

# 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:

Name of director	Shares of the Company	
	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:

Name or category of participant	Number of share options				Date of grant	Exercise price HK\$	Exercise period	Price of Company's shares at date of grant# HK\$
	At 1 January 2001	Granted during the year	Lapsed during the year	At 31 December 2001				
<b>Directors</b>								
Li Dong Sheng, Tomson	12,000,000	—	—	12,000,000	3 December 1999	2.236	Note 1	3.075
	—	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				



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## SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options				Date of grant	Exercise price HK\$	Exercise period	Price of Company's shares at date of grant# HK\$
	At 1 January 2001	Granted during the year	Lapsed during the year	At 31 December 2001				
<b>Directors</b> (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				
<b>Other employees</b>	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.

<b>Name</b>	<b>Number of shares held</b>	<b>%</b>
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.





# Report of the Directors

## 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

