

# 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)*

### CONNECTED TRANSACTION

### PROPOSED ACQUISITION OF 10% EQUITY INTEREST IN

**HUIZHOU TCL MOBILE**

**AND**

### ONGOING CONNECTED TRANSACTIONS

#### **Financial Adviser**

**CAZENOVE**

Cazenove Asia Limited

On 20 December 2001, the Company's wholly owned subsidiary, TCL (BVI), entered into the S&P Agreement with Jasper Ace and Ultimate Seller. Pursuant to the S&P Agreement, TCL (BVI) has conditionally agreed, among other things, to acquire, in aggregate a 10% equity interest in Huizhou TCL Mobile from Jasper Ace for a total cash consideration of RMB300 million (equivalent to

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approximately HK\$282.7 million). Under the S&P Agreement, Jasper Ace has guaranteed that the 2001 Audited Profit will be not less than RMB300 million (equivalent to approximately HK\$282.7 million) and has agreed to indemnify TCL (BVI) in the event that the 2001 Audited Profit falls short of RMB300 million. The Consideration will be settled in Hong Kong dollars on the basis of the Agreed Exchange Rate within three Business Days after the date of approval of the Proposed Acquisition by the Independent Shareholders and will be funded by the internal sources of the Group. After Completion, TCL (BVI)'s equity interest in Huizhou TCL Mobile will be increased from the present 20% to 30%, and Ultimate Seller's indirect controlling interest in Huizhou TCL Mobile will be decreased from the present 40% to 30%.

Huizhou TCL Mobile is a sino-foreign equity joint venture in the PRC and is currently engaged in the design, manufacturing, sales and marketing of mobile phones. Its production facilities are located in the PRC and its products are sold both within and outside the PRC. Huizhou TCL Mobile is one of the key mobile phone manufacturers in the PRC. According to the MII's data, for the nine months ended 30 September 2001, Huizhou TCL Mobile had approximately 2% market share in the PRC mobile phone manufacturing market and was among the top five domestic players.

On 20 December 2001, TCL Overseas entered into the Supply Agreement with Huizhou TCL Mobile. Pursuant to the Supply Agreement, TCL Overseas Group will enter into or continue to enter into the Ongoing Connected Transactions with Huizhou TCL Mobile Group in relation to the distribution of the TCL Products in Territory. The Directors expect that the aggregate transaction amount of the Ongoing Connected Transactions will not exceed HK\$40 million, HK\$60 million and HK\$100 million for each of the three years ending 31 December 2004 respectively.

At present, Huizhou TCL Mobile is owned as to 20% by each of TCL (BVI), Jasper Ace and Mate Fair and as to 40% by TCL Communication. Both Jasper Ace and Mate Fair are controlled by Ultimate Seller who is a non-executive Director and also an executive director of Huizhou TCL Mobile. TCL Communication is owned as to 41.43% by TCL Holdings and is listed on the Shenzhen Stock Exchange in the PRC. TCL Holdings is the controlling shareholder of the Company indirectly holding approximately 55.15% interest in the Company. Accordingly, the Proposed Acquisition and the Ongoing Connected Transactions constitute connected transactions for the Company under chapter 14 of the Listing Rules.

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The S&P Agreement is subject to, among other things, the approval of the Independent Shareholders at the EGM. The Company will make the Waiver Application and for the purpose of such application, the Ongoing Connected Transactions (including the Supply Agreement and the cap amounts for the Ongoing Connected Transactions for the three years ending 31 December 2004) will also be put forward for the Independent Shareholders' approval at the EGM.

In view of the interests of TCL Holdings and Ultimate Seller in the Proposed Acquisition and the Ongoing Connected Transactions, TCL Holdings, Ultimate Seller and their respective Associates will abstain from voting at the EGM in respect of the resolutions to be proposed thereat to approve the S&P Agreement and the Ongoing Connected Transactions respectively. A circular containing, among other things, further information on the S&P Agreement, the Ongoing Connected Transactions, the Waiver Application, the letter from the independent financial adviser and the recommendation of the Independent Board Committee in relation to the S&P Agreement and the Ongoing Connected Transactions will be dispatched to the Shareholders as soon as possible.

A notice convening the EGM is published today in South China Morning Post in English and Hong Kong Economic Times in Chinese.

The terms and conditions of the S&P Agreement and the Ongoing Connected Transactions have been negotiated on an arm's length basis and are on normal commercial terms. In particular, the Consideration was determined on the basis of the Guaranteed Profit (in accordance with HK GAAP) of not less than RMB300 million (approximately HK\$282.7 million) and an implied price/earnings multiple of approximately 10 times. Whereas, the terms of the Ongoing Connected Transactions are determined by reference to the terms on which Huizhou TCL Mobile Group will supply/sell the TCL Products to independent third parties in the PRC.

