

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 TRANSACTIONS

AND

ONGOING CONNECTED TRANSACTIONS

Financial Adviser

CAZENOVE

Cazenove Asia Limited

A. Proposed Joint Venture

On 9 May 2002, New Technology Co., a wholly owned subsidiary of the Company, and TCL Holdings entered into the Investment Agreement. Pursuant to the Investment Agreement, New Technology Co. and TCL Holdings have conditionally agreed, to set up a joint venture company in the PRC to engage in the R&D of the design and manufacture of audio visual products including colour televisions with advanced technology. JV will be owned as to 25% by New Technology Co. and 75% by TCL Holdings.

The total registered capital of JV will be RMB270 million (approximately HK\$254.7 million). New Technology Co. is required to contribute approximately RMB67.5 million (approximately HK\$63.7 million) to the registered capital of JV.

TCL Holdings is the ultimate controlling shareholder of the Company. Therefore the entering into of the Investment Agreement constitutes a connected transaction of the Company under the Listing Rules. The amount of capital contribution to be made by the Company to the JV as contemplated under the Investment Agreement does not exceed 3% of the book value of the consolidated net tangible assets of the Company as at 31 December 2001 (which is approximately HK\$78.8 million). Accordingly, the entering into of the Investment Agreement is not subject to the approval of Independent Shareholders.

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B. Proposed disposal of certain White Goods manufacturing business to TCL Holdings

On 9 May 2002, the Company and TCL Holdings entered into the S&P Agreement. Pursuant to the S&P Agreement, the Company has conditionally agreed, among other things, to dispose of its interest (through TCL BVI or TCL Huizhou, as the case may be) in a number of companies which engage in White Goods manufacturing business. The total consideration for the disposal is approximately RMB57 million (approximately HK\$53.8 million). TCL Holdings is the ultimate controlling shareholder of the Company. Therefore the entering into of the S&P Agreement constitutes a connected transaction of the Company under the Listing Rules. The consideration as contemplated under the S&P Agreement does not exceed 3% of the book value of the consolidated net tangible assets of the Company as at 31 December 2001 (which is approximately HK\$78.8 million). Accordingly, the entering into of the S&P Agreement is not subject to the approval of Independent Shareholders.

C. Proposed entering into the Variation Deed

It is proposed that TCL Holdings, TCL Industries and the Company to enter into the Variation Deed. Pursuant to the Deed of Non-Competition, TCL Holdings and TCL Industries have undertaken not to directly or indirectly, carry on or be engaged or interested in the Restricted Activity. Pursuant to the Variation Deed, White Goods and in compliance certain conditions therein audio-visual products (including but not limited to colour television products) will be excluded from the scope of the Restricted Activity.

TCL Holdings is the ultimate controlling shareholder of the Company, entering into of the Variation Deed constitutes a connected transaction of the Company under the Listing Rules and is subject to Independent Shareholders' approval on the proposed changes to the Deed of Non-Competition.

D. Proposed Ongoing Connected Transactions

On 9 May 2002, the Suppliers' Group and TCL Overseas Sales entered into the Overseas Distribution Agreement. Pursuant to the Overseas Distribution Agreement, TCL Overseas Sales will enter into and thereafter continue to enter into the transactions with the Suppliers' Group in relation to the distribution of the WG Products in the Territory. The Overseas Distribution Agreement is valid for a term of 3 years from the date of completion of the S&P Agreement and it provides that the transaction amount pursuant to the Overseas Distribution Agreement shall not exceed HK\$20.0 million, HK\$33.8 million and HK\$42.2 million for the three years ending 31 December 2004 respectively.

On 9 May 2002, the Suppliers' Group and TCL PRC Sales entered into the PRC Distribution Agreement. Pursuant to the PRC Distribution Agreement, members of the Suppliers' Group have appointed TCL PRC Sales as their sales agent to distribute the WG Products in the PRC. The PRC Distribution Agreement is valid for a term of 3 years from the date of completion of the S&P Agreement. The Directors expect that the transaction amount pursuant to the PRC Distribution Agreement will not exceed HK\$29 million, HK\$35 million and HK\$36 million for the three years ending 31 December 2004 respectively.

As TCL Holdings is the ultimate controlling shareholder of the Company, the transactions pursuant to the Overseas Distribution Agreement and the PRC Distribution Agreement will constitute a connected transaction for the Company under the Listing Rules. The Company has applied to the Stock Exchange for a waiver from

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compliance with the requirement to make further press announcements pursuant to Rule 14.25 of the Listing Rules in respect of the Ongoing Connected Transactions.

