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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)

ONGOING CONNECTED TRANSACTIONS AND NEW WAIVER APPLICATION

Financial Adviser to the Company

 ERNST & YOUNG

Ernst & Young Corporate Finance Limited

The Group has, in its ordinary course of business, been sourcing raw materials from and selling raw materials to the TCL Corporation Group as well as other entities which are currently not regarded as associates of TCL Corporation, such as certain members of the Shenghua Group. The Group has also been using subcontracting services provided by TTK, which is a member of the Shenghua Group and is currently not a connected person of the Company. On 22 September 2003, TCL Corporation, the ultimate controlling shareholder of the Company, and TCL Industries entered into the Reorganisation Agreements to effect the Shenghua Reorganisation. Upon Completion, Shenghua will become an 80% owned subsidiary of TCL Corporation and all members of the Shenghua Group, including, among others, Shenghua and TTK, will become associates of TCL Corporation and connected persons of the Company. Accordingly, any transactions between the Group and the Shenghua Group will constitute connected transactions for the Company.

The Company has previously obtained from the Stock Exchange a waiver from strict compliance with the disclosure and independent shareholders' approval requirements under Rule 14.26 of the Listing Rules for the three financial years ending 31 December 2005 in respect of, among other things, the ongoing connected transactions between the Company and the TCL Corporation Group under the Materials Arrangement pursuant to the Master Supply Agreement. Upon Completion, sale and purchase of raw materials between the Group and the Shenghua Group will fall under the Materials Arrangement pursuant to the Master Supply Agreement. The caps stipulated in the Existing Waiver for the respective annual aggregate amounts of the transactions under the Materials Arrangement will be insufficient to accommodate all the transactions between the Group and the TCL Corporation Group (including the Shenghua Group) immediately after Completion. As such, the Company will apply to the Stock Exchange for a new waiver with the New Caps for the three financial years ending 31 December 2005 in respect of the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement.

Upon Completion, the transactions under the Subcontracting Arrangement will also become ongoing connected transactions of the Company. The annual transaction amount under the Subcontracting Arrangement is expected to be less than the Threshold and will only be subject to the disclosure requirements under Rule 14.25(1) of the Listing Rules. The Company will apply to the Stock Exchange for a waiver from strict compliance with the disclosure requirements under the Listing Rules in respect of the ongoing connected transactions under the Subcontracting Arrangement.

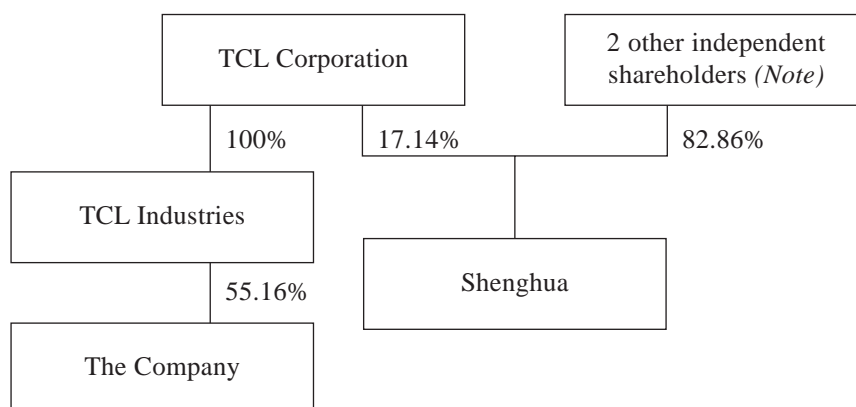
A circular containing, among other things, details of the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement and the relevant waiver application, a letter from the Independent Board Committee and an opinion of the independent financial adviser together with a notice convening the extraordinary general meeting to approve such ongoing connected transactions will be despatched to the Shareholders as soon as practicable.