### **A. PROPOSED ACQUISITION**

#### **A1. THE S&P AGREEMENT DATED 20 DECEMBER 2001**

##### *Parties*

- (i) Jasper Ace, as the vendor

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(ii) TCL (BVI), as the purchaser

(iii) Ultimate Seller, as the guarantor

Pursuant to the S&P Agreement, TCL (BVI), a wholly-owned subsidiary of the Company, has conditionally agreed, among other things, to acquire, in aggregate a 10% equity interest in Huizhou TCL Mobile from the Vendor for a total consideration of RMB300 million (equivalent to approximately HK\$282.7 million).

## *Consideration*

The consideration of RMB300 million (equivalent to approximately HK\$282.7 million) will be satisfied entirely by cash payment in Hong Kong dollars on the basis of the Agreed Exchange Rate. The entire amount of the Consideration will be paid to the Vendor or as it may direct within 3 Business Days from the date of approval of the Proposed Acquisition by the Independent Shareholders.

Pursuant to the S&P Agreement, the Vendor has guaranteed that the 2001 Audited Profit as shown in the 2001 Combined Accounts will be not less than RMB300 million (equivalent to approximately HK\$282.7 million) and has agreed and undertaken to indemnify TCL (BVI) in case the 2001 Audited Profit as so shown falls short of RMB300 million by paying TCL (BVI) an amount equivalent to 10% of the product of the amount of shortfall multiplied by the implied price/earnings multiple of 10. Ultimate Seller has agreed to give a personal guarantee in favour of TCL (BVI) in order to secure the Vendor's obligations in respect of the Guaranteed Profit. There will be no adjustment to the Consideration in the event that the 2001 Audited Profit exceeds the Guaranteed Profit.

The Consideration was determined on the basis of the Guaranteed Profit (in accordance with HK GAAP) of not less than RMB300 million (approximately HK\$282.7 million) and an implied price/earnings multiple of approximately 10 times.

The Directors consider that after taking into account of the business growth and the future earning potential of Huizhou TCL Mobile, such consideration is fair and reasonable so far as the Shareholders as a whole are concerned.

## *Conditions*

Completion of the S&P Agreement is conditional upon, among other things, the following occurring on or before 31 March 2002 (or such other date as Jasper Ace and TCL (BVI) may agree in writing):

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- (i) the receipt by the Company of a PRC legal opinion issued by a law firm having the right to practice securities laws in the PRC in such form and substance satisfactory to TCL (BVI) regarding the validity and enforceability of the S&P Agreement and the transactions contemplated thereunder;
- (ii) resolutions approving the transfer of the equity interest in Huizhou TCL Mobile to be purchased and sold pursuant to the S&P Agreement having been passed by the board of directors of Huizhou TCL Mobile;
- (iii) the issue by all the existing shareholders of Huizhou TCL Mobile (other than TCL (BVI) and the Vendor) of letters consenting to the Proposed Acquisition and waiving their respective rights of pre-emption over the interests to be transferred pursuant to the S&P Agreement;
- (iv) the execution by the Vendor, TCL (BVI) and all other shareholders of Huizhou TCL Mobile of the amended joint venture contract and the amended articles of association of Huizhou TCL Mobile;
- (v) all approvals from the relevant PRC authorities in connection with the transactions contemplated under the S&P Agreement, including but not limited to, the transfer of equity interest in Huizhou TCL Mobile from the Vendor to TCL (BVI) and the amended joint venture contract and the amended articles of association of Huizhou TCL Mobile having been obtained; and
- (vi) the ordinary resolution approving the S&P Agreement and the transactions contemplated thereunder having been passed by the Independent Shareholders at the EGM.

If the abovementioned conditions are not fulfilled on or before 31 March 2002 (or such other date as the parties to the S&P Agreement may agree), the S&P Agreement will automatically terminate and all the obligations and liabilities of the parties thereunder will lapse, save in respect of antecedent breaches.

### *Completion date*

If all the above conditions of the S&P Agreement have been fulfilled within the deadline set out above, Completion will take place on the third Business Day (or such other date as TCL (BVI) and Jasper Ace may agree) after all such conditions are so fulfilled. It is expected that the date of Completion will be on or before 4 April 2002 unless TCL (BVI) and Jasper Ace agree to extend the deadline for fulfilment of the conditions.

After completion, the results of Huizhou TCL Mobile will continue to be equity accounted for in the Group's financial statements.