E. Approval by Independent Shareholders

A circular containing, among other things, further information on the Variation Deed, the letter from an independent financial adviser containing its advice to the Independent Board Committee in relation to the Variation Deed, the recommendation of the Independent Board Committee in relation to the Variation Deed will be dispatched to the Shareholders as soon as practicable.

A. PROPOSED JOINT VENTURE

A1 Terms of the Investment Agreement

Date: 9 May 2002

Parties:

- (i) New Technology Co., a wholly owned subsidiary of the Company and is principally engaging in the manufacture of television and other audio-visual products; and
- (ii) TCL Holdings

Setting up of JV:

Pursuant to the Investment Agreement, New Technology Co. and TCL Holdings have conditionally agreed, to set up a joint venture company in the PRC to engage in the R&D of the design and manufacture of audio visual products with advanced technology including colour televisions with advanced technology. JV will be owned as to 25% by New Technology Co. and 75% by TCL Holdings. JV will not be engaged in the trading of the audio-visual products.

The board of JV will consist of 3 directors. New Technology Co. and TCL Holdings are entitled to appoint 1 and 2 director(s) in the board of JV respectively.

The results of all R&D undertaken by JV and the intellectual property rights with respect thereto (“Intellectual Property Rights”) will belong to JV. However, if JV intends to transfer or to grant licence over any of its Intellectual Property Rights to any third party or TCL Holdings, the Group will have the priority to acquire such Intellectual Property Rights or to obtain an exclusive licence over such Intellectual Property Rights (as the case may be) upon the same terms and conditions offered to or by such independent third parties or TCL Holdings.

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A2 Investment Amount

The total registered capital of JV will be RMB270 million (approximately HK\$254.7 million). New Technology Co. and TCL Holdings are required to contribute approximately RMB67.5 million (approximately HK\$63.7 million) and RMB202.5 million (approximately HK\$191.0 million) respectively to the registered capital of JV. The capital contribution by TCL Holdings will be entirely in the form of cash. New Technology Co. will contribute to the capital of JV by way of injection of (i) all assets and liabilities relating to its multi-media related research and development business (the value of the unaudited net tangible asset of which as at 31 March 2002 was approximately RMB8.6 million (approximately HK\$8.1 million) based on a value to be determined by a PRC independent valuer on a date to be agreed between the parties and (ii) cash for the balance.

A3 Reasons for the JV Formation

The Group has a solid and well-recognised status in the domestic market of colour television in the PRC. In order to maintain competitiveness of the Group, the Directors are keen to take measures to strengthen the Group's R&D capabilities so that the Group will be able to, among other things, manufacture colour televisions with latest technologies.

Due to the strong background of TCL Holdings and its strong market position in the PRC, the Directors are confident that the formation of JV will benefit the Group in the following ways:

- (i) it can enhance the competitive edge and the overall business development of the Group;
- (ii) R&D of products with advanced technology will require a substantial amount of capital at its initial stage of development, therefore having TCL Holding as a joint venture partner will save the Group from risking a substantial portion of the capital which would otherwise be required;
- (iii) the Group will be able to better utilise its capital and other resources as it can spare such resources which may otherwise be required by JV and apply them in other project(s) with higher returns; and
- (iv) the Group does not need to fund the R&D entirely on its own and at the same time enjoys priority to acquire the Intellectual Property Rights.

After formation of JV, the Company will still have some other divisions engage in the other R&D aspects of the electronic consumer products.

A4 Commencement of Performance of Obligation

The parties to the Investment Agreement will only have obligations (including injection of capital contribution) to perform the Investment Agreement after 1 October 2002. In the event that any party fails to perform its obligation on 31 December 2002 or such later date as agreed by the parties, the Investment Agreement will automatically terminate and all the obligations and liabilities of the parties thereunder will lapse, save in respect of antecedent breaches.

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A5 Connected Transaction

TCL Holdings is the ultimate controlling shareholder of the Company. Therefore the entering into of the Investment Agreement constitutes a connected transaction of the Company under the Listing Rules.

The amount of capital contribution to be made by the Company to the JV as contemplated under the Investment Agreement does not exceed 3% of the book value of the consolidated net tangible assets of the Company as at 31 December 2001 (which is approximately HK\$78.8 million). Accordingly, the entering into of the Investment Agreement is not subject to the approval of Independent Shareholders. Details as specified under Rule 14.25(1)(A) to (D) of the Listing Rules regarding the Investment Agreement will be disclosed in the Company's published annual report and accounts.

