

TCL INTERNATIONAL HOLDINGS LIMITED

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TCL INTERNATIONAL HOLDINGS LIMITED

(TCL 國際控股有限公司)*

(incorporated in Cayman Islands with limited liability)

CONNECTED TRANSACTIONS

The Board is pleased to announce that on 29 June 2001 the Company has through its subsidiaries entered into the following agreements with two associates of TCL Holdings, the controlling shareholder of the Company:

- (1) agreement for contracted operation of Digital Wuxi which has a manufacturing plant for manufacturing of colour TV sets in Wuxi, PRC
- (2) agreement for contracted operation of TCL Inner-Mongolia which has a manufacturing plant for manufacturing of colour TV sets in Inner-Mongolia, PRC

Under the Agreements, 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 value as at the year end of their respective preceding financial year and (ii) their respective depreciation costs for the respective financial period subject to a cap of RMB23,000,000 (equivalent to HK\$21,495,000) and RMB16,000,000 (equivalent to HK\$14,950,000) for Digital Wuxi and TCL Inner-Mongolia respectively.

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Each of the Agreements constitutes a connected transaction of the Company as defined in Chapter 14 of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of each of the Agreements have been negotiated on an arm's length basis and on normal commercial terms. The Board considers them to be fair and reasonable, and beneficial to the Company and the independent shareholders.

The aggregate consideration involved in the Agreements exceed HK\$10,000,000 and 0.03% but does not exceed 3% of the book value of the consolidated net tangible assets of the Company as at 31 December 2000 as disclosed in the latest published audited accounts of the Company and it is expected that the aggregate fees to be paid by the Group under the Agreements for each of the three years ending 31 December 2003 will exceed HK\$10,000,000 and 0.03% but will not exceed 3% of the book value of the consolidated net tangible assets of the Company for each relevant preceding year. Therefore the transactions are subject to the disclosure requirement under Rule 14.25 of the Listing Rules but not subject to approval of independent shareholders.

The Directors are of the view that it would be impractical and unduly burdensome to strictly comply with the ongoing paid announcement disclosure requirement under Rule 14.25(1) of the Listing Rules, accordingly, the Company has applied for a waiver from strictly complying with the said disclosure requirement subject to the aggregate consideration involved not exceeding 3% of the book value of the consolidated net tangible assets of the Company for each relevant preceding year for each of the three years ending 31 December 2003 and other conditions as set out in the section headed "Waiver Application" below.

(1) DATE

29 June 2001

(2) AGREEMENT FOR CONTRACTED OPERATION OF DIGITAL WUXI ("WUXI AGREEMENT")

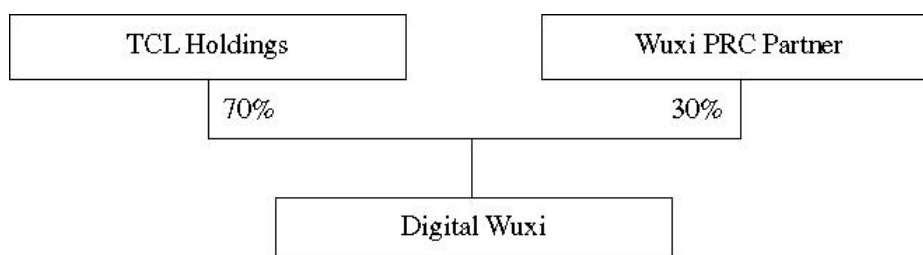
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Parties

- (1) Digital Wuxi, the entity subject to contracted operation as described below
- (2) TCL Wuxi as the contractor

Pursuant to the Wuxi Agreement, TCL Wuxi is to undertake contracted operation of Digital Wuxi for a period of 3 years effective from the Effective Date only after obtaining the relevant PRC approval. Digital Wuxi has already submitted the relevant documents to the relevant authority for approval and based on the representation from the relevant authority it is expected the relevant PRC approval will be obtained within one month from the date of the Wuxi Agreement.