INTRODUCTION

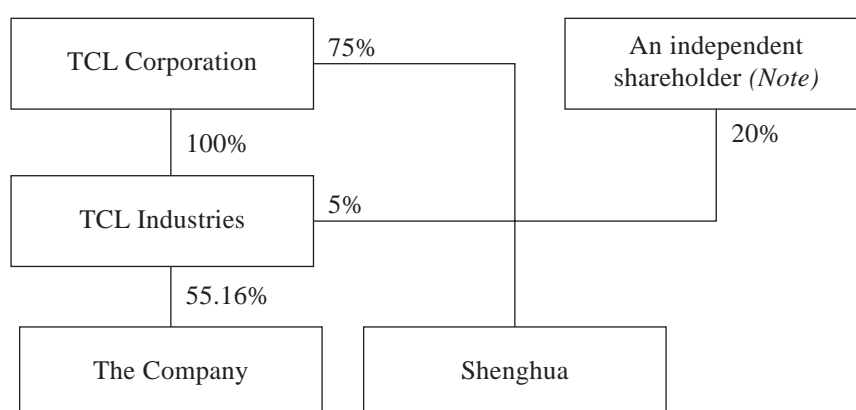
The Group has, in its ordinary course of business, been sourcing raw materials from and selling raw materials to the TCL Corporation Group as well as other entities which are currently not regarded as associates of TCL Corporation, such as certain members of the Shenghua Group. The Group has also been using subcontracting services provided by TTK, which is a member of the Shenghua Group and is currently not a connected person of the Company. On 22 September 2003, TCL Corporation, the ultimate controlling shareholder of the Company, and TCL Industries entered into the Reorganisation Agreements to effect the Shenghua Reorganisation. Completion of the Shenghua Reorganisation will result in, among other things, the acquisition by TCL Corporation of an aggregate additional, direct and indirect, interest of approximately 62.86% in Shenghua and the acquisition by Shenghua of interests in entities which will become members of the Shenghua Group. Upon Completion, Shenghua will become an 80% owned subsidiary of TCL Corporation and all members of the Shenghua Group, including, among others, Shenghua and TTK, will become associates of TCL Corporation and connected persons of the Company. Accordingly, any transactions between the Group and the Shenghua Group will constitute connected transactions for the Company.

The following diagrams illustrate the existing relationship between the Group and the Shenghua Group and that immediately after Completion.

Existing



Immediately after Completion



Note: The Directors confirm that other shareholders of Shenghua (both before and after Completion) are independent of and not connected with the directors, chief executive and substantial shareholders of the Company or its subsidiaries or any of their respective associates.

ONGOING CONNECTED TRANSACTIONS

Materials Arrangement

The Company has previously obtained from the Stock Exchange a waiver from strict compliance with the disclosure and independent shareholders' approval requirements under the Listing Rules for the three financial years ending 31 December 2005 in respect of, among other things, the ongoing connected transactions between the Company and the TCL Corporation Group under the Materials Arrangement pursuant to the Master Supply Agreement, details of which have been set out in the circular of the Company dated 12 December 2002 and a summary thereof is set out below:

1. PRC Materials Sourcing Service

The Company is required to procure its PRC subsidiaries to favourably consider purchasing and receiving part of the Group's requirement of raw materials manufactured in the PRC from members of the TCL Corporation Group if the terms offered by the TCL Corporation Group are the same as or more favourable than terms available from suppliers who are independent third parties and are capable of meeting the orders placed. TCL Corporation is also required to

procure members of the TCL Corporation Group to sell to the Company's subsidiaries the requested raw materials which are necessary for the Group's production of audio-visual and computer related products.

2. *Sale of Raw Materials*

In the event that any member of the Group offers to sell raw materials to any member of the TCL Corporation Group in response to the latter's requests, TCL Corporation is required to procure its members to purchase the raw materials concerned if the terms of the offer from the Group are not less favourable than terms available from suppliers who are independent third parties. However, there is no obligation on the part of the Group to supply raw materials to the TCL Corporation Group and the above arrangement enables the Group, if necessary, to deal in raw materials which are not required by the Group.

The Master Supply Agreement will expire on 31 December 2005 with an option to renew the agreement on substantially the same terms for one or more successive periods of 3 years.