## A2. INFORMATION ON HUIZHOU TCL MOBILE, TCL MOBILE HK AND TCL INFORMATION

### *Huizhou TCL Mobile*

Huizhou TCL Mobile is a sino-foreign equity joint venture in the PRC and is currently engaged in the design, manufacturing, sales and marketing of mobile phones. Its production facilities are located in the PRC and its products are sold both within and outside the PRC. Huizhou TCL Mobile is one of the key mobile phone manufacturers in the PRC. In addition to mobile phones, Huizhou TCL Mobile is also planning to provide a wide range of new products and services that are based on mobile technologies. Currently, Huizhou TCL Mobile is owned as to 20% by each of TCL (BVI), Jasper Ace and Mate Fair and as to 40% by TCL Communication.

The table below summarises the results of Huizhou TCL Mobile:

	<b>Audited (based on PRC GAAP)</b>		<b>Unaudited</b>
	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<i>(from establishment in March to 31 December)</i>	<i>(for the 12 months ended 31 December)</i>	<i>(for the 11 months ended 30 November)</i>
<i>(RMB million)</i>			
Turnover	6.1	271.8	1,689.4
Net profit/(loss)	(0.3)	11.8	248.3
Net Assets	49.3	94.6	334.7
No. of units sold	5,693	215,987	1,064,679

Huizhou TCL Mobile is one of 27 authorised GSM handset manufacturers and one of 20 authorised CDMA handset manufacturers in the PRC. Up to now, it has developed and launched several design of GSM mobile phones.

Since its establishment in March 1999, Huizhou TCL Mobile has experienced rapid growth and has successfully established itself as a leading mobile phone manufacturer in the PRC. According to the MII's data for the nine months ended 30 September 2001, Huizhou TCL Mobile had approximately 2% market share in the PRC mobile phone manufacturing market and was among the top five domestic players.

On 20 November 2001, TCL Holdings signed a commercial subscriber unit license and technology transfer agreement with QUALCOMM Incorporated, a pioneer and world leader of CDMA digital wireless technology which is listed on Nasdaq National Market in the United States. It is the current

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intention of TCL Holdings and Huizhou TCL Mobile that TCL Holdings will transfer its rights under such agreement to Huizhou TCL Mobile. However, no legally binding agreement has been entered into by the parties yet. It is expected that, with such rights, Huizhou TCL Mobile will be able to enhance the development of CDMA subscriber unit equipment and to meet the growing demand for innovative, advanced, yet cost-effective wireless devices in the PRC.

Huizhou TCL Mobile is managed by a team of experienced professionals. As at 30 November 2001, Huizhou TCL Mobile, TCL Mobile HK and TCL Information together employed more than 1,600 number of staff, of which 64 (representing approximately 22% of the total headcount in Huizhou TCL Mobile's head office in Huizhou) is working in the research and development department.

### *TCL Mobile HK*

TCL Mobile HK is a company incorporated in Hong Kong with limited liability in April 1999. TCL Mobile's principal function has been sourcing and purchasing raw materials for Huizhou TCL Mobile from markets excluding the PRC.

The table below summarises the results of TCL Mobile HK:

	<b>Audited (based on HK GAAP)</b>		<b>Unaudited</b>
	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<i>(from establishment in April to 31 December)</i>	<i>(for the 12 months ended 31 December)</i>	<i>(for the 11 months ended 30 November)</i>
<i>(HK million)</i>			
Turnover	0.2	162.4	137.5
Net profit/(loss)	(1.1)	0.0	14.6
Net Assets	3.9	3.9	18.5

### *TCL Information*

TCL Information is a company incorporated in Hong Kong with limited liability in August 2001 and its entire issued share capital is beneficially owned by Huizhou TCL Mobile. Huizhou TCL Mobile currently sells and distributes TCL Products to markets (outside the PRC) through TCL Information. Based on its unaudited management account, the turnover and net loss of TCL Information for the period from its incorporation in August 2001 to 30 November 2001 amounted to HK\$2 million and HK\$0.3 million respectively.

## **A3. BOARD OF DIRECTORS OF HUIZHOU TCL MOBILE**

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At present, the maximum number of directors in Huizhou TCL Mobile is five and every shareholder of Huizhou TCL Mobile is entitled to appoint one director in respect of every 20% equity interest in Huizhou TCL Mobile. Currently three directors have been appointed in Huizhou TCL Mobile, including one appointed by TCL (BVI). After Completion, the articles of association of Huizhou TCL Mobile will be amended such that the maximum number of directors will be increased to ten and every shareholder of Huizhou TCL Mobile is entitled to appoint one director in respect of every 10% equity interest in Huizhou TCL Mobile. Accordingly, TCL (BVI) will be entitled to appoint three out of the ten directors of Huizhou TCL Mobile after the Completion.

It is the current intention of TCL (BVI) to exercise its right to appoint additional directors to the board of Huizhou TCL Mobile after Completion.