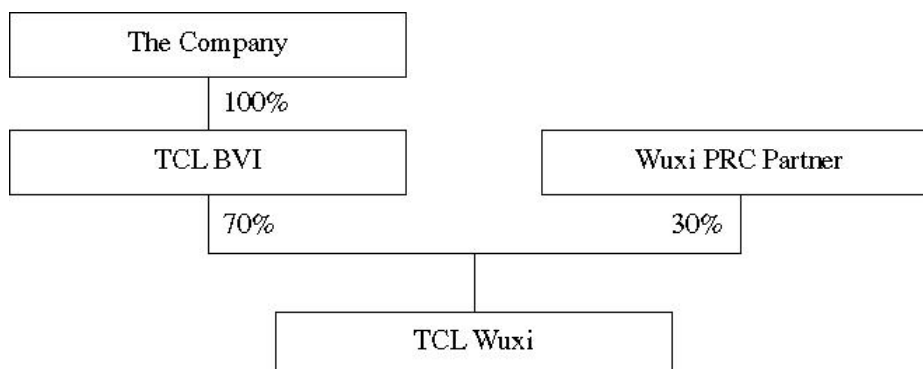
Digital Wuxi is an equity joint venture enterprise established on 25 October 2000 in the PRC in which TCL Holdings indirectly holds a 70% interest. The remaining 30% interest is held by the Wuxi PRC Partner. The shareholding chart of Digital Wuxi is as follows:



The board of Digital Wuxi consists of 7 directors, 5 of which are nominated by TCL Holdings. Digital Wuxi has a manufacturing plant having a floor space of 54,000 sq. m. with two existing production lines capable of being used for production of colour television sets and with average daily production capacity of approximately 2,000 sets based on the specification of the relevant plants and machineries. Digital Wuxi is now undergoing upgrade to add one more production line with costs in relation thereto borne by Digital Wuxi and it is expected that the upgrade will complete in September this year and the average daily production capacity will then be increased to 3,300 sets per day based on the relevant specification and the result of test run. Digital Wuxi has yet commenced production but is currently on test run and it is intended that production will formally commence on the Effective Date.

TCL Wuxi is an equity joint venture company established on 9 April 2001 in the PRC in which the Group has a 70% equity interest. The remaining 30% interest is held by the Wuxi PRC Partner. The shareholding chart of TCL Wuxi is as follows:

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TCL Wuxi is established solely for the purpose of undertaking contracted operation of Digital Wuxi. The board of TCL Wuxi consists of 7 directors, 5 of which are nominated by TCL BVI. All of these 7 directors of TCL Wuxi are also directors of Digital Wuxi. By virtue of its shareholding and control of board in TCL Wuxi, the Group is in control of TCL Wuxi.

Pursuant to the Wuxi Agreement, TCL Wuxi is required to pay Digital Wuxi in cash an annual Contract Fee which is the sum of (i) a fee equivalent to 8% of the audited net asset value of Digital Wuxi as at the year end of its preceding financial year, the rate is determined by reference to the costs of fund of the Group in the PRC at 6.4% per annum and (ii) depreciation cost on land and building and all other fixed assets of Digital Wuxi, which value amounted to RMB88,900,000 (equivalent to HK\$83,100,000) (net book value as at 31 May 2001), for the respective financial period subject to a cap of RMB23,000,000 (equivalent to HK\$21,495,000) representing about 0.87% of the net tangible asset value of the Group as at 31 December 2000. The payment will be made within 4 months from the issue of the relevant audited annual account prepared on the PRC Generally Accepted Accounting Principle.

The cap is determined by reference to the net asset value of RMB148,000,000 (equivalent to HK\$138,318,000) per year as at 31 May 2001 and the expected depreciation costs of RMB8,900,000 (equivalent to HK\$8,320,000) per year of Digital Wuxi taking into account of the upgrade of the production plant as aforesaid.

(3) AGREEMENT FOR CONTRACTED OPERATION IN TCL INNER-MONGOLIA ("INNER-MONGOLIA AGREEMENT")

Parties

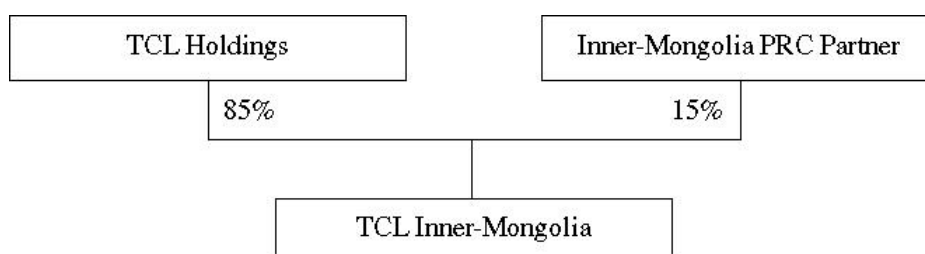
- (1) TCL Inner-Mongolia, the entity subject to contracted operation as described below

