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**TCL 通訊科技控股有限公司**

**TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED**

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

(Stock Code: 2618)

**DISCLOSEABLE AND SHARE TRANSACTION  
CONNECTED TRANSACTION  
FRAMEWORK AGREEMENT**

The Board is pleased to announce that on 11 May 2005, the Company entered into the Framework Agreement with Alcatel Participations in relation to the future operation of T&A SAS which is a wholly owned subsidiary of T&A HK, the joint venture established between the Company and Alcatel Participations in August 2004 and owned by the Company and Alcatel Participations as to 55% and 45% respectively.

The Group intends to further evolve the business platform of T&A HK and transform T&A SAS, the direct wholly owned French subsidiary of T&A HK, into a business development, sales and marketing and product development support centre focusing on the European market. Accordingly, adjustments to the corporate structure of T&A HK as contemplated under the Framework Agreement are planned to better reflect the outlook on its operations.

Pursuant to the Framework Agreement, the Company shall acquire the Alcatel Shares by way of Share Swap. The Share Swap requires approval of the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares to be issued pursuant thereto, and failing which by 31 July 2005, TCL or its affiliate shall acquire the Alcatel Shares for consideration of €10 million (about HK\$99.8 million).

The Framework Agreement constitutes a discloseable and share transaction for the Company under the Listing Rules. As Alcatel Participations, by virtue of its 45% interest in T&A HK, is a connected person of the Company, the Framework Agreement will also constitute a connected transaction for the Company and since the amount involved thereunder exceeds 2.5% of the Relevant Ratio, the Framework Agreement is subject to the requirements of reporting, announcement and approval by the Independent Shareholders in accordance with Chapter 14A of the Listing Rules.

The Framework Agreement was negotiated and entered into on an arm's length basis in the ordinary and usual course of business of the Group and on normal and commercial terms which, in the Directors' opinion, are fair and reasonable and in the interests of the Shareholders as a whole.

**The Directors wish to emphasize that certain transactions contemplated under the Framework Agreement are subject to conditions precedent. If such conditions are not fulfilled by its deadline as mentioned herein, the Framework Agreement will be terminated. Accordingly, Shareholders and investors are advised to exercise caution when dealing with the Shares.**

At the request of the Company, trading in its Shares was suspended with effect from 9:30 am, 12 May 2005, pending the issuance of this announcement.

Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 am, 17 May 2005.

## **FRAMEWORK AGREEMENT**

Date: 11 May 2005  
Parties: (i) The Company  
(ii) Alcatel Participations

### **INTRODUCTION**

As noted in the result announcement of the Company for the three months ended 31 March 2005, the Company strives to improve operating efficiencies and reduce operating cost. Towards this end, the Company intends to further evolve the business platform of T&A HK and transform T&A SAS, the direct wholly owned French subsidiary of T&A HK, into a business development, sales and marketing and product development support centre focusing on the European market. Accordingly, adjustments to the corporate structure of T&A HK are planned to better reflect the outlook on its operations. The followings are the key terms of the Framework Agreement.

### **T&A SAS REDUCING ITS OPERATING COSTS**

Alcatel undertakes to take over the employment contracts of all T&A SAS employees of about 360 peoples in several steps over an 18-month period. The first transfer of employees shall take place as soon as possible from 1 July 2005. The timing for the transfer of the remaining employees and the actual number of such employees to be transferred will depend on the progress of transforming T&A SAS into the new business undertaking as described below. T&A SAS is required to compensate Alcatel for certain liabilities (such as paid vacation days, retirement indemnity and seniority award) accrued in connection with the employees to be transferred. The transfer of T&A SAS employees together with the transformation of T&A SAS into the new business undertaking as described below will substantially streamline the operating scale of T&A SAS and thus reduce its operating costs.

### **ACQUISITION OF ALCATEL SHARES**

The Alcatel Shares represent the shares allotted by T&A HK to Alcatel at the time of the establishment of T&A HK for its contribution of cash of €45 million (about HK\$448.9 million) and its mobile handset business amounting to a value of €45 million (about HK\$448.9 million) pursuant to the Subscription Agreement (details of which are set out in the Listing Document). Closing of the Subscription Agreement was completed on 31 August 2004.

