

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. Corporate Information

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

- Manufacture and sale of color television sets
- Manufacture and sale of other audio visual products
- Trading of white goods and air-conditioners
- Trading of raw materials and components
- Manufacture and sale of information technology related products
- Provision of Internet value-added services

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

2. Summary of Significant Accounting Policies

Basis of preparation

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

Basis of consolidation and presentation

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

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

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

2. Summary of Significant Accounting Policies (continued)

Subsidiaries

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

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

Associate

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

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

Joint ventures

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

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

The Group's share of the post-acquisition results and reserves of the jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

2. Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

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

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

Long term investment

A long term investment is a non-trading investment in unlisted equity securities intended to be held on a long term basis. It is stated at cost less any provision for diminution in value, other than that considered to be temporary in nature, deemed necessary by the directors.

Goodwill and capital reserve

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

2. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Leased assets

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

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

Inventories

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

Deferred tax

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

Foreign currencies

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

2. Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) rental income, on a time proportion basis over the lease terms.

2. Summary of Significant Accounting Policies (continued)

Related parties

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

Cash equivalents

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

3. Turnover

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

4. Profit from Operating Activities

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

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

5. Finance Costs

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

6. Directors' Remuneration

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

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

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

The remuneration of the directors fell within the following bands:

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

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

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

7. Five Highest Paid Employees

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

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

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

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

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

8. Tax

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

10. Dividends

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

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

11. Earnings per Share

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

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

12. Fixed Assets

Group

	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At beginning of year	309,738	3,722	277,845	24,398	12,837	4,267	632,807
Additions	46,957	3,657	77,277	20,852	7,058	23,562	179,363
Acquisition of subsidiaries	7,147	—	23,827	2,110	2,419	—	35,503
Disposals	(101)	—	(2,826)	(453)	(277)	—	(3,657)
Transfers	493	—	1,797	711	—	(3,001)	—
Exchange realignments	(196)	—	(698)	(74)	(65)	—	(1,033)
At 31 December 2000	364,038	7,379	377,222	47,544	21,972	24,828	842,983
Accumulated depreciation:							
At beginning of year	26,973	2,139	69,066	9,954	4,236	—	112,368
Provided during the year	14,689	1,364	34,238	11,173	3,127	—	64,591
Acquisition of subsidiaries	2,836	—	16,986	1,479	1,187	—	22,488
Disposals	(53)	—	(1,649)	(120)	(114)	—	(1,936)
Exchange realignments	(105)	—	(627)	(55)	(44)	—	(831)
At 31 December 2000	44,340	3,503	118,014	22,431	8,392	—	196,680
Net book value:							
At 31 December 2000	319,698	3,876	259,208	25,113	13,580	24,828	646,303
At 31 December 1999	282,765	1,583	208,779	14,444	8,601	4,267	520,439

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

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

12. Fixed Assets (continued)

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

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

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

13. Interests in Subsidiaries

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

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

13. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
TCL Holdings (BVI) Limited [@]	The British Virgin Islands	US\$25,000	100	100	Investment holding
T.C.L. Electronics (H.K.) Limited [@]	Hong Kong	Ordinary HK\$30,000,000	100	100	Trading of audio visual products, raw materials and components
TCL King Electrical Appliances (Huizhou) Co., Ltd.	The PRC	HK\$256,000,000	100	100	Manufacture and sale of audio visual products and trading of raw materials, components and household electrical products
TCL King Electronics (Shenzhen) Co., Ltd.	The PRC	HK\$100,000,000	100	100	Manufacture of audio visual products
TCL Retail (HK) Limited	Hong Kong	Ordinary HK\$10,000	100	100	Trading of audio visual products
TCL 通力電子(惠州)有限公司	The PRC	HK\$43,000,000	100	—	Manufacture and sale of audio visual products
深圳 TCL 新技術有限公司	The PRC	HK\$10,000,000	100	—	Manufacture and sale of audio visual products

13. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
TCL Information Technology Industrial (Group) Co., Ltd. @	The British Virgin Islands	US\$4,500,000	100	—	Investment holding
北京天地人家網絡 技術有限公司*	The PRC	RMB5,000,000	49**	—	Development and manufacture of computer software and hardware products and provision of Internet related services
TCL 萬維科技(深圳) 有限公司*	The PRC	HK\$25,000,000	100	—	Manufacture and sale of personal digital assistants and other information technology related products
TCL 空調器(中山) 有限公司*	The PRC	US\$6,800,000	75	—	Manufacture and sale of household electrical products
TCL (Vietnam) Corporation Ltd.	Vietnam	VND37,135,000,000	100	—	Manufacture and sale of audio visual products

13. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
TCL Electronics (Singapore) Pte Ltd.*	Singapore	S\$900,000	85	—	Trading of audio visual products
TCL Education Web Limited*	The British Virgin Islands	US\$1	100	—	Provision of remote education services

@ Direct subsidiaries of the Company.

