

# REPORT OF THE DIRECTORS

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

## Principal activities

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

## Segmental information

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

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

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

## Results and dividends

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

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

## Summary financial information

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

## Fixed assets

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

## Subsidiaries

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

## Associate and jointly-controlled entities

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

## Bank and other borrowings

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

## Share capital and share options

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

## Pre-emptive rights

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

## Purchase, sale or redemption of listed securities of the Company

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

## Reserves

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

## Distributable reserves

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

## Post balance sheet event

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

## Major customers and suppliers

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

### Purchases

— the largest supplier	9%
— five largest suppliers combined	35%

### Sales

— the largest customer	4%
— five largest customers combined	7%

### Major customers and suppliers (continued)

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

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

### Directors

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

#### Executive directors:

Li Dong Sheng, Tomson (Chairman)

Yuan Xin Cheng (Vice-Chairman)

Hu Qiu Sheng

Wu Shi Hong

Yan Yong

(appointed on 25 October 2000)

Tse On Kin, John

(resigned on 1 November 2000)

#### Non-executive directors:

Lu Zhong Li

Wong Toe Yeung

Luk King Tin

(resigned on 22 January 2001)

Hon Fong Ming\*

Albert Thomas da Rosa, Junior\*

\* Independent non-executive directors

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

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

### Emoluments of directors and the five highest paid individuals

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

### Directors' service contracts

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

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

### Directors' interests in contracts

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

### Directors' interests in shares

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

Interests in the Company:

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

Interests in associated corporation:

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

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

**Directors' interests in shares (continued)**

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

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

**Directors' rights to acquire shares**

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

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

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

### Directors' rights to acquire shares (continued)

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

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

### Substantial shareholders

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

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

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

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

### Connected transactions

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

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

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

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

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

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

### Connected transactions (continued)

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

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

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

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

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

### Pension scheme

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

### Code of Best Practice

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



**Auditors**

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

ON BEHALF OF THE BOARD

**LI Dong Sheng, Tomson**

Chairman

Hong Kong

20 April 2001