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(2) TCL Huhehaote as the contractor

Pursuant to the Inner-Mongolia Agreement, TCL Huhehaote is to undertake contracted operation of TCL Inner-Mongolia for a period of 3 years effective from the Effective Date only after obtaining the relevant PRC approval. TCL Inner-Mongolia has already submitted the relevant documents to the relevant authority for approval and based on the representation from the relevant authority it is expected the relevant PRC approval will be obtained within one month from the date of the Inner-Mongolia Agreement.

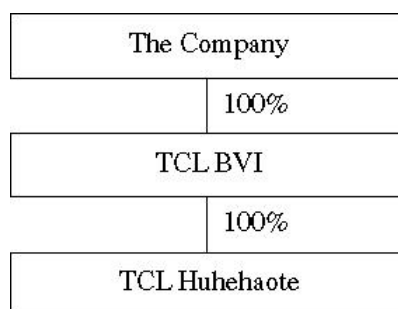
TCL Inner-Mongolia is an equity joint venture enterprise established on 13 July 1999 in the PRC in which TCL Holdings directly holds a 85% interest and the remaining 15% interest is held by the Inner-Mongolia PRC Partner. The shareholding chart of TCL Inner-Mongolia is as follows:



The board of TCL Inner-Mongolia consists of 5 directors, 4 of which are nominated by TCL Holdings. TCL Inner-Mongolia has a manufacturing plant having a floor space of 80,000 sq. m. with two existing production lines for production of colour television sets with an average daily production capacity of approximately 1,400 sets based on the current output. TCL Inner-Mongolia is now undergoing upgrade to add one more production line with costs in relation thereto borne by TCL Inner-Mongolia and it is expected that the upgrade will complete in September this year and the average daily production capacity will then be increased to 3,300 sets per day based on the current output and the relevant specification of the machinery to be upgraded.

TCL Huhehaote is an indirect wholly owned subsidiary of the Company which is established on 2 April 2001 solely for the purpose of undertaking contracted operation of TCL Inner-Mongolia. The shareholding chart of TCL Huhehaote is as follows:

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The board of TCL Huhehaote consists of 3 directors, all of which are nominated by TCL BVI (including one who also sits in the board of TCL Inner-Mongolia). Pursuant to the Inner-Mongolia Agreement, TCL Huhehaote is required to pay TCL Inner-Mongolia in cash an annual Contract Fee which is the sum of (i) a fee equivalent to 8% of the audited net asset value of TCL Inner-Mongolia as at the year end of its preceding financial year the rate is determined by reference to the costs of fund of the Group in the PRC at 6.4% per annum and (ii) depreciation cost on land and building and all other fixed assets of TCL Inner-Mongolia, which value amounted to RMB71,600,000 (equivalent to HK\$66,900,000) (net book value as at 31 May 2001), for the respective financial period subject to a cap of RMB16,000,000 (equivalent to HK\$14,950,000) representing about 0.6% of the net tangible asset value of the Group as at 31 December 2000. The payment will be made within 4 months from the issue of the relevant audited annual account prepared on the PRC Generally Accepted Accounting Principle.

The cap is determined by reference to the net asset value of RMB93,000,000 (equivalent to HK\$86,900,000) as at 31 May 2001 and the expected depreciation costs of RMB5,800,000 (equivalent to HK\$5,420,000) per year of TCL Inner-Mongolia taking into account of the upgrade of production plant as aforesaid.

TCL Inner-Mongolia commenced its business in July 1999 and ever since the entering into of the sub-contracting agreement dated 4 October 1999 whereby TCL Inner-Mongolia acts as the manufacturer of TV sets for TCL Huizhou, as disclosed in the Company's prospectus dated 17 November 1999, TCL Huizhou has been its sole customer. In accordance with the audited account of TCL Inner-Mongolia prepared based on PRC Generally Accepted Accounting Principle, TCL Inner-Mongolia suffered a loss of approximately RMB1,123,000 (equivalent to HK\$1,050,000) for the year ended 31 December 1999 but achieved net profits before and after taxation in the sum of approximately RMB4,660,000 (equivalent to HK\$4,360,000) and RMB3,460,000 (equivalent to HK\$3,230,000) respectively for year ended 31 December 2000. TCL Inner-Mongolia produced for the Group a total of 121,000 and 512,000 colour TV sets for the two years ended 31 December 2000 respectively.

