

CHAIRMAN'S STATEMENT

Li Dong Sheng, Tomson
Chairman



Year 2000 was challenge-studded for TCL International Holdings Limited (“TCL” or the “Group”). In the first year of listing on Hong Kong Stock Exchange, TCL encountered an unprecedented relentless competition in the domestic household electrical appliance market. Albeit the slow growth in PRC demand, TCL enlarged its market share and solidified its leading position in the industry. Contemporarily, the Group has successfully made strategic move into the information technology industry and digital mobile telephone arena as to set up the foundation for future progression.

Turnover in 2000 was HK\$8,569 million, an increase of 39% over last year. Net profit of the year fared at HK\$428 million, short of expectation, in the wake of the price war in the domestic TV market.

Business review

In 2000, the Group sold 5.8 million television sets. This accounted for 79% of total turnover and represented growth of 29% over that of last year. TCL is delighted at the outstanding R&D capabilities on new products development. In the year, the Group launched over 50 models of new products under five innovative product series. According to an authoritative statistics of market research, TCL's television sets were at the highest price among all domestic brands and were well accepted by customers. This portrays that TCL products are of high quality, innovative features and excellent service. Most of TCL products are positioned in the middle and high end markets. In an industry that seeks to develop and produce the finer resolution digital colour television sets, the Group got a distinguished 95% market share leading others by a great distance. In PRC, TCL's TVs have been recognised as the best domestic brand. The Group is one of the largest TV enterprise in terms of sales revenue.

As the price was impinged on TV selling price, the overall gross profit margin of the Group went down by 5%. However, we are still the best achiever in terms of profitability among other competitors in the PRC. The working principles of "producing the best products, providing the best service and establishing the best brand name" steer TCL to prevail over the other market contenders.

Leveraged upon TCL's brand name and distribution network, the Group's white goods of air-conditioners, refrigerators and washing machines grew rapidly, and

recorded sales of over HK\$1.1 billion. Within a short period of less than two years, TCL moved up the table and ranked among the top ten marketers in the domestic industry. Because of the good quality, the above household appliances have been exempted from inspection by the governing authorities.

During the last year, the Group has completed the strategic planning of the information technology business. TCL 萬維科技(深圳)有限公司,北京天地人家網絡技術有限公司, and TCL Education Web Company Ltd. were established and put into operation. Set-top boxes and personal digital assistants (PDAs) and other internet access devices were shortly introduced into the market. Other IT activities encompassed the provision of value-added internet related services and the establishment of an e-commerce platform complementary to existing strong distribution network. To this initial set up phase, the pre-operating expenses were written off. Aggravated by the unfavourable results of the Teleweb Project, the Group endured a loss of HK\$57 million in the Information Technology Business. However, the preliminary expenses were essential for the future development of the business. It is noteworthy that the digital mobile telephone business acquired by the Group has shown an encouraging growth. Some new products are competed amongst in the high-end domestic market and were profitable.

TCL ranked second in the PRC TV market last year, and continues to strengthen its prime position.



In 2000, white goods recorded an impressive increase in turnover, rising to 13% from 6% in 1999.



In 2000, the Group fared well in overseas markets and achieved export sales of US\$71.4 million, an increase of 85% over that of last year. The overseas business in 2000 was came principally from Southeast Asia, the Middle East, India and South Africa. During the year, the Group were into a joint venture with a local partner in India. The joint venture turned in a remarkable sales with profit and captured 5% of the market for local television products. In Vietnam, the recently acquired business marked a breakeven.

Given the rough domestic market situation, the Group's performance was sound and effective. However, there are rooms for improvement in the operation and management. In particular, TCL is in quest of a faster and more effective managerial structure to cope with paradigm shifts and slim-profit in the market. TCL is also concerned about how to overhaul the sales and distribution network to meet changes on China's accession to the WTO.

In this connection, the Group has been promulgating the philosophy of "innovative reform, understand and act in accord". Aiming at overdrive and effectiveness, TCL is to reform the Group's R&D, manufacturing and sales organization structure so as to uplift its competitiveness.

Outlook

In the first of the twenty-first century, the Group will make progress to expand from a prominent manufacturer of household and communication products to a provider of an internet-related access

devices and value-added internet service. Television and audio-visual will move towards multimedia electronics of better profit margins, adding values of advance technology and enhanced performance.

Recently, the Group has launched a spectacular innovative home information display (HiD) unique in the PRC, which received excellent market response. Specialists have commented that this HiD represents a new generation of household information appliances combining a television set and Internet access devices.

In the domestic electrical household appliance market, TCL maintains its competitive edge in urban areas and continues to make a significant effort to develop the enormous suburban and rural markets. TCL will further fortify and grow the overseas markets actualizing the high growth in sales.

At the end of 2000, TCL completed the acquisition of production facilities from 中山卓越空調器廠. TCL is confident that sales revenue from white goods business will continue to grow, and become a major source of profit for the Group. Despite excessive competition still persists in the domestic market, TCL is optimistic about the prospects. Seeing collectively the global and the PRC household electronics market trend, TCL perceives that the demand will grow steadily. Especially, IT related household electronics will ramp more swiftly because China possesses the most mass manufacture base and potential marketplace for household electronics. TCL firmly believe the capability and the opportunity to establish itself as the industry leader


In 2000, TCL acquired the production facilities of air conditioner in Zhongshan and entered this high-potential business.



in the PRC household electrical appliance market. In parallel with the product promotion plan, TCL is making a comprehensive overhaul of the distribution network through reengineering on business flow and enhancing the information management system. This will elevate the R&D capability and operation efficiency.

The information technology business will be a key constituent of development this year. In February of 2001, TCL completed the acquisition of the computer technology business from the parent company. TCL Computer Technology Company Ltd. has fulfilled its profit target for 2000, ranked 3rd in consumer PC sales and 4th in desktop PC sales in the PRC. TCL has forged a close strategic alliance with Intel and was the first company to launch the Pentium 4 computer in the PRC market. It is expected that sales of computers and digital mobile telephones will maintain a high growth rate this year. The Group will simultaneously put its efforts on developing the businesses of PDAs and a multitude of Internet access devices. The information technology business is expected to contribute to the Group's profit this year.

With respect to information technology value-added services, TCL Education Web Limited has recently teamed up with Central Radio and Television University, Sian Jiaotong University and Central China Normal University, forming joint ventures to develop long distance education projects for popular tertiary education, MBA degree education and specialised teacher training curriculum respectively. TCL sees an enormous demand for long distance education in the PRC. Collaborating with the expertise and resources of the present educational software and hardware of TCL's parent's related companies, TCL will have genuine opportunities in the field of long distance education.



We entered the high-growth PC sector, with the acquisition of TCL Computer.

Meanwhile, TCL will provide basic training to its network users and promote sales of related information technology products. The project is expected to generate revenue this year and to be profitable within three years.

In 2001, 北京天地人家網絡技術有限公司 will finish building and fine-tuning the Internet platform and therefore provides technical service to support the interactive long-distance learning projects mentioned above. Besides, it also develops an e-commerce shopping mall for household business and a strategic internet platform for the Group as a whole.

On the verge of China's accession to the WTO and the growing globalization of the world's economy, the Group will grasp opportunities. In a structural realignment of worldwide economy and its business, TCL is in quest of better opportunities to make progress, to sustain consistent growth and create higher value for the shareholders.

Finally, I wish to thank the Group's management team and staff for their dedication, the shareholders and the audit team for their support.

Li Dong Sheng, Tomson

Chairman

Hong Kong, 20 April 2001