidiaries, TCL King Electrical Appliances (Wuxi) Co., Ltd. ("TCL Wuxi") and TCL King Electrical Appliances (Huhehaote) Co., Ltd. ("TCL Huhehaote"), entered into agreements for the contracted operation of two associates of TCL Holdings, TCL Digital Science & Technology (Wuxi) Co., Ltd. ("Digital Wuxi") and Inner-Mongolia TCL Electrical Appliance Company Limited ("TCL Inner-Mongolia"), respectively.

37. RELATED PARTY TRANSACTIONS (continued)

Under the agreement, the Group is required to pay Digital Wuxi or TCL Inner-Mongolia, as the case may be, an annual contract fee which is the sum of (i) a fee equivalent to 8% of their respective audited net asset values as at the end of their respective preceding financial year; and (ii) their respective depreciation costs for the respective financial period subject to caps of approximately HK$21.5 million and approximately HK$15.0 million for Digital Wuxi and TCL Inner-Mongolia, respectively. The cap was determined by reference to the net asset value and the expected depreciation costs of Digital Wuxi and TCL Inner-Mongolia.

(f) On 20 August 2001, TCL King Electronics (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, acquired from TCL Holdings a 65% equity interest in Shenzhen TCL Industrial Institute Limited for a cash consideration of approximately HK$30.7 million. The price represents 65% of the registered capital of Shenzhen TCL Industrial Institute Limited.

(g) On 30 August 2001, TCL King Electrical Appliances (Huizhou) Co., Ltd., a wholly-owned subsidiary of the Company, acquired from TCL Holdings a 51% equity interest in TCL Electrical Appliance Sales Co., Ltd. for a cash consideration of approximately HK$26.4 million. The consideration was determined with reference to the net asset value and the results of TCL Electrical Appliance Sales Co., Ltd.

(h) On 20 December 2001, TCL BVI entered into a sale and purchase agreement with Jasper Ace Limited, which is controlled by Wong Toe Yeung, a non-executive director of the Company, to acquire a 10% equity interest in Huizhou TCL Mobile Communication Co., Ltd., which was held as to 20% by TCL BVI at that time, from Jasper Ace Limited for a cash consideration of approximately HK$282.7 million. The consideration was determined on the basis of a guaranteed profit and an implied price/earnings multiple of approximately 10 times. The transaction was completed on 21 January 2002.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 March 2002.

Five Year Financial Summary

A summary of the published results of the Group for the last five financial years and of the assets and liabilities as at the last three financial year ends, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The amounts for the balance sheet as at 31 December 2000 have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

	Year ended 31 December				
	2001	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**9,609,735**	8,569,198	6,157,874	3,871,393	2,052,512
PROFIT BEFORE TAX	**316,712**	459,197	573,070	328,711	208,809
Tax	**(25,780)**	(32,888)	(62,592)	(5,198)	(4,905)
PROFIT BEFORE MINORITY INTERESTS	**290,932**	426,309	510,478	323,513	203,904
Minority interests	**898**	1,456	—	—	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**291,830**	427,765	510,478	323,513	203,904

ASSETS, LIABILITIES AND MINORITY INTERESTS

TOTAL ASSETS	**5,775,285**	5,411,321	4,948,042
TOTAL LIABILITIES	**(2,804,839)**	(2,827,717)	(2,816,580)
MINORITY INTERESTS	**(36,508)**	(16,993)	—
	2,933,938	2,566,611	2,131,462

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 as at 31 December 2001, 2000 and 1999.