### **A4. REASONS FOR THE PROPOSED ACQUISITION**

In the PRC, the demand for mobile phones has been very strong since 1996 and is expected to remain so for the coming years. According to CCID, as at July 2001, the number of mobile phone users in the PRC amounted to 120.6 million (exceeding that of the United States of 120.1 million) and the PRC has replaced the United States to become the world's largest mobile phone market in terms of the number of mobile phone users. In addition, the number of mobile phone users in the PRC is at present increasing at a rate of five million new users each month. According to Gartner, Inc., the PRC's handset shipment grew from 6.9 million in 1996 to 36 million in 2000; and is estimated to reach 83 million in 2005. The penetration rate of mobile phone holders in the PRC, which was less than 6% at the end of 2000, is estimated to reach approximately 20% by the end of 2005.

It is forecasted that the number of mobile phone users in the PRC will reach 350 million by 2005. It is also expected that approximately 50% of the total market share of the mobile phone manufacturing market in the PRC will be taken up by the PRC domestic players in 2005. The Directors believe that there is a huge potential that Huizhou TCL Mobile can further increase its market share in the mobile phone manufacturing market in the PRC in the coming years.

The Board believes that the Proposed Acquisition will bring the following benefits:

- (i) as reflected in the results detailed in section A2 above, acquisition of further interests in Huizhou TCL Mobile at its initial take-off stage may provide a promising return in the foreseeable future and hence enhance the Company's future earnings. It is expected that the number of handsets sold in the PRC will increase very rapidly in the coming years;
- (ii) capitalise on the benefit of a strong brand name of "TCL"; and



(iii) may further leverage on the existing distribution network of the Group to promote and market Huizhou TCL Mobile's mobile phone business in markets outside the PRC.

Therefore, the Board considers that the Proposed Acquisition is in the best interest of the Company and its Shareholders as a whole.

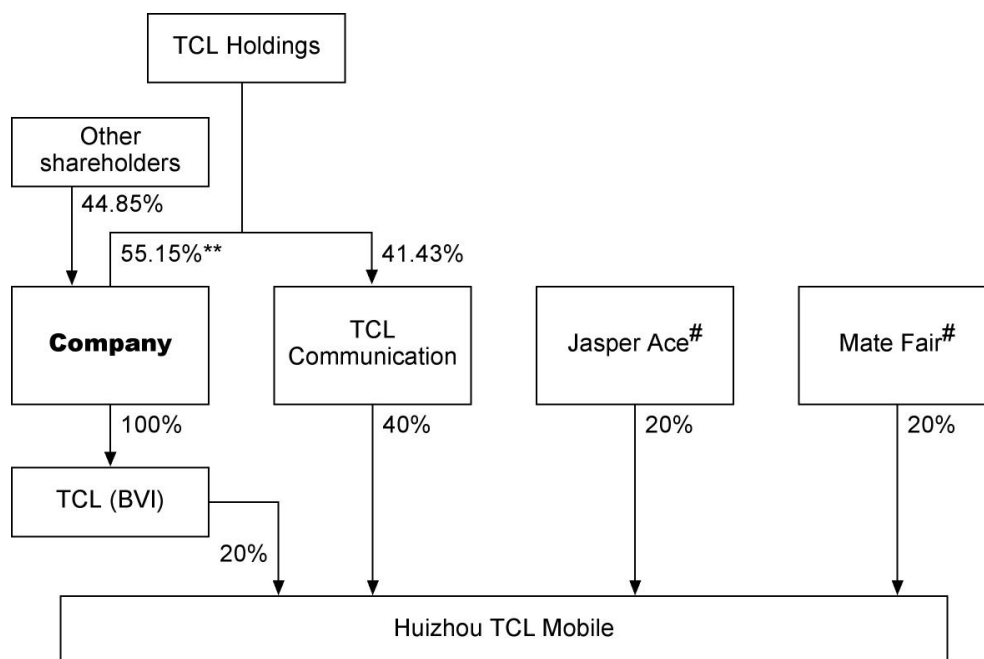
It is the intention of Jasper Ace, Mate Fair and the Company that the Company may acquire further interests in Huizhou TCL Mobile from Jasper Ace and/or Mate Fair on terms acceptable to, and at such time considered to be appropriate by each other. The Company will comply with the Listing Rules and will make a further announcement regarding such possible acquisition as and when required under the Listing Rules. Depending on when such further acquisition (if any) takes place, the Stock Exchange may aggregate such further acquisition with the Proposed Acquisition and treat them as if they were one transaction.