The Framework Agreement requires the Company to acquire from Alcatel Participations the Alcatel Shares by way of Share Swap. The Share Swap requires approval of the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares to be issued pursuant thereto, and failing which by 31 July 2005, the Company or its affiliate is required to acquire the Alcatel Shares for consideration of €10 million (about HK\$99.76 million) by 16 August 2005. The cash payment will be funded by the Group's working capital.

The acquisition is subject to the payment by Alcatel to T&A HK a sum of €1.28 million (about HK\$12.77 million) in cash for the Post-closing Adjustment pursuant to the Subscription Agreement which provides that if the net asset value of Alcatel's mobile handset business injected in T&A HK as of the closing date of the Subscription Agreement is lower than the net asset value estimated by Alcatel prior to such date, Alcatel shall be required to pay the difference in cash to T&A HK (details of which are set out in the Listing Document).

After the acquisition of the Alcatel Shares by the Company, T&A HK will become a wholly owned subsidiary of the Company. Accordingly, all directors of T&A HK will be appointed by the Company. T&A HK, being the sole shareholder of T&A SAS, will appoint the president of T&A SAS. Alcatel will

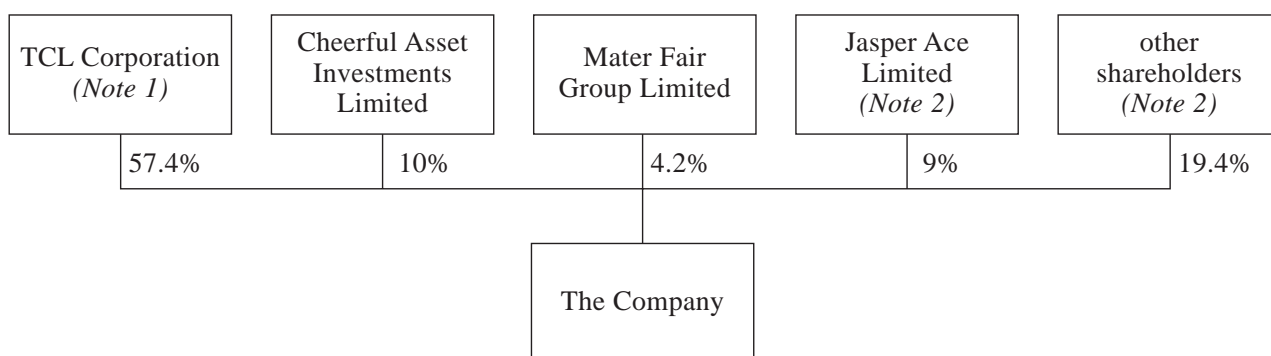
then no longer be involved in the operation of T&A HK or T&A SAS. Save for (i) the amendment to the Pre-closing IP Agreement as mentioned under the paragraph headed “Alcatel Cash Payment” below and (ii) the amendment to the Alcatel mark license agreement such that the Alcatel name and logo cannot be included in the company names of the members of the Group, the entering into of the Framework Agreement will not affect the transaction documents entered into between Alcatel and T&A HK at the closing of the Subscription Agreement in relation to the licences of intellectual property and trademark and provision of transitional services by Alcatel to T&A HK (namely, the Pre-Closing IP Agreement, the post closing intellectual property licence agreement, the Alcatel mark license agreement, the trademark and domain name assignment and license agreement and the transitional services agreement, all being dated 18 June 2004, details of which are set out in the Listing Document). Currently, the involvement of Alcatel in T&A HK and T&A SAS are related to the aforesaid transaction documents only. Accordingly, the operation of T&A HK and T&A SAS will not be affected by Alcatel ceasing to be a shareholder of T&A HK and have representation in the board of T&A HK.

The number of Shares to be issued pursuant to the Share Swap will be equivalent to 5% of the issued Shares on the last trading day before the Share Swap Completion Date. Based on a total of 2,827,500,000 Shares in issue as at the date of this announcement (and assuming no further Shares will be issued thereafter until the Share Swap Completion Date), 141,375,000 Shares will be issued upon completion of the Share Swap (representing about 4.76% of the enlarged issued share capital of the Company immediately after completion of the Share Swap). Based on the average closing price of HK\$0.448 per Share for the 5 trading days prior to the date of this announcement, 141,375,000 Shares represent a market value of about HK\$63.34 million.