The Directors (including independent non-executive Directors) are of the view that the JV Agreement is on normal commercial terms which are fair and reasonable and it is in the interests of the Company and Shareholders (including the Independent Shareholders) are concerned.

B. PROPOSED DISPOSAL OF CERTAIN WHITE GOODS MANUFACTURING BUSINESS TO TCL HOLDINGS

B1 Terms of S&P Agreement

Date: 9 May 2002

Parties:

- (i) The Company; and
- (ii) TCL Holdings

Particulars:

Pursuant to the S&P Agreement, the Company has conditionally agreed, among other things, to dispose of or procure the disposal of its interest (through TCL BVI or TCL Huizhou, as the case may be) in the companies engaging in White Goods manufacturing business, namely its 20% equity interest in Shanghai TCL, its 75% equity interest in TCL Zhongshan Air Conditioner; its 50% equity interest in TCL Rechi and its 70% equity interest in TCL Shaanxi to TCL Holdings or its designated wholly-owned subsidiary(ies). It is the interest of the Company that it will in due course terminate its White Goods manufacturing business other than those as mentioned below. As shown in the proforma unaudited consolidated figures below, the White Goods manufacturing business under disposal was operated at a loss, it will make positive impact on the Company's profit and loss account after the completion of such disposal.

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Completion of the S&P Agreement is to take place on the fifth day after the relevant PRC approvals have been sought in respect of the transaction contemplated under the S&P Agreement and it is expected that the completion will take place on or before 31 December 2002.

For information purposes, Shanghai TCL is currently dormant, TCL Zhongshan Air Conditioner commenced its operation in January 2001, TCL Rechi commenced its operation in September 2001 and TCL Shaanxi commenced its operation in October 2001.

B2 Consideration

Proforma unaudited consolidated figures for the Company's White Goods manufacturing business under disposal for the year ended 31 December 2001 and three months ended 31 March 2002 are extracted as follows:

	For three months ended 31 March 2002 (Unaudited, based on HKGAAP)	For year ended 31 December 2001 (Unaudited, based on HKGAAP)
	<i>RMB million</i>	<i>RMB million</i>
Sales	54	414
Net Loss	(30)	(3)
Net Assets	57	87

The above figures are calculated according to the Company's 75% interest in TCL Zhongshan Air Conditioner, 70% interest in TCL Shaanxi, 50% interest in TCL Rechi and 20% interest in Shanghai TCL. Since all the above companies commenced their operations in 2001, therefore no previous financial information prior to 2001 is available.

The total consideration for the Company's White Goods manufacturing business under disposal is approximately RMB57 million (approximately HK\$53.8 million) which is payable on completion. Such proceeds will be used as general working capital of the Company. The consideration was negotiated on an arm's length basis and on normal commercial terms and was determined on the basis of the net assets value of the Company's White Goods manufacturing business as at 31 March 2002. The Directors (including the independent non-executive Directors) consider that such consideration is on normal commercial terms and is fair and reasonable so far as the Shareholders as a whole are concerned.

B3 Reasons for the Proposed Disposal

As disclosed in the Company's 2001 results announcement dated 13 March 2002, the White Goods manufacturing business in the PRC at the moment is highly competitive as there is an increased market supply of White Goods in the PRC and hence creates strong pressure on the pricing on White Goods. As

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shown in the proforma unaudited consolidated figures above, the White Goods manufacturing business under disposal was operated at a loss. In order to turn around the said White Goods manufacturing business into profit, the Group will need to inject a substantial amount of capital and other resources. Since the White Goods manufacturing business does not fit into the Company's existing 3C strategy (i.e. convergence of — consumer electronics, communication and computers) and its long-term goal of becoming a leader of infotainment/multi-media device provider, the Directors consider that it is in the interest of the Company, and accordingly decided, to terminate its White Goods manufacturing business. TCL Holdings which has a stronger capital base, may be able to create economies of scales so as to bring the White Goods manufacturing business into profit.

Furthermore, the Group would like to put more resources and/or capital into other business units which can generate higher return, such as television and mobile phone business.

Therefore, the Directors (including independent non-executive Directors) consider that the proposed disposal is in the best interest of the Company and Shareholders as a whole.

