

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF ESTABLISHMENT OF VIE STRUCTURE

THE VIE AGREEMENTS

The Board is pleased to announce that on 23 July 2019 (after trading hours), Falcon Technology entered into the VIE Agreements with the OPCO and/or the PRC Equity Owners. Through the VIE Agreements, Falcon Technology will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Agreements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will become an indirect subsidiary of the Company.

LISTING RULES IMPLICATIONS

Mr. WANG is a director of various subsidiaries of the Company whilst Ms. ZHU is the supervisor of a subsidiary of Falcon Technology. In other words, each of the PRC Equity Owners and hence the OPCO (being an associate of the PRC Equity Owners), is a connected person at subsidiary level of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements constitute connected transactions and continuing connected transactions of the Company.

The Board has approved the transactions contemplated under the VIE Agreements and the independent non-executive Directors have also confirmed that the terms of the VIE Agreements are fair and reasonable and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, by virtue of Rule 14A.101 of the Listing Rules, the transactions contemplated under the VIE Agreements are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and Shareholders' approval requirements.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) setting a fixed term for each of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to Falcon Technology under the Exclusive Business Co-operation Agreement.

INTRODUCTION

The Board is pleased to announce that on 23 July 2019 (after trading hours), Falcon Technology entered into the VIE Agreements with the OPCO and/or the PRC Equity Owners. Through the VIE Agreements, Falcon Technology will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Agreements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will become an indirect subsidiary of the Company.

THE VIE AGREEMENTS

A summary of the terms of the VIE Agreements is set out below:

(1) The Exclusive Business Co-operation Agreement

Date: 23 July 2019

Parties: (i) Falcon Technology; and
(ii) the OPCO.

Duration: From 23 July 2019 to 30 May 2037 unless superseded by agreements entered into by the parties or otherwise early terminated. Falcon Technology may at any time terminate the Exclusive Business Co-operation Agreement by giving thirty (30) days’ advance written notice to the OPCO whereas the OPCO has no right to terminate the Exclusive Business Co-operation Agreement unless Falcon Technology acted fraudulently or grossly negligently against the OPCO.

Falcon Technology reserves an unconditional right to extend the term of the Exclusive Business Co-operation Agreement prior to the expiry date of the Exclusive Business Co-operation Agreement.

Major terms: The OPCO shall engage Falcon Technology on an exclusive basis to provide business support, technical services, consulting services and other services, including but not limited to technical services, network support, business consultation, intellectual property licensing, leasing of equipment, market consultation, system integration, product R&D, system maintenance and other related services from time to time in accordance with the PRC Laws. For the avoidance of doubt, such services may be provided by Falcon Technology or its subsidiaries.

Fee determination:	<p>For the services provided by Falcon Technology under the Exclusive Business Co-operation Agreement, the OPCO shall pay, on a quarterly basis, to Falcon Technology a service fee that is set by Falcon Technology and stated in the invoice issued by Falcon Technology to the OPCO having taking into account the workload and commercial value of the services provided by Falcon Technology to the OPCO, and the service fee shall be equivalent to all profits generated by the OPCO, after deducting relevant costs, expenses and taxes. Falcon Technology shall be entitled to adjust the service fee standard at any time based on the volume and content of its services provided.</p> <p>Within fifteen (15) days after the end of each year, the OPCO shall provide Falcon Technology with all information for preparing the financial statements for the year and all business records, business contracts and financial information.</p>
Intellectual property rights:	<p>Falcon Technology reserves exclusive rights and interests over all the rights, interests, and intellectual property including but not limited to patent, patent application, trademark, software, technology secret and trade secret arising from the Exclusive Business Co-operation Agreement, irrespective of whether those are developed by Falcon Technology or the OPCO.</p>
Other exclusive rights:	<p>Subject to the laws and regulations of the PRC, Falcon Technology has the right to purchase, by itself or its designated nominee, at the appropriate time and at the lowest price permitted by the PRC Laws, all domain names that are currently and will be owned by the OPCO in the future, and to obtain all telecommunications business qualifications in relation to such domain names, and the OPCO shall not refuse but shall use all effort to assist Falcon Technology in handling relevant filing and recordation of changes. <i>(Note 1)</i></p>

Subject to the PRC Laws, Falcon Technology has the right to purchase, by itself or its designated nominee, at the appropriate time and at the lowest price permitted by the PRC Laws, all qualifications for operations of all Internet TV services that are currently and will be owned by the OPCO in the future (including but not limited to network culture business licenses), and the OPCO shall not refuse but shall use all effort to assist Falcon Technology in handling relevant filing and recordation of changes. (*Note 2*)

Without the prior written consent of Falcon Technology, the OPCO shall not separately permit any person other than Falcon Technology or its designated nominee to use any of the Internet TV business qualifications, domain names and telecommunications business qualifications of the OPCO.

Note 1: The domain names are classified as intangible assets, and are transferable to Falcon Technology under prevalent PRC Law.

Note 2: Whilst the Internet TV business qualifications and telecommunications business qualifications are not classified as assets, and are not transferable to Falcon Technology due to the restriction on foreign investment under prevalent PRC Laws (as disclosed in the sections headed “Background and Reasons for Use of the VIE Structure” and “Commercial Benefits of the Transactions” below), such provision is included as an additional safeguard and protection to Falcon Technology so that Falcon Technology could preserve its right to acquire such assets or qualifications in order to operate the business on its own if and when such restrictions are lifted.

(2) The Exclusive Purchase Right Agreement

Date: 23 July 2019

Parties: (i) Falcon Technology;

(ii) the OPCO; and

(iii) the PRC Equity Owners (namely Mr. WANG and Ms. ZHU).