In the past the Group sourced certain raw materials in the PRC from the Shenghua Group. The purchase prices of such raw materials supplied by the Shenghua Group were determined by reference to the market price of the relevant materials and the purchases were made only if the terms were not less favourable than those available from suppliers who were independent third parties. The Group also sold certain other raw materials to the Shenghua Group. The sale prices of such raw materials were determined by reference to the costs the Group paid to its suppliers for procuring such raw materials and other overhead expenses incurred by the Group, such as, among others, warehousing and transportation expenses, for effecting the transactions under the Sale of Raw Materials.

The raw materials sourced by the Group from the Shenghua Group were mainly used for the Group's production of television sets and other audio-visual products. Such raw materials mainly include tuners, coils, printed circuit boards and carton boxes and other packaging materials. Those raw materials sold by the Group to the Shenghua Group were mainly used by the Shenghua Group for its manufacture of tuners and certain consumer electronic products. Such raw materials are mainly electronic parts such as transistors.

In the past, transactions between the Group and certain members of the Shenghua Group, who are not regarded as connected persons of the Company, did not constitute connected transactions for the Company and such transactions did not form part of the Materials Arrangement. Such transactions will continue not to be regarded as connected transactions of the Company prior to Completion.

The Group will continue to source from and sell to the Shenghua Group raw materials as usual after Completion under the Materials Arrangement pursuant to the terms of the Master Supply Agreement as described above. As all members of the Shenghua Group will become members of the TCL Corporation Group upon Completion, any sale or purchase of raw materials between the Group and the Shenghua Group will fall under the Materials Arrangement pursuant to the Master Supply Agreement and will constitute ongoing connected transactions for the Company. Accordingly, these transactions will be counted as part of the Materials Arrangement after Completion.

The following table sets out the respective aggregate amounts of the transactions under the Materials Arrangement between the Group and the TCL Corporation Group for the three years ended 31 December 2002 and the six months ended 30 June 2003:

	Year ended 31 December			Six months ended
	2000	2001	2002	30 June 2003
	HK'000	HK\$'000	HK\$'000	HK\$'000
<i>PRC Materials Sourcing Service</i>				
Purchases of PRC raw materials by the Group from entities within the TCL Corporation Group before Completion	66,503	74,618	84,217	45,867
Percentage to the preceding year's audited consolidated turnover of the Group*	1.15%	1.01%	0.97%	0.40%
Purchases of PRC raw materials by the Group from entities within the TCL Corporation Group after Completion	340,643	374,494	418,250	199,076
Percentage to the preceding year's audited consolidated turnover of the Group*	5.88%	5.05%	4.82%	1.75%
<i>Sale of Raw Materials</i>				
Sale of raw materials by the Group to entities within the TCL Corporation Group before Completion	888	627	Nil	Nil
Percentage to the preceding year's audited consolidated turnover of the Group*	0.015%	0.008%	N/A	N/A
Sale of raw materials by the Group to entities within the TCL Corporation Group after Completion	888	627	64,249	39,712
Percentage to the preceding year's audited consolidated turnover of the Group*	0.015%	0.008%	0.74%	0.35%

* excluding the Group's turnover derived from the white goods operation which was disposed of in December 2002

As illustrated in the table above, as a result of the Shenghua Reorganisation, the relevant caps under the Existing Waiver (as stated below) regarding the Materials Arrangement will not be sufficient to accommodate all the transactions between the Group and the TCL Corporation Group (including the Shenghua Group). Accordingly, the Company will apply to the Stock Exchange for a new waiver with the New Caps for the three financial years ending 31 December 2005 in respect of the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement.

Set out below are the existing caps and the proposed New Caps (following Completion) for the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement:

Transactions	Existing caps (as percentage to the audited consolidated turnover of the Group for each relevant preceding year)	New Caps (as percentage to the audited consolidated turnover of the Group for each relevant preceding year)
PRC Materials Sourcing Service	1.5%	5.5%
Sale of Raw Materials	0.02%	2.0%

The New Caps for the transactions under the Materials Arrangement pursuant to the Master Supply Agreement are determined by reference to, among other things, (a) the historical amounts of the transactions under the Materials Arrangement between the Group and the TCL Corporation Group (including the Shenghua Group), (b) the possible requirement of raw materials in the PRC with respect to the estimated growth of the Group's visual and audio product business, and (c) the Shenghua Group's requirement of raw materials for its operations (including the new consumer electronic product business commenced by the Shenghua Group earlier this year) as advised by the management of the Shenghua Group. Taking into account the various factors mentioned above, the Directors consider that the New Caps are fair and reasonable.