B4 Conditions

The S&P Agreement will become effective upon passing of resolution approving the execution of the Variation Deed to permit TCL Holdings and its subsidiaries to engage in the manufacture, assembly, distribution and maintenance of White Goods by the Independent Shareholders at the EGM on or before 30 June 2002.

Completion of the transactions contemplated under the S&P Agreement is conditional upon all of the following (the “Completion Conditions”) occurring on or before 31 December 2002:

- (i) in respect of the Disposed Companies (other than Shanghai TCL), all relevant PRC approvals have been obtained in respect of transfer of interest therein and the amendment to their respective articles of association; and
- (ii) in respect of Shanghai TCL, the completion of registration of changes in its particulars with the State Administration of Industry and Commerce.

B5 Completion Date

Completion of the transaction contemplated under the S&P Agreement will take place on the fifth day after the day on which the last of the Completion Conditions is fulfilled. It is expected that the date of completion will be on or before 31 December 2002.

B6 Connected Transaction

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TCL Holdings is the ultimate controlling shareholder of the Company. Therefore the disposal of the White Goods manufacturing business constitutes a connected transaction of the Company under the Listing Rules.

The consideration under the S&P Agreement does not exceed 3% of the book value of the consolidated net tangible assets of the Company as at 31 December 2001 (which is approximately HK\$78.8 million). Therefore the entering into of the S&P Agreement is not subject to approval of Independent Shareholders. Details as specified under Rule 14.25(1)(A) to (D) of the Listing Rules regarding the S&P Agreement will be disclosed in the Company's published annual report and accounts.

The Directors (including independent non-executive Directors) are of the view that the S&P Agreement are on normal commercial terms which are fair and reasonable and it is in the interests of the Company and the shareholders (including the Independent Shareholders).

C. PROPOSED ENTERING INTO THE VARIATION DEED

C1 Terms of the Variation Deed

Parties to enter:

- (i) TCL Holdings;
- (ii) TCL Industries; and
- (iii) the Company Variations:

Pursuant to the Deed of Non-Competition, TCL Holdings and TCL Industries have undertaken not to directly or indirectly, carry on or be engaged or interested in the Restricted Activity, which at present are the manufacture, assembly, distribution and maintenance of audio-visual products, White Goods and products relating to internet related information technology from time to time. Pursuant to the Variation Deed:

- (i) the manufacture, assembly, distribution and maintenance of White Goods will be excluded from the scope of the Restricted Activity; and
- (ii) TCL Holdings will be deemed not to have engaged in the Restricted Activity notwithstanding that they have acquired or otherwise becoming interested in and thereafter hold (whether directly or indirectly) the Relevant Interest, provided the conditions set out below are fulfilled.

C2 Conditions

If any of TCL Holdings or TCL Industries (each "Acquiring Covenantor" and collectively the "Acquiring Covenantors") is to acquire or otherwise become interested and thereafter hold (whether directly or

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indirectly) any Relevant Interest, the Company shall have a right (which has binding effect) to make an offer (whether for itself or any member of the Group) for acquisition of such interest and the Acquiring Covenantor shall be obliged to make an offer to the Company (whether for itself or any member of the Group nominated by the Company) to dispose of the Relevant Interest, all such offers to be made within 5 years from the date on which TCL Holdings or TCL Industries (as the case may be) has acquired or become interested in the Relevant Interest. The offer made by the Acquiring Covenantor must be one which is capable of acceptance by the Company (a) without legal impediments by reason of the status of the Group; and (b) without legal impediments resulting from acceptance and completion of such offer which materially adversely affects the tax or other status of the subject matter of the offer.

The price payable by the Group for the Relevant Interest shall be agreed by the parties provided that it is not more than the value of the Relevant Interest as at one month prior to the offer as determined by:

- (i) an independent valuer appointed by agreement between the Company and TCL Holdings or TCL Industries (as the case may be) or, failing such agreement, by the Chairman for the time being of Hong Kong Institute of Surveyors;
- (ii) an independent firm of auditors appointed by agreement between the Company and TCL Holdings or TCL Industries (as the case may be) or, failing such agreement, by the Chairman for the time being of The Hong Kong Society of Accountants; or
- (iii) an independent financial advisor registered with the Securities and Futures Commission appointed by agreement between the Company and TCL Holdings or TCL Industries (as the case may be) or, failing such agreement, by the Chairman for the time being of The Hong Kong Securities Institute.