It is intended that the connected transactions between TCL Huizhou and TCL Inner-Mongolia under the sub-contracting agreement will cease on Effective Date since with the present arrangement, no

manufacturing of TV sets by way of sub-contracting is required from TCL Inner-Mongolia.

(4) TERMS COMMON TO THE WUXI AGREEMENT AND INNER-MONGOLIA AGREEMENT AND THE NATURE OF CONTRACTED OPERATION

Under the Wuxi Agreement or Inner-Mongolia Agreement as the case may be:

- (a) all commitment and liabilities of Digital Wuxi or TCL Inner-Mongolia, as the case may be, established before the Effective Date but remain outstanding as at the Effective Date will still be borne by Digital Wuxi or TCL Inner-Mongolia, as the case may be; or
- (b) all commitment and liabilities established during the contract term is to be borne by TCL Wuxi or TCL Huhehaote, as the case may be, however and asset added by any of them will be its respective property and not required to handover to Digital Wuxi or TCL Inner-Mongolia, as the case may be, on expiry of the Agreements; and
- (c) all commitment and liabilities established after expiry of the contracted operation is to be borne by Digital Wuxi or TCL Inner-Mongolia, as the case may be.

During the contract period of 3 years, the Group will through TCL Wuxi or TCL Huhehaote take on the profit and loss of the contracted operation in question (i.e., Digital Wuxi or TCL Inner-Mongolia, as the case may be) after deduction of the respective Contract Fee. In consideration of payment of the Contract Fee, the Group is entitled to manage and operate all the assets, management and employee of Digital Wuxi and TCL Inner-Mongolia. The assets controlled or managed by the Group include all their respective tangible assets such as land and building plants and machineries, raw materials, goods, working capital (including cash and accounts receivable) and the Group is also entitled to use intangible assets such as goodwill as at the effective date. There is no contractual commitment on the Group for any operating fixed overheads in relation to the operation of Digital Wuxi or TCL Inner-Mongolia.

The legal person's status, name and business scope and the composition of the board of the contracted operation will remain unchanged. Matters in relation to Digital Wuxi or TCL Inner-Mongolia, as the case may be, such as entering into of contracts, issuance of invoices and the hiring of employee etc., will still be undertaken in the name of Digital Wuxi or TCL Inner-Mongolia, as the case may be. However, the Company will through TCL Wuxi and TCL Huhehaote take over the control and management of all the assets, management and employee of Digital Wuxi and TCL

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Inner-Mongolia respectively including the acquisition, appointment disposal or charge of assets. Operation of Digital Wuxi or TCL Inner-Mongolia, as the case may be, during the continuance of the Agreements will be financed by their respective working capital available to them on the Effective Date and those generated from their operations. In case of insufficiency, TCL Wuxi and TCL Huhehaote is entitled to raise funding by charging the relevant assets. Further up-grading of plants and acquisition of machineries will be financed by the shareholder of Digital Wuxi and TCL Inner-Mongolia, as the case may be.

Save for payment of the Contract Fee, the Group is entitled to retain all the profits generated by Digital Wuxi or TCL Inner-Mongolia, as the case may be. If any of them suffers any loss during the contract period, the Group has to bear the loss. However, the Directors do not expect Digital Wuxi or TCL Inner-Mongolia, as the case may be will sustain any loss after the Effective Date since the Group will be their only customer and the Group will be secure sufficient orders for manufacturing of colour TV sets be given to them.

In effect, the Group will take over the profit and loss of Digital Wuxi or TCL Inner-Mongolia as the case may be. Digital Wuxi and TCL Inner-Mongolia will be treated as if they were subsidiaries of the Company in the forthcoming annual reports and accounts of the Company during the continuance of the Agreements. Their respective sales, cost of sales and other operating expenses, assets and liabilities will be consolidated in the annual accounts of the Company by way of consolidation and elimination.

(5) REASONS FOR THE AGREEMENTS

It is intended that during the contract period, both Digital Wuxi and TCL Inner-Mongolia will only manufacture colour TV sets for the Group's onward distribution. There is an increasing demand overseas for the Group's products, the arrangement as contemplated in the Agreements will greatly increase the Group's production to meet increasing demands. The Board is confident that the transactions would enhance the earnings of the Group and increase the competitiveness of the Group through economy of scale.