Subcontracting Arrangement

The Group has since January 2001 been using the subcontracting services provided by TTK, which is a member of the Shenghua Group and is currently not a connected person of the Company. Upon Completion, TTK will become a subsidiary of Shenghua and an associate of TCL Corporation. Pursuant to the Subcontracting Arrangement, the Shenghua Group processes plastic parts sourced and owned by the Group into certain semi-finished materials which will then be used by the Group for its manufacture of visual and audio products. The subcontracting fees are determined by reference to similar processing fees charged by other subcontractors, who are independent third parties, in the market to the Group in respect of similar services rendered. The aggregate subcontracting fees paid by the Group to the Shenghua Group under the Subcontracting Arrangement were approximately HK\$11.33 million and HK\$15.28 million respectively for the two years ended 31 December 2002 and approximately HK\$5.12 million for the six months ended 30 June 2003.

Upon Completion, the transactions under the Subcontracting Arrangement will also become ongoing connected transactions of the Company. The annual transaction amount under the Subcontracting Arrangement is expected to be less than the Threshold and will only be subject to the disclosure requirements under Rule 14.25(1) of the Listing Rules. The Company will apply to the Stock Exchange for a waiver from strict compliance with the disclosure requirements under the Listing Rules in respect of the ongoing connected transactions under the Subcontracting Arrangement.

NEW WAIVER APPLICATIONS

The Materials Arrangement

It is expected that after Completion the annual aggregate amount of the transactions under the Materials Arrangement pursuant to the Master Supply Agreement will exceed the Threshold and will therefore be subject to disclosure and independent shareholders' approval requirements under Rule 14.26 of the Listing Rules. Given the recurring nature of the transactions, the Directors consider it unduly burdensome and impracticable for the Company to make disclosure and seek independent shareholders' approval on each occasion the transactions arise. Accordingly, the Company will apply to the Stock Exchange for a new waiver with the New Caps for the three financial years ending 31 December 2005 in respect of the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement subject to conditions which are substantially the same as those of the Existing Waiver (save that the annual aggregate amount of the transactions under the Materials Arrangement shall not exceed the New Caps instead of the cap amounts under the Existing Waiver). Shareholders may refer to the Company's circular dated 12 December 2002 for the conditions of the Existing Waiver. Details of the conditions will be set out in the circular to be issued by the Company on, among other things, the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement and the new waiver application. Furthermore, the new TCL Corporation Group members with whom the Company has entered into the above ongoing connected transactions shall provide undertakings to the Stock Exchange that for so long as the shares of the Company are listed on the Stock Exchange, they will provide the auditors of the Company with full access to their relevant records to carry out the review of such transactions.

If the Stock Exchange grants the new waiver to the Company in respect of the transactions under the Materials Arrangement, such waiver will supersede the Existing Waiver in relation to the transactions under the Materials Arrangement only. The Existing Waiver also covers the transactions under the Overseas Materials Sourcing Service pursuant to the Master Supply Agreement. Such transactions under the Overseas Materials Sourcing Service pursuant to the Master Supply Agreement will not be affected by the Shenghua Reorganisation and will continue to be covered by the Existing Waiver.

The Subcontracting Arrangement

In relation to the transactions under the Subcontracting Arrangement, the annual transaction amount under the Subcontracting Arrangement is expected to be less than the Threshold and will only be subject to the disclosure requirements under Rule 14.25(1) of the Listing Rules. Given the recurring nature of the transactions, the Directors consider it unduly burdensome and impracticable for the Company to make disclosure on each occasion the transactions arise. Accordingly, the Company will apply to the Stock Exchange for a waiver from strict compliance with the disclosure requirements of the Listing Rules in respect of the ongoing connected transactions under the Subcontracting Arrangement on the following conditions:

1. the ongoing connected transactions shall be:
 - (a) entered into by the Group in the ordinary and usual course of its business;
 - (b) entered into either (i) on normal commercial terms; or (ii) (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders are concerned; and

- (c) carried out in accordance with the terms of the respective agreements governing such transactions or where there are no such agreements, on terms no less favourable than terms available from independent third parties;
2. the annual aggregate amount of the transactions under the Subcontracting Arrangement shall not exceed the Threshold;
 3. the independent non-executive Directors shall review annually the ongoing connected transactions under the Subcontracting Arrangement and confirm in the Company's next annual report that such transactions have been conducted in the manner as stated in paragraphs 1 and 2 above;
 4. the auditors of the Company shall review annually the ongoing connected transactions and confirm in a letter (the "Letter") to the board of Directors (a copy of which shall be provided to the Stock Exchange) stating whether:
 - (a) the transactions have received the approval of the Directors;
 - (b) the transactions have been carried out in accordance with the terms of the relevant agreements governing such transactions or where there are no such agreements, on terms no less favourable than terms available from independent third parties; and
 - (c) the Threshold has been exceeded;where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Stock Exchange immediately;
 5. details of the transactions in each financial year as required under Rule 14.25(1) (A) to (D) of the Listing Rules shall be disclosed in the Company's annual report for that financial year together with a statement of opinion of the independent non-executive Directors of the Company referred to in paragraphs 3 above; and
 6. the relevant member of the TCL Corporation Group with whom the Company has entered into the above ongoing connected transactions shall provide an undertaking to the Stock Exchange that for so long as the shares of the Company are listed on the Stock Exchange, it will provide the auditors of the Company with full access to their relevant records to carry out the review of such transactions.

Should the annual aggregate amount of the ongoing connected transactions under the Subcontracting Agreement exceeds the Threshold, the Company will comply with the relevant disclosure and independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

In the event that the terms of the above transactions be altered, extended or renewed or the Company enters into any new agreements with any connected persons in the future, the Company must comply with the relevant requirements of the Listing Rules governing connected transactions unless the Company applies for and obtains a separate waiver from the Stock Exchange.

REASONS FOR AND BENEFITS OF THE ONGOING CONNECTED TRANSACTIONS

The Company is an investment holding company. The Company, through its subsidiaries, associated companies and jointly controlled entities, is principally engaged in the design, manufacture, assembly and sale of a wide range of electronic consumer products including colour television sets, other audio-visual products, personal computers and mobile handsets.

The Shenghua Group is principally engaged in the manufacture and sale of electronic products and electronic and electrical components such as, printed circuit boards, tuners, light emitting diode displays and related plastic accessories.

The Directors consider that the ongoing connected transactions with the Shenghua Group after Completion are and will continue to be conducted in the ordinary and usual course of business of the Group and on normal commercial terms or terms that are fair and reasonable so far as the Shareholders are concerned. The Directors are of the view that it is in the interests of the Company and the Shareholders to continue the ongoing connected transactions with the Shenghua Group as the transactions under the PRC Materials Sourcing Service have facilitated and will continue to facilitate the smooth operation of the Group's business by providing a stable and reliable source of supply of the necessary raw materials for the Group's manufacture of television sets and other audio-visual products and the transactions under the Sale of Raw Materials have allowed and will continue to allow the Group to better manage its level of raw materials by providing additional flexibility to the Group for managing its surplus raw materials (if any).

GENERAL

TCL Corporation indirectly owns approximately 55.16% of the issued share capital of the Company. In view of the interests of TCL Corporation in and the size of the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement, the ongoing connected transactions contemplated thereunder and the waiver application in relation to the New Caps are subject to the approval of the Independent Shareholders. TCL Corporation and its associates will abstain from voting in relation to the resolution to be put forward at an extraordinary general meeting in this regard. The Independent Board Committee has been established to advise the Independent Shareholders regarding the fairness and reasonableness of the terms of the ongoing connected transactions between the Group and the Shenghua Group under the Materials Arrangement pursuant to the Master Supply Agreement and DBS Asia Capital Ltd has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