In case that no agreement has been reached in respect of the offer made by the Acquiring Covenantor for the acquisition of the Relevant Interest by the Group within three months after the offer, the Acquiring Covenantor will be entitled to continue to be interested in such Relevant Interest thereafter.

In case that no agreement has been reached in respect of the offer made by the Company within three months after the offer, the Acquiring Covenantor will be deemed to have accepted the offer so made by the Company on expiry of three month period open for acceptance.

In case that no offer has been made by the Acquiring Covenantors nor the Company in respect of the Relevant Interest, the Acquiring Covenantor must cease to be interested in the Relevant Interest after 5 years from date of acquisition of the Relevant Interest.

C3 Reasons for entering into the Variation Deed

(A) *White Goods manufacturing business*

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As mentioned in section B above, it is the Company's corporate mission to become a leader of infotainment / multimedia device provider in future and hence it has adopted a 3C strategy as mentioned above as its long-term strategy and that is one of the reasons for the disposal of the White Goods manufacturing business under the S&P Agreement. In order that for TCL Holdings to acquire the White Goods manufacturing business from the Group, it is necessary to vary the Deed of Non-Competition to allow TCL Holdings to engage in such business.

(B) Audio-visual products

Furthermore, to vary the scope of the Restricted Activity by allowing TCL Holdings to acquire (whether directly or indirectly) an interest in a company or enterprise which is engaged or to be engaged in the manufacture, assembly, distribution and maintenance of audio-visual products is beneficial to the Group. As at today, no target company has been identified by TCL Holdings. The reasons for proposing such a change are as follows:-

- (i) the existing PRC relevant laws and regulations restrict foreign-owned entity (including the Company) from acquiring interest in certain PRC enterprises. As the PRC audio-visual market is currently in a stage of consolidation, there are a lot of acquisition opportunities exist at the moment and some of which may not be able to be captured by the Group. By allowing TCL Holdings to enter into the domestic audio-visual market at this critical stage coupled with a right for the Company to acquire the relevant interest from them in the future, the Directors consider that it is to the benefit of the Company's long term strategy;
- (ii) the existing audio-visual operators in the PRC are generally perceived to be in a turn-around stage. It is anticipated that after the acquisition of such operators, they need to undergo a restructuring before they can contribute reasonable profits to their shareholders, so return is unlikely to be generated shortly after acquisition. With the strong financial background and market position of TCL Holdings, it is therefore proposed to allow TCL Holdings to acquire interest in audio-visual operators in the PRC and to secure from them a right for the Group to acquire such interest which the Group may exercise at a later stage when it considers the acquisition of such interest is in line with the Company's long term strategy and can benefit the Company and Shareholders; and
- (iii) since the target company in question is already in competition with the Group, by allowing TCL Holdings to acquire or hold interest in such company will not prejudice the interest of the Group.

Therefore, the Directors consider that the entering into of the Variation Deed is in the best interest of the Company and Shareholders as a whole.

C4 Approval by Independent Shareholders

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TCL Holdings is the ultimate controlling shareholder of the Company, entering into of the Variation Deed constitutes a connected transaction of the Company under the Listing Rules and is subject to Independent Shareholders' approval.

D. PROPOSED ONGOING CONNECTED TRANSACTIONS — OVERSEAS DISTRIBUTION AGREEMENT AND PRC DISTRIBUTION AGREEMENT

D1 Terms of Overseas Distribution Agreement and PRC Distribution Agreement

(A) Overseas Distribution Agreement

Date: 9 May 2002

Parties:

- (i) TCL Holdings;
- (ii) TCL Zhongshan Air Conditioner;
- (iii) TCL Shaanxi; ((i) to (iii) collectively referred to as the “Suppliers' Group”) and
- (iv) TCL Overseas Sales

Particulars:

Pursuant to the Overseas Distribution Agreement, upon completion of the S&P Agreement, the Suppliers' Group or any of them will enter into and thereafter continue to enter into the transactions with TCL Overseas Sales in relation to the distribution of the WG Products in the Territory. Under the Overseas Distribution Agreement, where TCL Overseas Sales or any of its subsidiaries makes a written offer to purchase any WG Products for delivery to any place in the Territory, the relevant member of the Suppliers' Group shall accept such offer if and only if the terms of the offer are (a) not less favourable to TCL Overseas Sales and its subsidiaries than those on which the relevant member of the Suppliers' Group has supplied/sold such WG Products to any independent third parties in the Territory and (b) the price as offered by TCL Overseas Sales is not more than the average price at which such WG Products have been sold to independent third parties in the Territory by the Suppliers' Group.