## **A5. CHANGES IN HUIZHOU TCL MOBILE'S SHAREHOLDING STRUCTURE**

Set out below is the simplified shareholding structure of Huizhou TCL Mobile at the date of this announcement and immediately after Completion (assuming that there will be no change in the equity interest of its shareholders other than pursuant to S&P Agreement):

### **Before the Completion of the S&P Agreement**

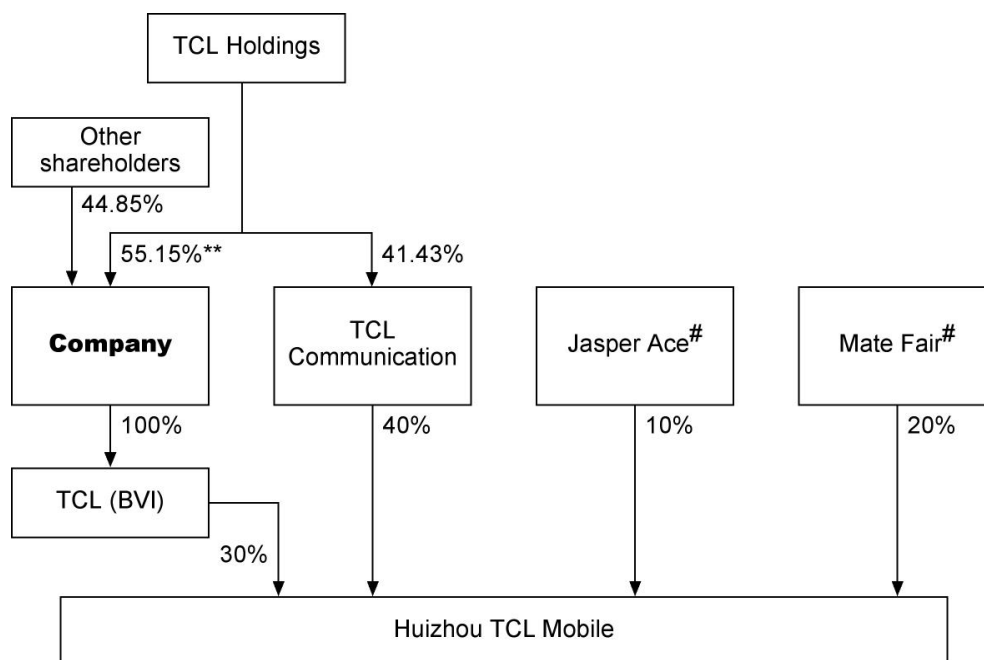
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\*\* through various wholly-owned subsidiaries

# both Jasper Ace and Mate Fair are controlled by Ultimate Seller

## After the Completion of the S&P Agreement



\*\* through various wholly-owned subsidiaries

# both Jasper Ace and Mate Fair are controlled by Ultimate Seller

## **B. ONGOING CONNECTED TRANSACTIONS**

### **B1. SUPPLY AGREEMENT DATED 20 DECEMBER 2001**

#### *Parties*

(i) TCL Overseas, a wholly-owned subsidiary of the Company and it together with its subsidiaries undertake all business activities of the Group other than those in the PRC

(ii) Huizhou TCL Mobile

#### *Particulars*

Pursuant to the Supply Agreement, Huizhou TCL Mobile will enter into or continue to enter into the Ongoing Connected Transactions with TCL Overseas Group in relation to the purchase by TCL Overseas Group from Huizhou TCL Mobile Group of the TCL Products for distribution in Territory. Under the Supply Agreement, where any member of TCL Overseas Group makes an offer to a member of Huizhou TCL Mobile Group to purchase any TCL Products for delivery to Territory, Huizhou TCL Mobile Group shall accept such offer if and only if (a) the terms of the offer are no less favourable to TCL Overseas Group than those on which such products are supplied/sold to any other independent third parties in the PRC and (b) the price as offered by any member of the TCL Overseas Group is not less than 80% of the average price at which such products are supplied/sold by Huizhou TCL Mobile Group to independent third parties in the PRC. The Supply Agreement is valid for a term of three years from 1 January 2002 and it provides that the transaction amount of the Ongoing Connected Transactions shall not exceed (a) for the two years ending 31 December 2003, HK\$40 million and HK\$60 million respectively; and (b) for the year ending 31 December 2004, HK\$100 million if the Independent Shareholders' approval in relation thereto has been obtained by the Company, otherwise 3% of the book value of the consolidated net tangible assets of the Group. Such cap amounts have been determined on the following basis: (i) the Directors' estimation of the sales of TCL Products by the TCL Overseas Group in Territory for the three years ending 31 December 2004 and (ii) the Directors' estimation of the demand of TCL Products in Hong Kong for the same period. However, TCL Overseas Group has not committed to purchase any TCL Products from Huizhou TCL Mobile Group.

