

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"



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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.



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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.



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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.



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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.



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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).



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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 HK\$'000	2000 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 HK\$'000	2000 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).

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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	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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



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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 HK\$'000	2000 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.



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16. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	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		Principal activities
			2001	2000	
			%	%	
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		Principal activities
			2001	2000	
			%	%	
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



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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		Principal activities
			2001 %	2000 %	
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	2000
	HK\$'000	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		Principal activities
			2001 %	2000 %	
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	2000
	HK\$'000	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			Principal activities
			Ownership interest	Voting power of the board	Profit sharing	
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

	Notes	Group	
		2001	2000
		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



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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 HK\$'000	2000 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

	Note	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
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

	Notes	Group	
		2001 HK\$'000	2000 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 HK\$'000	2000 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



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27. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000 (Restated)	2001 HK\$'000	2000 HK\$'000 (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 HK\$'000	2000 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 HK\$'000	2000 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.

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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	Number of share options		Outstanding at 31 December 2001	Exercise price HK\$	Exercise period
	Granted during the year	Lapsed during the year			
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.



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32. RESERVES

Group

	Share premium account	Capital reserve	Reserve funds*	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	Capital reserve	Reserve funds*	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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.



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32. RESERVES (continued)

Company

	Share premium account	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	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



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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



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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.



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36. CONTINGENT LIABILITIES

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

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 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 HK\$'000	2000 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.



Notes to Financial Statements

31 December 2001

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.

