

# TCL INTERNATIONAL HOLDINGS LIMITED

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**TCL INTERNATIONAL HOLDINGS LIMITED**

**TCL 國際控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

## **DISCLOSEABLE AND CONNECTED TRANSACTION**

The Board of Directors is pleased to announce that on 18th December, 2000, TCL BVI, a wholly owned subsidiary of the Company, entered into a conditional agreement with TCL Holdings and TCL Industries to acquire the entire registered capital of TCL Computer for an aggregate consideration of approximately HK\$341.8 million (approximately RMB365.7 million). The aggregate consideration is to be satisfied by cash for a sum of approximately HK\$153.8 million (approximately RMB164.6 million) to TCL Holdings and by the issue of approximately 105.6 million Consideration Shares in the Company at HK\$1.78 for each Consideration Share to TCL Industries.

TCL Computer is principally engaged in (i) the research, design, manufacture and sale of personal computers in the PRC under the TCL brand name and provision of related after-sale service; and (ii) the sale of computer peripherals products under the TCL brand name. The Directors believe that this is a good opportunity for the Group (i) to achieve significant synergy and the right product mix in the businesses of home electronics and infotainment appliances towards convergence; (ii) to capture the growth of the personal computer market in the PRC; (iii) to broaden its earnings base; (iv) to improve its earnings growth; and (v) to offer a wider array of home appliances products.

The Acquisition is conditional on the satisfaction of certain conditions (see "Conditions of the Acquisition" below). In particular, the Acquisition constitutes a discloseable and connected transaction of the Company and must be approved by the Independent Shareholders at the EGM.

An Independent Board Committee has been established to advise the Independent Shareholders on the Acquisition. A financial adviser to the Independent Board Committee will be appointed to advise

# TCL INTERNATIONAL HOLDINGS LIMITED

the Independent Board Committee. A circular with details of the Acquisition including letters from the Independent Board Committee and independent financial adviser will be sent to Shareholders as soon as practicable in accordance with the Listing Rules. The Acquisition is subject to Independent Shareholders' approval and a notice of EGM will be included in the circular.

## PARTICULARS OF THE ACQUISITION

Date: 18th December, 2000

Vendors: TCL Holdings, the ultimate controlling shareholder of the Company, which owns a 45 per cent. interest in TCL Computer  
TCL Industries, the immediate controlling shareholder of the Company owning a 51.82 per cent. of its existing issued share capital, which owns a 55 per cent. interest in TCL Computer

Purchaser: TCL BVI, a wholly owned subsidiary of the Company

## EQUITY INTEREST TO BE ACQUIRED

100 per cent. of the registered capital of TCL Computer

## PURCHASE PRICE

Approximately HK\$341.8 million (approximately RMB365.7 million), subject to adjustment.

Approximately HK\$153.8 million will be paid in cash to TCL Holdings while 105.6 million Consideration Shares will be issued to TCL Industries (or its nominees). The Consideration Shares will be allotted and issued at a price of HK\$1.78 per Consideration Share.

The purchase price was negotiated on an arm's length basis and on normal commercial terms and has been calculated based on a guaranteed profit after taxation of TCL Computer of not less than RMB38.5 million (approximately HK\$36.0 million) for the year ending 31st December, 2000 at an implied price/earnings multiple of about 9.5 times.

## THE CONSIDERATION SHARE ISSUE

The issue price of each Consideration Share represents a discount of about 9.64 per cent. to the

## TCL INTERNATIONAL HOLDINGS LIMITED

average closing price of HK\$1.97 per Share as quoted on the Stock Exchange from 5th December, 2000 to 18th December, 2000, being the last 10 trading days for the Shares prior to and including the date of issue of this announcement. The Consideration Shares represent approximately 4.39 per cent. of the existing issued share capital of the Company and approximately 4.21 per cent. of the enlarged issued share capital of the Company immediately after the Completion.

The Consideration Shares will be allotted and issued pursuant to the general mandate granted to the Directors during the annual general meeting on 23rd June, 2000. The Consideration Shares will rank pari passu in all respects with the existing Shares, including the right to receive all dividends and distribution declared, paid or made after the Completion Date.