The Overseas Distribution Agreement is valid for a term of 3 years from completion of the S&P Agreement and it provides that the transaction amount pursuant to the Overseas Distribution Agreement shall not exceed HK\$20.0 million, HK\$33.8 million and HK\$42.2 million for the three years ending 31 December 2004 respectively. Such caps have been determined on the following basis:

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- (i) a 20% annual increment on the projected production of the White Goods for each of the three years ending 31 December 2004; and
- (ii) no significant fluctuation in the selling price for the White Goods for each of three years ending 31 December 2004.

and based on the Directors' best estimation. The terms of the Overseas Distribution Agreement have been determined on an arm's length basis and the transactions pursuant thereto will be conducted in the ordinary course of business of the parties concerned and on normal commercial terms.

(B) PRC Distribution Agreement

Date: 9 May 2002

Parties:

- (i) TCL Holdings;
- (ii) TCL Zhongshan Air Conditioner;
- (iii) TCL Shaanxi; ((i) to (iii) collectively referred to as the "Suppliers' Group") and
- (iv) TCL PRC Sales

Particulars:

Pursuant to the PRC Distribution Agreement, upon completion of the S&P Agreement, the Suppliers' Group or any of them will enter into and thereafter continue to enter into the transactions with TCL PRC Sales in relation to the distribution of the WG Products in the PRC. Under the PRC Distribution Agreement, where each of the members of the Suppliers' Group appoints TCL PRC Sales as its sales agent for the distribution of its WG Products, the relevant member of the Suppliers' Group will pay TCL PRC Sales a monthly fee of 1.7% of the monthly total invoiced sales of WG Products distributed by TCL PRC Sales. In addition, where the sales are conducted through the branch companies of TCL PRC Sales, the relevant member of the Suppliers' Group is required to pay an additional monthly fee based on 0.25% of the monthly total invoiced sales of WG Products of such branch companies. The above percentages are based on the the Company's estimate on the actual cost incurred with a mark up of 10%. Each member of the Supplier Group will also pay TCL PRC Sales an annual bonus of 1% of an amount equivalent to the annual invoiced sales of WG Products distributed by TCL PRC Sales after deducting therefrom the fees paid to TCL PRC Sales and which are to be borne by the relevant member of the Supplier Group under the Distribution Agreements.

The PRC Distribution Agreement is valid for a term of 3 years from the date of completion of S&P the Agreement. The Directors expect that the transaction amount of the transactions pursuant to the PRC Distribution Agreement shall not exceed HK\$29 million, HK\$35 million and HK\$36 million for

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the three years ending 31 December 2004 respectively. Such caps have been determined on the following basis:

- (i) a slight decrease in the average selling price of the White Goods in 2002 and remain stable for both 2003 and 2004;
- (ii) a moderate increase in the projected sales of the White Goods for each of the three years ending 31 December 2004; and
- (iii) around 2% of the commission will be received by TCL PRC Sales for each of the three years ending 31 December 2004

and based on the Directors' best estimation. The terms of the PRC Distribution Agreement have been determined on an arm's length basis and the transactions pursuant to the PRC Distribution Agreement will be conducted in the ordinary course of business of the parties concerned and on normal commercial terms.

D2 Reasons for the Ongoing Connected Transactions

The Directors consider that it is in the interests of the Company and Shareholders (including the Independent Shareholders) that each of TCL Overseas Sales and TCL PRC Sales enters into the Overseas Distribution Agreement and the PRC Distribution Agreement respectively with the Suppliers' Group as such the relevant 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 the WG Products in the Territory and the PRC and without incurring significant additional overheads by utilising the Group's existing distribution network in the marketing and sales of other products manufactured by the Group. From the perspective of the Supplier Group, the significant costs that is required to build up a distribution network in the PRC and overseas as extensive as that of the Group can be saved.

For reference, turnover for the three months ended 31 March 2002 for each of TCL Zhongshan Air Conditioner, TCL Rechi, Shanghai TCL Shinnig and TCL Shaanxi are approximately RMB54.1 million (approximately HK\$51.0 million), approximately RMB4.3 million (approximately HK\$4.1 million), nil and approximately RMB19.9 million (approximately HK\$18.8 million) respectively.

D3 Disclosure Requirement and Waiver Application

As TCL Holdings is the ultimate controlling shareholder of the Company, the transactions pursuant to the Overseas Distribution Agreement and the PRC Distribution Agreement will constitute connected transactions for the Company under the Listing Rules.