A circular containing, among other things, details of the ongoing connected transactions under the Materials Arrangement pursuant to the Master Supply Agreement and the relevant waiver application, a letter from the Independent Board Committee and an opinion of DBS Asia Capital Ltd together with a notice convening the extraordinary general meeting to approve such ongoing connected transactions will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	TCL International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Shenghua Reorganisation
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Waiver”	the existing waiver granted by the Stock Exchange to the Company on 3 January 2003 in respect of the ongoing connected transactions under the Master Supply Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board established for the purpose of reviewing the terms of the ongoing connected transactions as described in this announcement
“Independent Shareholders”	Shareholders other than TCL Corporation and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Supply Agreement”	the master supply agreement dated 15 November 1999 (as amended by a deed of variation dated 11 December 2002) entered into between the Company and TCL Corporation pursuant to which the Group and the TCL Corporation Group entered into transactions which are categorized into (i) the Overseas Materials Sourcing Service, (ii) the PRC Materials Sourcing Service, and (iii) the Sale of Raw Materials, details of which have been set out in the Company’s circular dated 12 December 2002
“Materials Arrangement”	the PRC Materials Sourcing Service and the Sale of Raw Materials
“New Caps”	the proposed revised respective annual limits for the values of the ongoing connected transactions to be carried out under the Materials Arrangement between the Group and the TCL Corporation Group (including the Shenghua Group) for the three financial years ending 31 December 2005

“Overseas Materials Sourcing Service”	the sale and purchase by the Group to and from TCL Corporation of raw materials manufactured overseas for the manufacture of the Group’s products pursuant to the Master Supply Agreement
“PRC”	the People’s Republic of China
“PRC Materials Sourcing Service”	the purchase by the Group from the subsidiaries and associates of TCL Corporation of raw materials manufactured in the PRC for the manufacture of the Group’s products pursuant to the Master Supply Agreement
“Reorganisation Agreements”	the agreements entered into by, among other things, TCL Corporation and TCL Industries on 22 September 2003 in relation to the Shenghua Reorganisation
“Sale of Raw Materials”	the sale of raw materials by the Group to the TCL Corporation Group pursuant to the Master Supply Agreement
“Shareholders”	the shareholders of the Company
“Shenghua”	惠州市升華工業有限公司 (Huizhou Shenghua Industry Co. Ltd.), a company established under the laws of the PRC, which is principally engaged in the manufacture of electrical and electronic products
“Shenghua Group”	Shenghua and other companies which Shenghua currently controls and will control 30% or more of their voting rights upon Completion, the principal business activities of which are described in the section headed “Reasons for and benefits of the ongoing connected transactions” in this announcement
“Shenghua Reorganisation”	the reorganisation pursuant to the Reorganisation Agreements which will result in, among other things, the acquisition by TCL Corporation of an additional interest of approximately 62.86% in Shenghua and the acquisition by Shenghua of interests in entities which will become members of the Shenghua Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subcontracting Arrangement”	the subcontracting arrangement under which the Shenghua Group processes plastic parts for the Group for the Group’s manufacture of visual and audio products
“TCL Corporation”	TCL Corporation (TCL 集團股份有限公司), a joint stock company established under the laws of the PRC, which is principally engaged in investment holding and is the ultimate controlling shareholder of the Company
“TCL Corporation Group”	TCL Corporation and its subsidiaries and associates (excluding members comprising the Group)
“TCL Industries”	T.C.L. Industries Holdings (H.K.) Ltd., which is principally engaged in investment holding and is a wholly-owned subsidiary of TCL Corporation

“Threshold” the higher of HK\$10 million or 3% of book value of the net tangible assets of the Group (as disclosed in the latest published audited consolidated accounts of the Group) adjusted to take account of subsequent transactions in the manner described in Rule 14.04(6) of the Listing Rules

“TTK” 惠州 TTK 家庭電器有限公司 (Huizhou TTK Household Electrical Appliances Company Limited), a company established under the laws of the PRC

On behalf of the Board
Li Dong Sheng, Tomson
Chairman

Hong Kong, 23 September 2003

*Please also refer to the published version of this announcement in the (**The Standard**)*