### **ADJUSTMENT**

The total consideration payable to TCL Holdings and TCL Industries pursuant to the Agreement of approximately HK\$341.8 million is subject to adjustment in the event that if the audited profit after taxation of TCL Computer for the year ending 31st December, 2000 is less than the Guaranteed Profit, then the shortfall will be multiplied by 9.5 times and the resulting sum will be repaid to the Company by TCL Holdings and TCL Industries in cash in Hong Kong dollars (based on an exchange rate of HK\$1.00 = RMB1.07) within one month of issuance of the audited financial statements of TCL Computer for the year ending 31st December, 2000. If the Guaranteed Profit is not met, an announcement will be made by the Company immediately. On the other hand, if the audited profit after taxation of TCL Computer for the year ending 31st December, 2000 exceeds the Guaranteed Profit, no adjustment will be made to the Consideration.

### **EXPECTED DATE OF COMPLETION**

It is expected that the Agreement will be completed on the third working day after the Conditions have been satisfied in full, but will be terminated if the Conditions are not satisfied by 31st March, 2001 unless otherwise agreed by the parties.

### **INFORMATION ON TCL COMPUTER**

TCL Computer has successfully explored and established its reputation in the PRC as a leading computer manufacturer which ranked one of the top three consumer desktop computer manufacturers in the PRC in terms of unit shipment during the three months ended 30th September, 2000, according to the Third Quarter, 2000 Review published by International Data Corporation. Leveraging on the renowned TCL brand name, TCL Computer will continue to strive to expand its

## TCL INTERNATIONAL HOLDINGS LIMITED

market share in the personal computer for home use by taking advantage of low penetration rate of personal computer in the PRC and aims to intensify its market penetration into the commercial desktop computer market by targeting at small to medium enterprises, government agencies and universities/schools.

### *Principal business*

TCL Computer was established on 25th February, 1998 in the PRC and is principally engaged in (i) the research, design, manufacture and sale of personal computers in the PRC under the TCL brand name and provision of related after-sale service; and (ii) the sale of computer peripheral products under the TCL brand name. TCL Computer manufactures and sells a wide range of desktop computer products under the TCL brand name which are mainly for home and office uses.

### *Products*

For the nine months ended 30th September, 2000, TCL Computer launched 14 new models of desktop personal computers, as to nine models for home use and five models for office use, increasing from an aggregate of 10 models during the year ended 31st December, 1999.

### *Sales and marketing*

TCL Computer has established an extensive sales and distribution network in the PRC consisting of 25 regional offices and over 900 distributors and dealers. Through the extensive distribution network, TCL Computer has established a diversified customer base which consists of: home (66 per cent.), government sector (12 per cent.), small and medium enterprises (9.5 per cent.), large enterprises (7.4 per cent.) and education institutions (5.1 per cent.) during the three months ended 30th September, 2000, according to the Third Quarter, 2000 Review published by International Data Corporation.

TCL Computer has experienced a significant growth in the recent years since its inception in 1998. For the nine months ended 30th September, 2000, TCL Computer recorded a total unit sales of 176,046 desktop personal computers representing an increase of 161.6 per cent. from the total unit sales of 67,284 desktop personal computers during the corresponding period in 1999.

The table below illustrates the breakdown of quarterly unit sales of desktop personal computers achieved by TCL Computer for the year ended 31st December, 1999 and the nine months ended 30th September, 2000:

| <b>2000</b>  | <b>1999</b>  |
|--------------|--------------|
| <i>Units</i> | <i>Units</i> |

## TCL INTERNATIONAL HOLDINGS LIMITED

|                    |                |                |
|--------------------|----------------|----------------|
| January – March    | 44,199         | 4,733          |
| April – June       | 47,176         | 6,473          |
| July – September   | 84,671         | 56,078         |
| October – December | (note) N/A     | <u>50,165</u>  |
| Total              | <u>176,046</u> | <u>117,449</u> |

*note: N/A --- not available*

For the nine months ended 30th September, 2000, TCL Computer recorded a total unit sales of 75,504 computer monitors representing an increase of 47.4 per cent. from the total unit sales of 51,226 computer monitors during the corresponding period in 1999.