The terms of the Supply Agreement have been determined on an arm's length basis (in particular,

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the price at which TCL Overseas Group will purchase the TCL Products will be no less than 80% of, and in an event will not be higher than, the average price at which such products are supplied/sold by Huizhou TCL Mobile Group to independent third parties in the PRC) and the Ongoing Connected Transactions will be conducted in the ordinary course of business of the parties concerned and on normal commercial terms.

### **B2. REASONS FOR THE ONGOING CONNECTED TRANSACTIONS**

The Directors consider that it is also in the interest of the Independent Shareholders that TCL Overseas Group enters into the Ongoing Connected Transactions with Huizhou TCL Mobile Group as such transactions will bring mutual benefit to both sides. From the Company's perspective, the Group will be able to generate steady revenue from the distribution of TCL Products in Territory and at the same time without incurring significant additional overheads by utilising the Group's existing distribution network in the marketing and sales of TCL Products. From Huizhou TCL Mobile's perspective, it will be able to save the significant cost that is required to build up an extensive distribution network in Territory as that of the Group's.

TCL Overseas Group has been purchasing the TCL Products from Huizhou TCL Mobile Group since the fourth quarter of this year, however, the amount of such transactions is minimal.

### **B3. DISCLOSURE REQUIREMENT AND WAIVER SOUGHT**

As TCL Holdings is a controlling shareholder of the Company and a substantial shareholder of Huizhou TCL Mobile, and Ultimate Seller is a substantial shareholder of Huizhou TCL Mobile and a non-executive Director, the Ongoing Connected Transactions constitute connected transactions for the Company for the purpose of the Listing Rules.

The Directors expect that the transaction amount of the Ongoing Connected Transactions will not exceed HK\$40 million, HK\$60 million and HK\$100 million for each of the three years ending 31 December 2004 respectively. Since the Ongoing Connected Transactions will be conducted in the ordinary course of business of the parties thereto and on an ongoing basis, it would be impractical and unduly onerous on the part of the Company if it is required to strictly comply with Rules 14.25(1) and/or 14.26 of the Listing Rules and issue a press announcement and/or obtain shareholders' approval on each and every occasion such transaction arises. The Company therefore will apply to the Stock Exchange for a waiver from strict compliance with such disclosure and/or shareholders' approval requirements in respect of Ongoing Connected Transactions for the three

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years period ending 31 December 2004 on the following conditions:

- (i) such transactions are:
  - (a) entered into by the TCL Overseas Group in the ordinary and usual course of its business;
  - (b) conducted either (1) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities); or (2) (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders are concerned; and
  - (c) have been carried out in accordance with the terms of the Supply Agreement.
- (ii) the aggregate value of the transactions for the financial years ending 31 December 2004 are within the relevant caps as specified in the Supply Agreement (being HK\$40 million, HK\$60 million and HK\$100 million for each of the three years ending 31 December 2004 respectively);
- (iii) the independent non-executive Directors shall review the transactions annually and confirm in the Company's annual report that the transactions were conducted in the manner as stated in (i) and (ii) above;
- (iv) the Company's auditors shall review the transactions annually and confirm in writing to the Directors (a copy of such written confirmation shall be provided to the listing division of the Stock Exchange) stating whether or not:
  - (a) the transactions are in accordance with the pricing policies of the Group;
  - (b) the aggregate amount of the transactions has exceeded the cap as specified above;
  - (c) the transactions have been approved by the Directors; and
  - (d) the transactions have been entered into in accordance with the Supply Agreement.

Where, for whatever reason, the Company's auditors decline to accept the engagement or are unable to provide the written confirmation, the Directors shall contact the Stock Exchange immediately;

- (v) details of such transactions in each financial year as specified under Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the annual reports of the Company for that financial year together with a statement of the opinion from the independent non-executive Directors and the Company's auditors referred to in paragraphs (iii) and (iv) above respectively; and

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(vi) each of the Company and its subsidiaries and Huizhou TCL Mobile shall provide to the Stock Exchange an undertaking that, for so long as the Shares are listed on the Stock Exchange and the Ongoing Connected Transactions are continuing, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of such transactions.

If the aggregate value the consideration so paid by the Group in any financial year should exceed the cap as mentioned above or if any terms of the Supply Agreement are altered or if the Group enters into new agreements with any connected persons (as defined under the Listing Rules) in the future, the Company shall comply with the relevant provisions of the Listing Rules as shall be prescribed by the Stock Exchange with respect to connected transactions unless it applies and obtains a separate waiver from the Stock Exchange. In the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of the waiver letter on transactions of the kind to which the Ongoing Connected 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 is required to take immediate steps to ensure compliance with such requirements within a reasonable time.

The annual cap amounts have been derived based on the assumption that:- (i) the Directors' estimation of the sales of TCL Products by the TCL Overseas Group in Territory for such three years ending 31 December 2004 and (ii) the Directors' estimation of the demand of TCL Products in Hong Kong for the same period.