The Directors expect that the aggregate transaction amount pursuant to the Overseas Distribution Agreement and the PRC Distribution Agreement will not exceed HK\$49.0 million, HK\$68.8 million (or 3% of the book value of the consolidated net tangible asset value of the Group as disclosed in its published consolidated

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accounts for the financial year ending 31 December 2002, whichever is the lower amount) and HK\$78.2 million (or 3% of the book value of the consolidated net tangible asset value of the Group as disclosed in its published consolidated accounts for the financial year ending 31 December 2003, whichever is the lower amount) for the three years ending 31 December 2004 respectively (the “Cap Amounts”). In view thereof and as these transactions will be conducted in the ordinary and usual course of business of the parties thereto, they are only subject to disclosure requirement under the Listing Rules.

The Company has applied to the Stock Exchange for a waiver from compliance with the requirement to make further press announcements pursuant to Rule 14.25 of the Listing Rule in respect of the Ongoing Connected Transactions subject to the following conditions:

- (i) the Ongoing Connected Transactions will be:
 - (a) entered into by the TCL PRC Sales and TCL Overseas Sales in the ordinary and usual course of their respective 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 Overseas Distribution Agreement and the PRC Distribution Agreement (as the case may be).
- (ii) the aggregate value of each type of the Ongoing Connected Transactions for each of the three years ending 31 December 2004 will be within the respective Cap Amounts;
- (iii) the independent non-executive Directors will review these transactions annually and confirm in the Company's annual report that the Ongoing Connected Transactions were conducted in the manner as stated in (i) and (ii) above;
- (iv) the Company's auditors shall review the Ongoing Connected 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) these transactions are in accordance with the pricing policies of the Group;
 - (b) the aggregate amounts of these transactions has exceeded the relevant Cap Amounts;
 - (c) these transactions have been approved by the Directors; and
 - (d) these transactions have been entered into in accordance with the Overseas Distribution Agreement and the PRC Distribution Agreement (as the case may be).

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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 will 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
- (vi) each of the Company, TCL Overseas Sales and TCL PRC Sales and members of the Supplier Group 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 their relevant records for the purpose of the auditors' review of such transactions.

The Company will comply with the requirements of Rule 14.26 of the Listing Rules and seek the approval of the Independent Shareholders before the Group carries out any transaction pursuant to the Overseas Distribution Agreement and the PRC Distribution Agreement to such extent as would result in the total transaction amount thereof exceeding the relevant Cap Amounts.

E. EGM

An EGM will be convened at which ordinary resolutions will be proposed to approve the Variation Deed. Notice convening the EGM will be given as soon as practicable. In view of the interests of TCL Holdings in the Variation Deed, TCL Holdings and its respective associates will abstain from voting at the EGM in respect of such resolution.

F. 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.

Cazenove has been appointed as the financial adviser to advise the Company on the transactions contemplated by the JV Agreement, the S&P Agreement, the Variation Deed and the Ongoing Connected Transactions. In view of the interests of TCL Holdings in the Variation Deed, the Independent Board Committee has been formed to advise the Independent Shareholders on whether or not the terms of the Variation Deed are fair and reasonable and in the interest of Independent Shareholders and the Company 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 Variation Deed.

A circular containing, among other things, further information on the Variation Deed, the letter from an independent financial adviser containing its advice to the Independent Board Committee in relation to the

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Variation Deed, the recommendation of the Independent Board Committee in relation to the Variation Deed and, for Shareholders' reference, a copy of the notice convening the EGM will be dispatched to the Shareholders as soon as practicable.

G. TERMS USED IN THIS ANNOUNCEMENT

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

“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)
“Company”	TCL International Holdings Limited, the shares of which are listed and traded on the Stock Exchange
“controlling shareholders”	has the meaning ascribed thereto under the Listing Rules
“Deed of Non-Competition”	a deed entered into between TCL Holdings and TCL Industries on 15 November 1999 in favour of the Company whereby each of TCL Holdings and TCL Industries have undertaken not to directly or indirectly, carry on or be engaged or interested in the Restricted Activity
“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 Variation Deed
“Group”	the Company together with its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising Messrs. Hon Fong Ming and Albert Thomas da Rosa, Junior, the independent non-executive Directors, appointed to advise the Independent Shareholders in respect of the Variation Deed
“Independent Shareholders”	Shareholders of the Company except TCL Holdings and its associates
“Investment Agreement”	the investment agreement entered into between TCL Holdings and New Technology Co. on 9 May 2002 with respect to the setting up of JV
“JV”	the joint venture company to be set up pursuant to the Investment Agreement and to be engaged in the R&D aspect of the design and production of audio visual products with advanced technology including colour-TV and will be owned as to 25% by New Technology Co. and 75% by TCL Holdings
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Technology	Shenzhen TCL New Technology Co. Ltd. (\\raster(50%,p)=\"c02.a02327\"), a wholly-owned