### *After-sale service and network of support*

The after-sale service for the products offered by TCL Computer is conducted by approximately 160 employees known as "Starlight Ambassadors". In addition, TCL Computer has established an extensive service network which includes 27 service centres, 120 authorised maintenance agents, 200 authorised service centres, 25 training centres and a nationwide 24 hours customer service call centre.

### *Financial results*

For the period ended 31st December, 1998, the audited turnover and net loss of TCL Computer (based on generally accepted accounting principles in the PRC) amounted to approximately RMB36.97 million (approximately HK\$34.55 million) and RMB5.93 million (approximately HK\$5.54 million) respectively.

For the year ended 31st December, 1999, the audited turnover and net loss of TCL Computer (based on generally accepted accounting principles in the PRC) amounted to approximately RMB628.68 million (approximately HK\$587.55 million) and RMB18.61 million (approximately HK\$17.39 million) respectively.

For the nine months ended 30th September, 2000, the unaudited turnover and profit before taxation of TCL Computer amounted to approximately RMB957.84 million (approximately HK\$895.18 million) and RMB29.86 million (approximately HK\$27.91 million) respectively.

The unaudited net assets value of TCL Computer as at 30th September, 2000 amounted to approximately RMB106.17 million (approximately HK\$99.22 million).

## **APPROVAL BY SHAREHOLDERS**

Page 5 of 11

## TCL INTERNATIONAL HOLDINGS LIMITED

As at the date of this announcement, TCL Holdings, through TCL Industries, beneficially owned an aggregate of approximately 51.82 per cent. of the issued share capital of the Company. As TCL Holdings and TCL Industries are the controlling shareholders of the Company, the Acquisition constitutes a connected transaction for the purposes of the Listing Rules. The Acquisition also constitutes a discloseable transaction for the purposes of the Listing Rules. Accordingly, the Acquisition may only proceed with the approval of the Independent Shareholders. BOCI Asia Limited and Cazenove Asia Limited have been appointed to advise the Company in relation to the Acquisition. An Independent Board Committee comprising Messrs. Hon Fong Ming and Albert Thomas da Rosa, Junior has been formed to advise the Independent Shareholders and a financial adviser will be appointed to advise the Independent Board Committee on whether the terms of the Acquisition are fair and reasonable insofar as the Independent Shareholders are concerned.

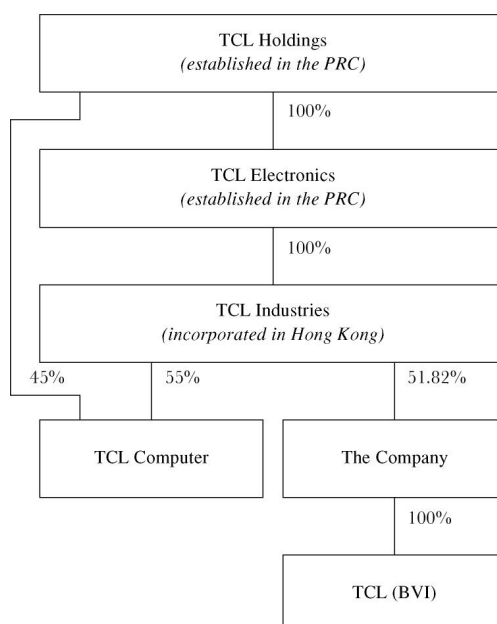
Completion of the Acquisition will result in an increase in the aggregate shareholding of TCL Holdings and TCL Industries in the Company from approximately 51.82 per cent. of the existing issued share capital to approximately 53.84 per cent. of the issued share capital as enlarged by the issuance of Consideration Shares.

A circular containing further information on the Acquisition, including a notice of EGM, a letter from the Independent Board Committee and a letter from an independent financial adviser containing its advice in relation to the Acquisition is expected to be despatched as soon as practicable.