Application will be made to the Stock Exchange on the waiver sought as set out above.

### **C. APPROVAL BY THE INDEPENDENT SHAREHOLDERS**

At present, Huizhou TCL Mobile is owned as to 20% by each of TCL (BVI), Jasper Ace and Mate Fair and as to 40% by TCL Communication. Both Jasper Ace and Mate Fair are controlled by Ultimate Seller who is a non-executive director of the Company and also an executive director of Huizhou TCL Mobile. TCL Communication is owned as to 41.43% by TCL Holdings and is listed on the Shenzhen Stock Exchange in the PRC. TCL Holdings is the controlling shareholder of the Company indirectly holding approximately 55.15% interest in the Company. Accordingly, the Proposed Acquisition constitutes connected transaction for the Company under Rule 14.26 of the Listing Rules and the Ongoing Connected Transactions may constitute connected transactions for the Company (for the two years ending 31 December 2003) under Rule 14.25 and (for the year ending 31 December 2004) under Rule 14.26 of the Listing Rules.

Cazenove has been appointed as the financial adviser to advise the Company on the transactions

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contemplated by the S&P Agreement and the Ongoing Connected Transactions. In view of the interests of TCL Holdings and Ultimate Seller in the Proposed Acquisition and the Ongoing Connected Transactions, the Independent Board Committee has been formed to advise the Independent Shareholders on whether or not the terms of the S&P Agreement and the Ongoing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. An independent financial adviser will be appointed to advise the Independent Board Committee in respect of the terms and conditions of the S&P Agreement and the Ongoing Connected Transactions.

### **D. EGM**

An EGM has been convened to be held at 2:30pm on 21 January 2002 at Level 7, Kennedy Room, Conrad International, Pacific Place, 88 Queensway, Hong Kong at which ordinary resolutions will be proposed to approve the S&P Agreement and the Ongoing Connected Transactions. Please see the notice convening the EGM published separately today in South China Morning Post in English and in Hong Kong Economic Times in Chinese. In view of the interests of TCL Holdings and Ultimate Seller in the S&P Agreement and the Ongoing Connected Transactions, TCL Holdings, Ultimate Seller and their respective Associates will abstain from voting at the EGM in respect of such resolutions.

### **E. GENERAL**

The Company is an investment holding company. The Group is principally engaged in the design, manufacture, assembly and sale of a wide range of electronic consumer products, including internet-related information technology products, colour television sets, other audio-visual products and White Goods.

A circular containing, among other things, further information on the S&P Agreement and the Ongoing Connected Transactions, the Waiver Application, the letter from an independent financial adviser containing its advice to the Independent Board Committee in relation to the S&P Agreement and the Ongoing Connected Transactions, the recommendation of the Independent Board Committee in relation to the S&P Agreement and the Ongoing Connected Transactions and, for Shareholders' reference, a copy of the notice convening the EGM referred to above will be dispatched to the Shareholders as soon as practicable.

### **F. TERMS USED IN THIS ANNOUNCEMENT**

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In this announcement, the following expressions have the following meanings, unless the context otherwise requires:

“Agreed Exchange Rate”	the rate of exchange as agreed between the Vendor and TCL (BVI) for converting RMB into HK\$ for the purpose of the S&P Agreement, being the average rate of exchange of RMB into HK\$ for the five Business Days ended on 19 December 2001 (i.e. HK\$1 = RMB1.0612)
“Associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding Saturdays, Sundays and public holidays) on which licensed banks in the PRC and Hong Kong are normally open for business
“Cazenove”	Cazenove Asia Limited, an investment adviser and dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“CCID”	China Center for Information Industry Development (中國電子信息產業發展研究院), an independent market research company on information industry in the PRC
“CDMA”	Code Division Multiple Access
“Company”	TCL International Holdings Limited, the shares of which are listed and traded on the Stock Exchange
“Completion”	Completion of the S&P Agreement in accordance with its terms
“Consideration”	RMB300 million (equivalent to approximately HK\$282.7 million)
“controlling shareholders”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“EGM”	an extraordinary general meeting of the Company convened to approve the S&P Agreement and the Ongoing Connected Transactions, the notice of which dated 21 December 2001 is published in South China Morning post in English and in Hong Kong Economics Times in Chinese
“Gartner, Inc.”	Gartner, Inc., a US listed company, which provides information technology market research
“Group”	the Company together with its subsidiaries from time to time prior to the Completion
“GSM”	global system for mobile communications standard
“Guaranteed Profit”	the combined audited profit after taxation excluding extraordinary items of Huizhou TCL Mobile Group for the year ending 31 December 2001 as shown in the 2001 Combined Accounts of not less than RMB300 million (approximately HK\$282.7 million) guaranteed by the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK GAAP”	the general accepted accounting principles in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huizhou TCL Mobile”	Huizhou TCL Mobile Communication Co., Ltd., a sino-foreign equity joint venture established in March 1999 in the PRC and is currently held as to 20% by each of TCL (BVI), Jasper Ace and Mate Fair and 40% by TCL Communication
“Huizhou TCL Mobile Group”	Huizhou TCL Mobile together with its subsidiaries from time to time (currently being TCL Mobile HK and TCL Information) and a member of Huizhou TCL Mobile Group means any one of them
“Independent Board	a board of committee comprising Messrs. Hon Fong Ming and Albert