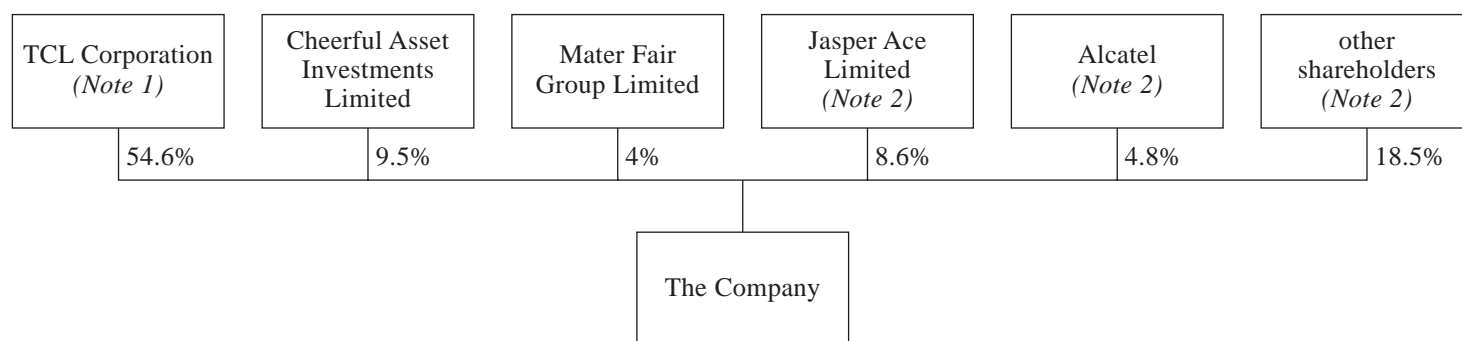
The Share Swap will constitute material modifications to the terms of the Put and Call Option Agreement (details of which are set out in the Listing Document), under which, among other things, the Company granted to Alcatel a put option, in consideration of a call option granted by the Company to Alcatel, to exchange the Alcatel Shares to be exercised by Alcatel on or after 31 August 2008 for such number of the Shares to be agreed between the parties or otherwise in accordance with the formula as set out therein. The Put and Call Option Agreement will be terminated upon completion of the acquisition of the Alcatel Shares by the Company.

The shareholdings of the Company before and after completion of the Share Swap are as follows:

### Before completion of Share Swap



## After completion of Share Swap



*Notes:*

- (1) TCL Corporation holds interest in the Company through T.C.L. Industries Holdings (H.K.) Limited, its wholly owned subsidiary.
- (2) Jasper Ace Limited, Alcatel and other shareholders (save for certain Directors) are regarded as public shareholders under the Listing Rules. (Please refer to the annual report of the Company for the interest of the Directors.)

Based on the audited accounts of T&A HK as at 31 December 2004 and the unaudited accounts as at 31 March 2005, the net loss before taxation and extraordinary items attributable to the Alcatel Shares for the financial year of 2004 and first quarter of 2005 amounted to about HK\$119 million and HK\$162 million respectively, and the net loss after taxation and extraordinary items attributable to the Alcatel Shares amounted to about HK\$116 million and HK\$161 million respectively. Based on the audited accounts of T&A SAS as at 31 December 2004 and the unaudited accounts as at 31 March 2005, its net loss before taxation and extraordinary items for the financial year of 2004 and first quarter of 2005 amounted to about HK\$289 million and HK\$309 million respectively, and its net loss after taxation and extraordinary items amounted to about HK\$285 million and HK\$302 million respectively.

Based on the net asset value of T&A HK as shown in its audited accounts of T&A HK as at 31 December 2004, the Alcatel Shares represent a value of about HK\$342 million. Based on the average closing price of HK\$0.448 per Share for the 5 trading days prior to the date of this announcement, 141,375,000 Shares to be issued pursuant to the Share Swap (and assuming no further Shares will be issued thereafter until the Share Swap Completion Date) represent a value of about HK\$63.34 million. Accordingly, the market value of the 141,375,000 Shares to be issued pursuant to the Share Swap of about HK\$63.34 million as arrived above represents about a discount of 81% of the value of the Alcatel Shares, and the cash consideration of €10 million (about HK\$99.76 million) represents a discount of about 71% of the value of the Alcatel Shares.