## **RELATIONSHIP BETWEEN TCL HOLDINGS, TCL COMPUTER AND THE COMPANY PRIOR TO COMPLETION**

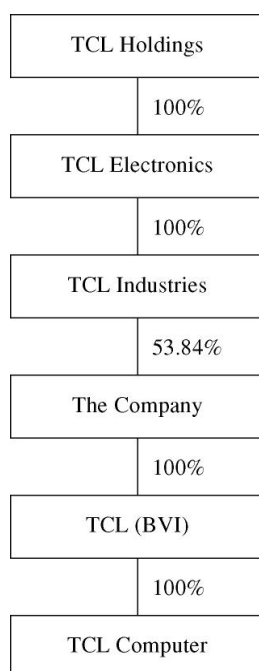
The existing shareholding structure of the Company and the shareholding structure of TCL Computer prior to the Completion is as follows:

# TCL INTERNATIONAL HOLDINGS LIMITED



## Relationship between TCL Holdings, TCL Computer and the Company after Completion

The shareholding structure of the Company including TCL Computer following the Completion is as follows:



## Non-competition

The Vendors have undertaken that at any time during which they (together with their respective associates (as defined in the Listing Rules)) hold 35 per cent. or more of the issued shares of the

## TCL INTERNATIONAL HOLDINGS LIMITED

Company, they will not and will procure that its associates not to directly or indirectly carry on or be engaged or interested (save and except through its investment in the Group) in the manufacture and sale of personal computers and computer peripherals.

### *Co-ordination of fund transfer*

TCL Holdings operates an on-line electronic funds transfer system (the ``System") which links with various commercial banks in the PRC. The System allows fund transfer between banks and its subsidiaries on a real time basis thereby facilitating the efficient flow of funds of such subsidiaries. Through the collective bargaining efforts of TCL Holdings, its subsidiaries have been able to obtain bank loans and make bank deposits at interest rates which are more favourable than or, at least, equal to market rates. TCL Computer has been enjoying the benefits of this arrangement ever since its establishment. The Company intends that such arrangement between TCL Holdings and TCL Computer be continued after the Completion. For this purpose, TCL Computer and TCL Holdings entered into a funds management co-ordination agreement whereby, unless terminated by either party to the other by one month written notice TCL Holdings was appointed as an agent for TCL Computer with respect to the management and operation of bank deposits and bank loans on behalf of TCL Computer through the operation of the aforesaid electronic funds transfer system. Pursuant to such agreement, TCL Holdings provides its services to TCL Computer at no cost. The Directors do not expect that any services, on each occasion as they arise in the future, will require disclosure or independent shareholders' approval under the Listing Rules.

## **CONDITIONS OF THE ACQUISITION**

The Agreement is conditional upon, among other considerations, (i) all necessary approvals and consents as may be required for the Acquisition under any relevant laws or agreements or from any regulatory bodies (if required) having been obtained; (ii) the passing at the EGM (at which TCL Industries and its associates will abstain from voting) of an ordinary resolution to approve the Acquisition; and (iii) the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Consideration Shares.

## **REASONS FOR THE ACQUISITION**

In the opinion of the Directors, the Acquisition will provide further opportunity for the Group (i) to achieve synergy and the right product mix in the home electronics and infotainment appliance businesses; (ii) to capture the growth of the personal computer market in the PRC; (iii) to broaden its earnings base; (iv) to improve its earnings growth; and (v) to offer a wider array of home appliances products. The Directors consider that it will be in the interests of the shareholders of the



# TCL INTERNATIONAL HOLDINGS LIMITED

Company if the Company is to take full advantage of the recent significant growth of information technology business and related business opportunities in the PRC. The Acquisition will also help facilitate the Company to leverage its well-recognised brand name in the home electronic appliances market in the PRC to further provide a broader line of products. Therefore, the Acquisition is in the interests of the Company and its terms are fair and reasonable to its shareholders.

## EXISTING BUSINESS OF THE GROUP

The Group is principally engaged in the design, manufacture, assembly and sale of a wide range of electronic consumer products. These include Internet-related information technology products, colour television sets, other audio-visual products and white goods. All of the Group's products sold in the PRC are marketed under the TCL brand name, and sold through TCL Holdings' nationwide distribution network.