The Board considers that the Group could leverage on its expertise in operating manufacture plants to significantly increase the efficiency and therefore profit of Digital Wuxi and TCL Inner-Mongolia. There is no capital commitment on the part of the Group under the Agreements. In fact, in undertaking the contracted operations, the Group can minimize its capital outlay in its effect of increasing production capacity. The Board believes that the transactions contemplated under the Agreements would enable the Group to expand its existing business and increase the size of its operation to achieve further market share both in the PRC and overseas.

(6) CONNECTED TRANSACTIONS

TCL Holdings is the ultimate controlling shareholder of the Company holding approximately 53.86% of the entire issued share capital of the Company. TCL Holdings also directly or indirectly holds a 70% and 85% interest in Digital Wuxi and TCL Inner-Mongolia respectively. Therefore each of the Agreements constitutes a connected transaction of the Company under the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the transactions to be entered into under the Agreements are in the ordinary and usual course of business for the parties concerned and are on normal commercial terms and are in the interest of the Company insofar as the Company and the independent shareholders of the Company are concerned. The aggregate consideration involved in the Agreements exceed HK\$10,000,000 or 0.30% but does not exceed 3% of the book value of the consolidated net tangible assets of the Company as at 31 December 2000 as disclosed in its latest published audited accounts and it is expected that the aggregate fees to be paid by the Group under the Agreements for each of the three years ending 31 December 2003 will exceed HK\$10,000,000 and 0.03% but will not exceed 3% of the book value of the consolidated net tangible assets of the Company for each relevant preceding year. Therefore the transactions though are subject to disclosure requirement under Rule 14.25(1) of the Listing Rules, are not subject to approval of independent shareholders.

(7) WAIVER APPLICATION

The transactions under the Agreements are of a recurring nature and conducted in ordinary and usual course of the business of the Group, the Directors are of the view that it would be impractical and unduly burdensome to strictly comply with the disclosure requirements. Accordingly, the Company has applied for a waiver from ongoing paid announcement disclosure requirement under Rule 14.25(1) of the Listing Rules and will include details of the transaction in its annual report and accounts in each subsequent year while the arrangements continue for the three financial years ending 31st December 2003 subject to the following conditions:

- (1) such transactions will be carried out in the ordinary and usual course of business of the Group and in accordance with the relevant agreements governing them on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole;
- (2) conducted on normal commercial or, if there is not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties as appropriate;

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(3) the aggregate value of such transactions will not exceed 3% of the book value of the net tangible assets of the Group, in any financial year for the immediately preceding financial year;

(4) that details of transactions will be disclosed in the annual reports and accounts of the Company for the relevant year as set out in rule 14.25(1) A to D of the Listing Rules together with a statement of the opinion of auditors referred to in paragraph (6) below;

(5) such transactions will be reviewed by the independent non-executive Directors, who will confirm in the annual report that the transactions (a) are in the ordinary and usual course of business of the companies concerned; (b) are on normal commercial terms and on a fair and reasonable basis insofar as the shareholders are concerned; (c) have been carried out in accordance with the terms of the relevant agreement and the value of the transactions for each financial year of the Company are within the expected extent as stated;

(6) the auditors will review annually and confirm to the Board (a copy of which is to be provided to the Listing Division of the Stock Exchange) in writing in respect of such transactions occurring during each financial year that the transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the usual pricing policies of the Group;

(iii) have been conducted in accordance with the terms of the agreements governing such transactions or, if there is no such agreement, on terms no less favourable than those available to or from (as appropriate) independent third parties; and

(iv) have not exceeded the annual cap set out in paragraph 3 above.

Where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the written confirmation to the Board, the Directors must contact the Stock Exchange immediately.

Each of the Company and the connected parties shall provide to Stock Exchange an undertaking that the auditors of the Company will be provided with full access to the relevant books and records for the purposes of carrying out the review of the terms of the transactions by the auditors as referred to in paragraph (6) above.

The Company is of the view that the volume of the transactions to be involved under each of the agreements as aforesaid will not result in exceeding 3% of the book value of the net tangible assets

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of the Company for each relevant preceding year. However, in the event that the Company believes that the said threshold will be exceeded, the Company will apply to the Stock Exchange for a variation of the waiver or will comply with the relevant requirements of Chapter 14 of the Listing Rules regarding connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of the granting of the waiver on transactions of the kind to which the said transactions belong, including, but not limited to, a requirement that such transactions be made conditional on approval by the independent shareholders of the Company, the Company must take immediate steps to ensure compliance with such requirements within reasonable time.