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

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

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

14. Interest in an Associate

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

14. Interest in an Associate (continued)

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

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

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

15. Interests in Jointly-Controlled Entities

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

15. Interests in Jointly-Controlled Entities (continued)

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

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

* Acquired or formed during the year.

16. Long Term Investment

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

17. Inventories

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

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

18. Trade and Bills Receivable

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

18. Trade and Bills Receivable (continued)

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

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

19. Due From/To Related Parties

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

20. Due From/To Jointly-Controlled Entities

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

21. Other Receivables

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

22. Pledged Bank Deposits

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

23. Trade and Bills Payable

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

23. Trade and Bills Payable (continued)

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

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

24. Other Payables and Accruals

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

25. Interest-Bearing Bank and Other Borrowings

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

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

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

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

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

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

26. Loan from the Ultimate Holding Company

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

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

27. Deferred Tax

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

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

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

28. Issued Capital

Shares

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

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

28. Issued Capital (continued)

Shares (continued)

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

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

Share options

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

28. Issued Capital (continued)**Share options (continued)**

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

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

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

29. Reserves

Group

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

* Pursuant to the relevant laws and regulations for Sino-Foreign Joint Venture Enterprises and Sole Foreign Investment Enterprises, a portion of the profits of the Company's subsidiaries and jointly-controlled entities in the PRC has been transferred to reserve funds which are restricted as to use.

29. Reserves (continued)

Company

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

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

30. Notes to Consolidated Cash Flow Statement

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

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

30. Notes to Consolidated Cash Flow Statement (continued)

(b) Acquisition of subsidiaries

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

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

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

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

30. Notes to Consolidated Cash Flow Statement (continued)**(c) Disposal of subsidiaries**

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

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

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

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

30. Notes to Consolidated Cash Flow Statement (continued)

(d) Analysis of changes in financing during the year

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

31. Commitments

(a) Capital commitments

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

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

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

(b) Commitments under operating leases

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

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

31. Commitments (continued)

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

32. Contingent Liabilities

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

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

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

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

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

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

33. Post Balance Sheet Event

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

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

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

34. Related Party Transactions

(a) Continuing transactions with

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

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

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

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

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

34. Related Party Transactions (continued)

- (v) The interest income from the ultimate holding company was charged at the PRC bank savings rate.
- (vi) The interest expense paid to the ultimate holding company was charged at 6.4% (1999: 6.9% to 9.8%) per annum.
- (vii) The Group sold the raw materials at a mark-up of 7%.
- (viii) The purchases of raw materials were made at prices similar to those set by independent third party suppliers.
- (ix) Cash discounts paid were calculated as follows:
 - (1) For amounts settled within the credit period, the cash discount was calculated at the monthly rate of 0.5% (1999: 0.55%).
 - (2) For settlement within the credit period, the amount of settlement by cash over the amount of settlement by bills, subject to a maximum of 70% of the total receipt, would attract a cash discount calculated at 0.5% (1999: 0.55%).
- (x) The sales bonus paid was calculated at 0.123% of the actual cash proceeds and 2% on an agreed amount, if the actual cash proceeds exceeds the predetermined target.
- (xi) The sales commission paid was calculated at 10% of the retail price of the Group's products sold through the related party.
- (xii) The subcontracting fees were determined by reference to subcontracting fees charged in the market in respect of similar services rendered.
- (xiii) The rental expense charged was similar to fair market value.

(b) Non-continuing transactions with

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

34. Related Party Transactions (continued)

- Notes:
- (i) The raw materials sold were made at an average mark-up of approximately 2%.
 - (ii) The purchases were undertaken at consideration approximating the fair market value of the fixed assets.
 - (iii) The interest expense was charged at the rate of 5% per annum.
 - (iv) The finished goods were sold to the related party at agreed prices calculated at a 13.5% discount of the estimated price sold to independent customers.
 - (v) The sales of computers were made at a mark-up of approximately 1%.
 - (vi) The sales of raw materials were made at cost.
 - (vii) The purchases of finished goods were made at average prices charged by the related party to independent third party customers.

- (c) During the year, the Group acquired a 100% interest in Luks Technology Development Company Limited (“Luks Technology”) from Luks Industrial Company Limited, in which a non-executive director of the Company has a beneficial interest, for a cash consideration of HK\$10.7 million. The consideration was agreed after arm’s length negotiation between the parties with reference to the net asset value of Luks Technology.
- (d) Further details of the amounts due from/to related parties and jointly-controlled entities are included in notes 18, 19, 20, 23 and 24. Further details of the loan from the ultimate holding company are included in note 26.
- (e) Further details of the guarantees given by the ultimate holding company in respect of general banking facilities and bank loans granted to the Group are included in note 25.

35. Approval of the Financial Statements

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