



Chairman's Statement

The combination of a dwindling global economy and benign domestic economic growth meant that TCL International Holdings Limited weathered a tough year of ferocious competition within the industry. Nevertheless, by upholding the principle “innovative reform, in tune with the market situation and acting in unison”, the Group managed to sustain profit at a time when other consumer electronics manufacturers saw their bottom lines suffer in 2001. Growth in sales revenue and market share further solidified our leading position in the home appliance industry in the PRC.

China's successful accession to the WTO will offer both threats and opportunities. Faced with these new challenges and opportunities, we will not be complacent but will proactively strengthen our management and further upgrade our overall corporate competitiveness. Concurrent with our efforts to sustain a stable domestic growth, we will actively develop and expand our overseas markets. We believe that the Group, by leveraging on its many distinguishing qualities during the globalisation of the worldwide economy, the

reallocation of the value chain in the industry and the consolidation of the domestic industry, will be able to capitalize greatly on development opportunities and become more competitive in the worldwide market.

Performance Overview

During the 2001 financial year, turnover grew by 12% over the previous year to HK\$9.6 billion; profit attributable to shareholders slipped by 32% to HK\$290 million. The growth in turnover was attributed primarily to the PC business acquired during the year, while the decline in profit was linked to the slowdown in economic growth and relentless competition in the industry.

In 2001, the Group outranked all its competitors by selling 6.3 million television sets, an increase of 9% over the previous year, and secured a 20% share of the domestic market. Despite a decline in the gross profit margin of the television business in the wake of price competition, the Group is still the most profitable enterprise in the PRC's television industry. As one of the PRC's largest television enterprises, the Group's long-term objective is to be a competitive international enterprise by becoming a global mainstream manufacturer and distributor of television as well as by solidifying our current leading position in the domestic market. In this respect, the Group acquired a 51% equity interest in TCL Electrical Appliances Sales Co., Ltd. from its parent company in August 2001. We firmly believe that this acquisition will have far-reaching and critical effects in enhancing the overall competitiveness of TCL.

Although the white goods business was less satisfactory in 2001, we believe that, after a year of review and adjustment, and by leveraging on the strength of the TCL brand name and the competitive advantages of our sales network, the air-conditioner, refrigerator and washing machine business will return to healthy growth.

In the information technology sector, despite difficulties in the market place, our PC business retained much of its already secured market position. The implementation of ERP information management system last year in the consumer desktop PC arena has built a solid foundation. Subsequent to a short period of adjustment, we will further enhance the level of quality and services, secure stable growth in the PC business as well as actively develop our personal consumer digital products. I have every reason to believe that the PC business will turn around in 2002.

Regarding our information value-added services, the Group's Remote Education Project is progressing smoothly and has begun marketing and sales activities. In view of the development of the PRC education information market, and despite its current small scale, this sector is not only lucrative but will also stimulate sales growth in hardware.

The Group encountered certain difficulties in our overseas business in 2001 as a result of a global dismal economic climate as well as the absence of major overseas investment.





Nevertheless, the Group's overseas business achieved a sales revenue of HK\$645 million, an increase of 16% over the previous year. The Group was especially cautious in controlling the pace of overseas expansion, strengthening the management and adhering to a prudent risk management policy. With China's accession to the WTO, our overseas business is expected to expand swiftly.

The most encouraging aspect of 2001 was the rapid growth in the mobile phone business. Both sales and profit reached 1.25 million sets and HK\$300 million respectively, and thus far exceeded our pre-set goals. This business has already become one of the Group's important sources of profit.

Taking into account of the world economy and the conditions of the domestic industry, the Group is still the most outstanding player in the industry, albeit a downturn in last year's performance. During the past year of hardships, we have gained valuable insights into recognising our strengths and are determined to turn any shortcomings into advantages when taking on bigger challenges in the future. Indeed, we plan to further enhance our overall competitiveness and capture the spectacular opportunities ahead.

2002 Prospects

Despite China's accession to the WTO, Beijing's success in winning the bid for the 2008 Olympic Games and the reduction in domestic interest rates that will help boost the PRC economy and

In 2001, the Group's television business registered a 6% growth in turnover, with a 20% market share in the PRC.



personal consumption rates, the slowdown in economic growth in 2001 may have a lingering impact on 2002 and prevent the economy from attaining the sort of exorbitant growth in the past years.

In the home appliances industry, the increasing influx of foreign investment and excessive competition among domestic manufacturers will likely lead to consolidation of the domestic industry and acceleration of more cooperation with international enterprises. Well aware of this paradigm shift and the market opportunities it is expected to bring, the Group will therefore take pragmatic and proactive steps by responding promptly to the ever-changing tastes of both domestic and international markets. We firmly believe that challenges always come with opportunities.

We will further explore our potentials, make effective use of our resources, renew sales strategies, strengthen channel building, speed up market responses, establish strategic cooperation, emphasize quality and added-value on product development, and improve operating efficiencies so as to solidify and expand our leading position within the industry.

The Group is very confident about sustaining its leading position in the domestic television market, as well as proactively enhancing its sales capability and profits in white goods. The television business will continue to be our principal source of profit, although its overall relationship to our total profit will decline as a result of growth in the contributions made by the Group's diverse businesses.

Subsequent to China's accession to the WTO, trade barriers to PRC exports will gradually be dismantled. With the expected gradual recovery of the global economy, the Group is optimistic about its overseas business for the current year. We will strengthen market promotion efforts, expand product lines, accelerate the pace in introducing new products and upgrade after-sales services in overseas markets in order to actively snatch a larger pie in overseas markets.

In the information technology business, the Group will optimise hardware product lines, including PCs, strengthen remote education as one of the principal content applications, fully leverage on the prestigious TCL brand name and make use of the established Internet-based educational products to facilitate other product line sales. Despite the fact that the Group's information technology business was unable to contribute profit in 2001, the business has enormous growth potential. We still firmly believe



Overseas sales of the Group's AV products doubled in 2001



In 2001, the mobile phone business was instinctively aggressive and innovative, with a sales of 1.25 million sets.

that this investment will bring satisfactory returns to shareholders in the future after surviving the temporary difficult situation.

In 2002, the Group has increased its equity interest in the mobile phone business to 30% by acquiring an additional 10% interest in Huizhou TCL Mobile Communication Co., Ltd., which is expected to sustain enormous growth.

Following China's accession to the WTO this year, the Group will vigorously pursue its philosophy of "creating value for customers, opportunities for employees and benefits for society", as well as face challenges positively and sustain a continued healthy corporate growth. As a shareholder of one of the leading companies in the PRC, your future return is promising.

Finally, I would like to express my respect and gratitude to the Group's management team and all staff for their dedication, as well as my appreciation to the shareholders, auditors and associates.



research &
development

innovative

Dedicating to the research and development of the best product, TCL believes that technology innovation is the never-ending power to drive the corporation. TCL's R&D centre is recognised as one of the most advanced R&D centres for home appliances in the PRC.