# TCL INTERNATIONAL HOLDINGS LIMITED

Committee”	Thomas da Rosa, Junior, the independent non-executive Directors, appointed to advise the Independent Shareholders
“Independent Shareholders”	Shareholders other than TCL Holdings and Ultimate Seller and their respective Associates
“Jasper Ace” or “Vendor”	Jasper Ace Limited, a company incorporated in the British Virgin Islands, which is controlled by Ultimate Seller
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mate Fair”	Mate Fair Group Limited, a company incorporated in the British Virgin Islands, which is controlled by Ultimate Seller
“MII”	Ministry of Information Industry of the PRC
“Ongoing Connected Transactions”	the transactions between TCL Overseas Group and Huizhou TCL Mobile Group pursuant to the Supply Agreement regarding the supply the TCL Products from distribution in Territory
“PRC” or “China”	the People's Republic of China and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
“PRC GAAP”	the general accepted accounting principles in the PRC
“Proposed Acquisition”	the proposed acquisition of a 10% equity interest in Huizhou TCL Mobile by TCL (BVI) from Jasper Ace pursuant to the S&P Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“S&P Agreement”	the sale and purchase agreement dated 20 December 2001 entered into between Jasper Ace as the vendor, TCL (BVI) as the purchaser and Ultimate Seller as the guarantor in relation to the Proposed Acquisition
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“subsidiary/ies”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Supply Agreement”	the master supply agreement dated 20 December 2001 between Huizhou TCL Mobile and TCL Overseas regarding the purchase of TCL Products from time to time for delivery to Territory
“TCL (BVI)”	TCL Holdings (BVI) Limited, a wholly-owned subsidiary of the Company
“TCL Communication”	TCL Communication Equipment Share Co. Ltd. (TCL 通訊設備股份有限公司), a company established in the PRC and the shares of which are listed on the Shenzhen Stock Exchange
“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 by the Huizhou Municipal People's Government in the PRC, the ultimate controlling shareholder of the Company
“TCL Information”	TCL Mobile Information International Company Limited, a company incorporated in August 2001 in Hong Kong with limited liability and is a wholly-owned subsidiary of the Huizhou TCL Mobile
“TCL Mobile HK”	TCL Mobile Communication (HK) Company Limited, a company incorporated in April 1999 in Hong Kong with limited liability and is a wholly-owned subsidiary of the Huizhou TCL Mobile
“TCL Overseas”	TCL Overseas Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“TCL Overseas	TCL Overseas together with its subsidiaries from time to time and a member

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Group”	of TCL Overseas Group means any one of them
“TCL Products”	any goods (including telephones, mobile telephones, mobile terminal products, communication equipment and their components) manufactured, produced or otherwise sold by any member of Huizhou TCL Mobile Group
“Territory”	any territory in the world except the PRC
“Ultimate Seller”	Mr. Wong Toe Yeung, a non-executive Director of the Company
“Waiver Application”	the application to be made by the Company to the Stock Exchange for a waiver from strict compliance with the disclosure and/or shareholders approval requirements under Chapter 14 of the Listing Rules in respect of the Ongoing Connected Transactions, details of which are set out in the paragraph headed “Disclosure Requirement and Waiver Sought” above
“White Goods”	home electrical appliances traditionally designed in light colour, including but not limited to refrigerators, microwave ovens, washing machines and air conditioners
“2001 Audited Profit”	the audited combined profit after taxation and excluding extraordinary items of Huizhou TCL Mobile, TCL Mobile HK and TCL Information for the year ending 31 December 2001
“2001 Combined Accounts”	the audited combined accounts of TCL Mobile, TCL Mobile HK and TCL Information for the year ending 31 December 2001 prepared by an international accounting firm in accordance with HK GAAP

By order of the board  
**Li Dong Sheng**  
*Chairman*

21 December 2001

\* *for identification purpose only*

*For the purposes of illustration only and unless otherwise stated, the translation of Renminbi into Hong Kong dollars is based on the Agreed Exchange Rate of HK\$1.00 = RMB1.0612. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.*

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