## LISTING AND DEALING

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

### Definitions

|                            |   |
|----------------------------|---|
| ``Acquisition"             | the acquisition of TCL Computer as contemplated in the Agreement;   |
| ``Agreement"               | the conditional sale and purchase agreement dated 18th December, 2000 and entered into among the Company, TCL Industries, TCL Holdings and TCL BVI;   |
| ``Board"                   | the board of directors (including independent non-executive directors) of the Company;  |
| ``Company"                 | TCL International Holdings Limited, the shares of which are listed and traded on the Stock Exchange;  |
| ``Completion"              | completion of the Acquisition under the Agreement;  |
| ``Conditions"              | conditions precedent to the Agreement, the principal terms of which are set out in the paragraph headed ``Conditions of the Acquisition";   |
| ``Consideration Shares"    | the shares of the Company to be issued and allotted by the Company to the Vendors or the agent of the Vendors under the Agreement;  |
| ``Controlling shareholder" | any person who is or group of persons who are together entitled to exercise or control the exercise of 35 per cent (or such lower amount as may from time to time be specified in the Takeover Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the issuer or |

# TCL INTERNATIONAL HOLDINGS LIMITED

|                                 |   |
|---------------------------------|---|
|                                 | who is or are in a position to control the composition of a majority of the board of directors of the issuer;   |
| ``Director(s)''                 | the director(s) of the Company;   |
| ``EGM''                         | the extraordinary general meeting of the Company to be held in relation to the Acquisition;   |
| ``Enlarged Share Capital''      | the issued share capital of the Company immediately following Completion;   |
| ``Group''                       | the Company and its subsidiaries;   |
| ``Guaranteed Profit''           | the profit of TCL Computer of RMB38.5 million (approximately HK\$36.0 million) for the year ending 31st December, 2000 that is guaranteed by the Vendors under the Agreement;                               |
| ``Hong Kong''                   | the Hong Kong Special Administrative Region of the PRC;   |
| ``Independent Board Committee'' | a board committee comprising Messrs, Hon Fong Ming and Albert Thomas da Rosa, Junior, the independent non-executive Directors, appointed to consider, inter alia, the terms of the Acquisition;             |
| ``Independent Shareholders''    | the shareholders of the Company other than TCL Industries and its associates;   |
| ``Listing Rules''               | Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;   |
| ``PRC''                         | the People's Republic of China for the purpose of the Agreement, excluding Hong Kong, Macau and Taiwan;   |
| ``RMB''                         | Renminbi, the lawful currency of the PRC;   |
| ``Share(s)''                    | share(s) of \$0.10 each in the capital of the Company;  |
| ``Stock Exchange''              | The Stock Exchange of Hong Kong Limited;  |
| ``TCL BVI''                     | TCL Holdings (BVI) Limited, a wholly-owned subsidiary of the Company;   |
| ``TCL Computer''                | 惠州市 TCL 電腦科技有限責任公司 (TCL Computer Technology Co., Ltd);  |
| ``TCL Electronics''             | TCL 電子集團公司 (TCL Electronics Corporation), a wholly-owned subsidiary of TCL Holdings and the immediate holding company of TCL Industries;  |
| ``TCL Holdings''                | TCL 集團有限公司 (TCL Holding Corporation Ltd.), a state-owned limited liability company established under the laws of the PRC, supervised and owned by Huizhou People's Municipal Government as to about 65.94%; |
| ``TCL Industries''              | T.C.L. Industries Holdings (H.K.) Ltd., a company incorporated in Hong Kong with limited liability, the immediate holding company of the Company and a wholly-owned subsidiary of TCL Electronics;          |
| ``Vendors''                     | TCL Holdings and TCL Industries;  |
| ``HK\$'' ``HK cents''           | Hong Kong dollars and Hong Kong cents respectively, the lawful currencies of Hong Kong;   |
| ``US\$''                        | United States dollars, the lawful currency of the United States of America.   |

On behalf of the Board  
**Li Dong Sheng, Tomson**  
*Chairman*

# TCL INTERNATIONAL HOLDINGS LIMITED

Hong Kong, 18th December, 2000

*Unless otherwise specified, conversion of Renminbi into Hong Kong dollar is based on the exchange rate of HK\$1.00=RMB1.07.*

*\* For identification only*

*Please also refer to the published version of this announcement in the South China Morning Post*