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Co.”	subsidiary of the Company
“Ongoing Connected Transactions”	the transactions between the Supplier' Group and TCL Overseas Sales pursuant to the Overseas Distribution Agreement regarding the purchase by TCL Overseas Sales from the Suppliers' Group of WG Products for distribution in the Territory; and the transactions between the Suppliers' Group and TCL PRC Sales pursuant to the PRC Distribution Agreement regarding the distribution of WG Products in the PRC
“Overseas Distribution Agreement”	Overseas distribution agreement entered into among TCL Holdings, TCL Zhongshan Air Conditioner, TCL Shaanxi and TCL Overseas Sales on 9 May 2002
“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 Distribution Agreement”	PRC distribution agreement entered into among TCL Holdings, TCL Zhongshan Air Conditioner, TCL Shaanxi and TCL PRC Sales on 9 May 2002
“R&D”	research and development
“Relevant Interest”	any interest in any company or entity which is engaged or to be engaged in the manufacture, assembly, distribution and maintenance of television and other audio-visual products acquired or otherwise become interested and thereafter hold (directly or indirectly) by TCL Holdings or TCL Industries
“Restricted Activity”	means activities restricted from carrying on by TCL Holdings and TCL Industries and their respective associates (as defined under the Listing Rules) pursuant to the Deed of Non-Competition which, at present are the manufacture, assembly, distribution and maintenance of audio-visual products, White Goods and products relating to internet related information technology from time to time
“RMB”	Renminbi, the lawful currency of the PRC
“S&P Agreement”	Sales and Purchase Agreement in relation to the disposal of White Goods manufacturing business to TCL Holdings or its designated wholly-owned subsidiary(ies).
“Shanghai TCL”	\raster(50%,p)=""c01_A02327", a 20% equity-owned investment of the Company
“Shares”	Share(s) of HK\$0.10 each in the capital of the Company
“Shareholders”	Holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Suppliers' Group”	means TCL Holdings, TCL Zhongshan Air Conditioner and TCL Shaanxi
“TCL BVI”	TCL Holdings (BVI) Limited, a wholly-owned subsidiary of the Company
“TCL Holdings”	Guangdong TCL Group Co. Ltd., the Company's existing controlling shareholder (as defined in the Listing Rules), which currently holds approximately indirect 55.15% interest in the Company
“TCL Huizhou”	TCL King Electrical Appliances (Huizhou) Co. Ltd., a wholly-owned subsidiary of the Company
“TCL Industries”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the immediate holding company of the Company and a wholly-owned subsidiary of TCL Holdings
“TCL Overseas	TCL Overseas Holdings Limited, a company incorporated in the British Virgin Islands and a

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Sales”	wholly-owned subsidiary of the Company
“TCL PRC Sales”	TCL Electrical Appliance Sales Co., Ltd., a 51% subsidiary of the Company
“TCL Rechi”	TCL Rechi (Huizhou) Refrigeration Equipment, a company established in the PRC, a 50% subsidiary of the Company
“TCL Shaanxi”	TCL Electric Appliances (Shaanxi) Co., Ltd., a company established in the PRC, a 70% subsidiary of the Company
“TCL Zhongshan Air Conditioner”	TCL Air Conditioner (Zhongshan) Co., Ltd., a company established in the PRC, a 75% subsidiary of the Company
“Territory”	means any territory in the world except PRC
“WG Products”	means any goods (including air-conditioners, refrigerators, washing machines and their components) manufactured, produced or otherwise sold by any member of TCL Holdings
“White Goods”	means home electrical appliances traditionally designed in light colour, including but not limited to refrigerators, washing machines and air conditioners
“Variation Deed”	the variation deed to be entered into among TCL Holdings, TCL Industries and the Company for the purpose of amending certain terms of the Deed of Non-Competition

By order of the Board

Li Dong Sheng

Chairman

9 May 2002

**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 = RMB1.06. 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)