(8) GENERAL

The Company is an investment holding company. Its principal subsidiaries are mainly 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.

(9) DEFINITIONS

``Agreements"	the Wuxi Agreement and the Inner-Mongolia Agreement
``Board"	the board of Directors
``Company"	TCL International Holdings Limited, the shares of which are listed and traded on the Stock Exchange
``Contract Fee"	the fee to be paid by TCL Wuxi or TCL Huhehaote to Digital Wuxi or TCL Inner-Mongolia, as the case may be, under the Wuxi Agreement or Inner-Mongolia Agreement, as the case may be
``Digital Wuxi"	TCL Digital Science & Technology (Wuxi) Co., Ltd. (TCL 數碼科技(無錫)有限公司), an equity joint venture enterprise established in the PRC in which TCL Holdings indirectly holds a 70% interest and the Wuxi PRC Partner, 無錫市電儀資產經營有限公司, holds the remaining 30% interest
``Director(s)"	the director(s) of the Company
``Effective Date"	the date upon which the relevant PRC approval or consent has been obtained on the Wuxi Agreement or the Inner-Mongolia Agreement as the case may be
``Group"	the Company together with its subsidiaries
``Inner-Mongolia Agreement"	the unconditional agreement for contracted operation of TCL Inner-Mongolia dated 29 June 2001 entered into between TCL Inner-Mongolia and TCL Huhehaote
``Inner-Mongolia Partner"	PRC Baotoushi Trust Investment Company 包頭市信托投資公司, an independent third party not connected with the directors, chief

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	executive, substantial shareholders of the Company or any of its subsidiaries or any associates of any of them, which also holds 15% interest in TCL Inner-Mongolia
``Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
``PRC" or ``China"	the People's Republic of China which, for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
``Renminbi" or ``RMB"	the lawful currency of the PRC
``Stock Exchange"	the Stock Exchange of Hong Kong Limited
``subsidiary"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
``TCL BVI"	TCL Holdings (BVI) Limited (TCL 控股(BVI)有限公司), a company incorporated in the British Virgin Islands with limited liability, a direct wholly-owned subsidiary of the Company
``TCL Holdings"	TCL Holdings Corporation Ltd. (TCL 集團有限公司), a state-owned limited liability company established under the laws of the PRC supervised and owned as to approximately 58.13% by the Huizhou municipal people's government, the ultimate controlling shareholder of the Company
``TCL Huhehaote"	TCL King Electrical Appliances (Huhehaote) Co., Ltd. (TCL 王牌電器(呼和浩特)有限公司), a wholly foreign-owned enterprise established in the PRC, an indirect wholly-owned subsidiary of the Company
``TCL Huizhou"	TCL King Electrical Appliances (Huizhou) Co., Ltd. (TCL 王牌電器(惠州)有限公司), a wholly foreign-owned enterprise established in the PRC, an indirect wholly-owned subsidiary of the Company
``TCL Inner-Mongolia"	Inner-Mongolia TCL Electrical Appliance Company Limited (內蒙古TCL 電器有限公司), an equity joint venture enterprise established in the PRC in which TCL Holdings directly holds a 85% interest and the Inner-Mongolia PRC Partner, 包頭市信托投資公司, holds the remaining 15% interest
``TCL Wuxi"	TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL 王牌電器(無錫)有限公司), a sino-foreign joint venture enterprise established in the PRC in which the Company indirectly holds a 70% interest through TCL BVI
``Wuxi Agreement"	the unconditional agreement for contracted operation of Digital Wuxi dated 29 June 2001 entered into between Digital Wuxi and TCL Wuxi
``Wuxi PRC Partner"	Wuxi Electronic Instrument Operating Company Limited 無錫市電儀資產經營有限公司, an independent third party not connected with the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any associates of any of them, which holds 30% interest in each of Digital Wuxi and TCL Wuxi

On Behalf of the Board
Li Dong Sheng, Tomson
Chairman

TCL INTERNATIONAL HOLDINGS LIMITED

Hong Kong, 18 July 2001

** for identification only*

Please also refer to the published version of this announcement in the (Hong Kong iMail)