Based on the net asset value of T&A HK as shown in its unaudited accounts of T&A HK as at 31 March 2005, the Alcatel Shares represent a value of about HK\$184 million. Based on the average closing price of HK\$0.448 per Share for the 5 trading days prior to the date of this announcement, 141,375,000 Shares to be issued pursuant to the Share Swap (and assuming no further Shares will be issued thereafter until the Share Swap Completion Date) represent a value of about HK\$63.34 million. Accordingly, the market value of the 141,375,000 Shares to be issued pursuant to the Share Swap of about HK\$63.34 million as arrived above represents about a discount of 66% of the value of the Alcatel Shares, and the cash consideration of €10 million (about HK\$99.76 million) represents a discount of about 46% of the value of the Alcatel Shares.

The Directors are of the view that the cash consideration and the payment by way of Share Swap for the acquisition of the Alcatel Shares were negotiated and determined on an arm's length basis and on normal commercial terms.

Based on the audited accounts of T&A HK as at 31 December 2004, the total assets attributed to the Alcatel Shares amounted to about HK\$1,333 million. Based on the unaudited consolidated accounts of T&A HK as at 31 March 2005, its turnover and net loss for the three months ended 31 March 2005 amounted to about HK\$1,027 and HK\$357 million respectively, and its net asset value as at 31 March 2005 was about HK\$409 million.

Based on the unaudited accounts of the Group as at 31 March 2005, the turnover of T&A HK and T&A SAS attributed about 61% and 40% of the Group's turnover respectively.

## **ALCATEL CASH PAYMENT**

In consideration of the release of its IP Indemnification Obligation as mentioned below, Alcatel shall pay €20 million (about HK\$199.51 million) in cash to T&A HK on the later of 1 October 2005 or the date on which the conditions precedent set out under the heading "Conditions Precedent" below having been fulfilled. Such payment is subject to the completion of the Company's acquisition of the Alcatel Shares. Upon such payment and in consequence of Alcatel ceasing to hold directly or indirectly any shares in T&A HK, Alcatel will be fully released from its IP Indemnification Obligation in respect of the patent cross license under the Pre-closing IP Agreement, and any claims existing or in connection with such obligations save for certain third party claims (Details of the Pre-closing IP Agreement are set out in the Listing Document).

## **CONDITIONS PRECEDENT**

The respective obligations of the parties to the Framework Agreement (save for in respect of the Soft Landing) are subject to the satisfaction of the following conditions:

- (a) the Shareholders shall have approved the terms of the transactions contemplated under the Framework Agreement (save for in respect of the Soft Landing) at the EGM; and
- (b) T&A HK shall have utilized the sum of €67.5 million (about HK\$673 million) forming part of the subscription money paid by the Company and Alcatel Participations for shares of T&A HK at the time when T&A HK was established, to invest in T&A SAS.

If the condition (a) is not fulfilled on or prior to 31 July 2005 or if the condition (b) is not fulfilled within 5 business days from the date of the Framework Agreement, the Framework Agreement shall be terminated.

In case the acquisition of the Alcatel Shares is made by way of Share Swap, the approval of the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares to be issued under the Share Swap is also required and an application will be made to the Stock Exchange for the listing of and permission to deal in such Shares.

## **REASONS FOR ENTERING INTO THE AGREEMENT**

The key objective of the restructuring as contemplated in the Framework Agreement is to enhance the competitiveness of the group of companies under T&A HK, especially T&A SAS, by optimizing its operations and reducing its operating cost through the transfer of the employees of T&A SAS to Alcatel and the Soft Landing in an effective and responsible manner. T&A HK will as a result improve the overall operation efficiency and have full control of the human resources deployment within its group. Given T&A HK will become a direct wholly owned subsidiary of the Company, the Company will have full control over its resources and be able to speed up business integration within the Group. As a result, more significant synergies resulting from the procurement, manufacturing, research and development and economies of scale within different members of the Group are expected to be realized and hopefully the Company will be in a better position to turn around its current loss position. Although T&A HK and T&A SAS are now making a loss, the Directors expect that through the restructuring as contemplated in the Framework Agreement, T&A HK and the group of companies thereunder will achieve the aforesaid synergies which are expected to contribute its profits to the Group in the future.

