

**TCL INTERNATIONAL HOLDINGS LTD :
IT LOOKS TO BE A WINNER, BUT WHAT ABOUT W.T.O. ?**

Everybody knew that it would happen, eventually, and, now it has happened: The Government of the People's Republic of China (PRC) has entered into an agreement with the Government of the United States of America whereby the US Government has agreed to endorse the PRC Government's application to enter the World Trade Organisation (WTO).

And so, from now on, feathers in the industrial sector of the PRC marketplace will start to fly because, for certain, the PRC markets will be opened up to international competition – for the first time since 1949.

Thus, it stands to reason that, by this time next year, TCL International Holdings Ltd, a huge manufacturing conglomerate by any standards, with all its major enterprises in the PRC, will start to feel the pressure of international competition.

This, somewhat, taints the newest flotation on The Stock Exchange of Hongkong Ltd even though, actually, TCL International is a fair enough diversified manufacturing conglomerate.

TCL International is placing a total of 540 million shares and is issuing a total of 60 million shares in order to raise \$HK1.05 billion, gross, coming down to \$HK997.50 million, after expenses.

The money, to be raised in this flotation, will be utilised as follows, the Prospectus states:

1. \$HK252 million to be used as working capital;
2. \$HK284 million to be used to increase production facilities and to bolster working capital;
3. \$HK200 million to be used to repay the Ultimate Holding Company;
4. \$HK107,973,000 to be used to establish a joint-venture company; and,
5. \$HK153,527,000 to be used as addition working capital (!!).

TCL International describes itself as being principally engaged in the design, manufacture, assembly and sale of electronic products in the PRC.

It is, also, engaged in the trading of electronic parts and components, used in the production of colour television sets.

For the last Financial Year, ended December 31, 1998, this Company turned in a Total Turnover of about \$HK3.87 billion on which it logged in a Net Profit Attributable to Shareholders of about \$HK323.51 million.

But Page 59 of the Prospectus explains the heavy reliance that this Company has on the PRC market in the following terms: *'The Directors estimate that the sales of the Group's Products in the PRC accounted for approximately 79 per cent., 97 per cent., 95 per cent. and 95 per cent. of the Group's combined turnover for each of the three years ended 31st December, 1998 and the five months ended 31st May, 1999, respectively.'*

Turning now, back to the matter of the WTO and the PRC Government's avowed intent to join the world's most prestigious 'club', one may appreciate that the probability exists that, with the PRC's markets, being opened up

to international competition, TCL International may find itself, having to fend off very determined international players, players who have a lot more experience than Management of this conglomerate.

This matter is fairly covered under 'Risk Factors', on Page 20 of the Prospectus: *'If the PRC joins the WTO (clearly this Prospectus was at the printers more than a week ago so that changes could not be made to amend this entry), which uniformly regulates trade among its signatory members, it is anticipated that the Chinese market will open up, leading to an increase in the competition faced by the Group. It is uncertain at the present stage to predict how and to what extent that if PRC becomes a member of the WTO will affect the Group as regards, inter alia, its business, profitability, competitiveness, financial conditions and prospects ...'* (This is the exact wording: TARGET has faithfully reproduced the copy, directly from the Prospectus)

The people, who put together this Prospectus, may be reluctant to speculate what will happen when the PRC market opens up to international competition, but TARGET is not afraid to state, categorically, that manufacturing companies, such as this one, will face an increasingly difficult time.

The reason for this is that human nature, being what it is, will result in PRC consumers opting for internationally known, brand-named goods over the domestically produced goods even though the domestically produced goods may be equal in quality and performance to imported goods.

In the PRC, it is a matter of pride, today, for a person to show off his or her imported brand named shirt, jacket, spectacles, etc, since it is deemed to be a sign of sophistication.

Since the early 1980s, PRC factories have had a free hand when it came to selling ... [CLICK TO ORDER FULL ARTICLE](#)