The Framework Agreement was negotiated and entered into on an arm's length basis in the ordinary and usual course of business of the Group and on normal and commercial terms which, in the Directors' opinion, are fair and reasonable and in the interests of the Shareholders as a whole.



“Alcatel Participations”	Alcatel Participations, a company incorporated in France and an indirect wholly owned subsidiary of Alcatel and currently owns 45% of issued share capital of T&A HK
“Alcatel Shares”	all Alcatel’s shares in T&A HK, representing 45% of the share capital of T&A HK
“Board”	the board of Directors
“Company”	TCL Communication Technology 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
“Directors”	the directors of the Company
“Euro” or “€”	the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union and the Treaty of Amsterdam or otherwise participates in European economic and monetary union in a manner and with similar effect to such third stage;
“EGM”	an extraordinary general meeting of the Company to be convened to approve the Framework Agreement
“Framework Agreement”	the framework agreement dated 11 May 2005 entered into between Alcatel and the Company in relation to future operation of T&A SAS
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board of committee comprising the 3 independent non-executive Directors having been appointed to advise the Independent Shareholders in respect of the Framework Agreement
“Independent Shareholders”	in respect of a connected transaction proposed to be voted on at a general meeting of the Company, shareholders that are not required under the Listing Rules to abstain from voting to approve such connected transaction
“IP Indemnification Obligation”	the obligation of Alcatel to indemnify T&A HK pursuant to the Pre-closing IP Agreement
“Listing Document”	the listing document of the Company dated 20 September 2004
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange from time to time
“Post-closing Adjustment”	the post-closing adjustment to be made pursuant to the Subscription Agreement, the purpose of which is to maintain the net asset value of Alcatel’s mobile handset business injected to T&A HK as of the closing of the Subscription Agreement at nil and should have no net cash impact on T&A HK (details of which are set out in the Listing Document)

“PRC” or “China”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this announcement
“Pre-Closing IP Agreement”	the Pre-Closing Intellectual Property Assignment and License Agreement entered into between Alcatel Participations and T&A HK dated 31 August 2004 in connection with the establishment of T&A HK (details of which are set out in the Listing Document)
“Put and Call Option Agreement”	the Put and Call Option Agreement entered into between the Company and Alcatel dated 31 August 2004 in connection with the establishment of T&A HK (details of which are set out in the Listing Document)
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder”	holder of Share(s)
“Share Swap”	the transfer by Alcatel of Alcatel Shares in exchange for such number of Shares representing 5% of the issued Shares on the last trading day before the Share Swap Completion Date
“Share Swap Completion Date”	the date which is 5 business days following the date on which the conditions precedent of the Share Swap having been fulfilled
“Soft Landing”	a restructuring plan to be implemented among certain members of the Group with a view of transforming T&A SAS to a business development, sales and marketing and product development support centre focused on the European market
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	entered into between the Company and Alcatel dated 31 August 2004 for the establishment of T&A HK (details of which are set out in the Listing Document)
“T&A HK”	TCL & Alcatel Mobile Phones Limited, a 55% owned subsidiary of the Company, incorporated in Hong Kong with limited liability
“T&A SAS”	TCL & Alcatel Mobile Phones SAS, previously known as Sorelec SA, a company incorporated in France and wholly-owned by T&A HK

As at the date hereof, the board of directors of the Company comprises Messrs. Li Dong Sheng, Yuan Xin Cheng, Wan Mingjian, Wong Toe Yeung, Yan Yong, Vincent, Du Xiaopeng, Simon and Guo Aiping, George as executive directors and Messrs. Shi Cuiming, Wang Chongju and Lau Siu Ki, Kevin as independent non-executive directors.

For your convenience, this announcement contains translation between Hong Kong dollars and Euro at the rate of HK\$9.9755 = €1. The translation shall not be taken as representations that the Hong Kong dollars amount could actually be converted into Euro at that rate, or at all.

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

Hong Kong, 13 May 2005

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