Duration: From 23 July 2019 to 30 May 2037 unless superseded by agreements entered into by the parties or otherwise early terminated pursuant to applicable laws or pursuant to the terms of the Exclusive Purchase Right Agreement.

Falcon Technology reserves an unconditional right to extend the term of the Exclusive Purchase Right Agreement prior to the expiry date of the Exclusive Purchase Right Agreement.

The OPCO and the PRC Equity Owners shall have no right to terminate the Exclusive Purchase Right Agreement unless otherwise provided under applicable law.

Major terms: The PRC Equity Owners irrevocably grant Falcon Technology an exclusive right, at any time and from time to time, to purchase or nominate any individuals/entities to purchase all or part of their equity interests in the OPCO at the lowest price permissible (the “**Permissible Minimum Price**”) (*Note 1*) under the PRC Laws.

Subject to the laws and regulations of the PRC, the OPCO irrevocably grants Falcon Technology an exclusive right, at any time and from time to time, to purchase or nominate any individuals/entities to purchase all or part of the assets and business of the OPCO, at the Permissible Minimum Price under the PRC Laws.

The PRC Equity Owners shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of their equity interests in the OPCO (except as provided in the Equity Pledge Agreement), without the prior written consent from Falcon Technology, and shall procure the above effect at the shareholders' meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of the assets of the OPCO (except as provided in the Equity Pledge Agreement), without the prior written consent from Falcon Technology.

Falcon Technology has the sole discretion to decide when to exercise the purchase right, and whether to exercise the purchase right in part or in full.

Note 1: As advised by the PRC legal advisers of the Company, under current PRC Laws, there is no legal requirement on the value of the Permissible Minimum Price. The Permissible Minimum Price is to be agreed between the parties, and for illustration purpose, it can be as low as RMB1. Nevertheless, if the Group is to acquire all the equity interest in the OPCO (assuming there is no restriction on foreign investment) and if the consideration/equity transfer income for the equity interest of OPCO received by the PRC Equity Owners is regarded as too low and without any reasonable ground, pursuant to the Measures for the Administration of Individual Income Tax on Equity Transfer Income (for Trial Implementation)* (《股權轉讓所得個人所得稅管理辦法(試行)》), the tax authority may assess such equity transfer income and charge 20% tax thereof.

Undertakings and covenants:

The PRC Equity Owners and the OPCO jointly and severally agree and undertake that, without the prior written consent from Falcon Technology, the OPCO would not (and the PRC Equity Owners would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to the following:

- (i) Supplementing, amending or modifying the articles of the OPCO, and increasing or reducing the OPCO's registered capital or in any other manner changing the registered capital structure of the OPCO;
- (ii) Selling, transferring, pledging or otherwise disposing of all or part of the assets and business of the OPCO, or providing any form of guarantee in favour of any third party with its assets or creating any other encumbrance on any of its assets;
- (iii) Incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, except for liabilities which have been disclosed to Falcon Technology and its written consent has been obtained thereof;
- (iv) Entering into any material agreements that is not within the OPCO's usual and normal scope of business (any agreements involving an amount of RMB100,000 or above will be deemed as material agreements);
- (v) Providing loans and credits to any third party;
- (vi) Conducting merger, consolidation, acquisition or restructuring of the OPCO's main business or assets, or otherwise any kind of acquisition or investment;

- (vii) Distributing dividends or equity entitlements unless with written request from Falcon Technology. However, at the request of Falcon Technology, the OPCO shall immediately distribute all the distributable profits to its shareholders; and
- (viii) Dissolving or liquidating the OPCO and distributing its remaining assets unless being required under the PRC Laws or as a result of arbitration.

In addition, the OPCO agrees and covenants with Falcon Technology that it shall, and the PRC Equity Owners shall procure the OPCO to:

- (i) Maintain the OPCO's corporate existence in accordance with good financial and business standards and usual practices by prudently and effectively operating its business and handling its affairs;
- (ii) Conduct the OPCO's business in the ordinary course of business to maintain the asset value of the OPCO and refrain from any act or omission that may adversely affect the OPCO's operation and asset value;
- (iii) At the request of Falcon Technology, provide Falcon Technology with relevant information regarding the OPCO's operation and finance;
- (iv) If requested by Falcon Technology, purchase and maintain insurance in respect of the OPCO's assets and business from an insurer acceptable to Falcon Technology, at an amount and type of coverage which are typical for companies that operate similar business;

- (v) Immediately notify Falcon Technology of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the OPCO's assets, business or revenue, and not settle without the prior consent of Falcon Technology;
- (vi) Execute all necessary or appropriate documents, take all necessary or appropriate actions, and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims so as to maintain OPCO's ownership of all its assets;
- (vii) Appoint any person designated by Falcon Technology as a director of the OPCO at the request of Falcon Technology; and
- (viii) If a dissolution or liquidation of the OPCO is required by the PRC Laws, the OPCO shall transfer all its assets and remaining interests to Falcon Technology or a third party designated by Falcon Technology at the minimum price under the relevant PRC Laws. The OPCO will waive the obligation and liability (if any) of Falcon Technology (or a nominee designated by Falcon Technology) to pay the corresponding consideration for such transfer. The liquidator or administrator shall obtain the assets of the OPCO pursuant to the aforesaid terms in favour of Falcon Technology.

The OPCO and each of the PRC Equity Owners further agree and undertake that they shall return the amount of purchase price of the equity interests, assets and business of the OPCO they have received from Falcon Technology (or any individuals/entities nominated by Falcon Technology, if applicable) to Falcon Technology (or any individuals/entities nominated by Falcon Technology, if applicable).

(3) The Equity Pledge Agreement

- Date: 23 July 2019
- Parties: (i) Falcon Technology (as pledgee);
- (ii) the OPCO; and
- (iii) the PRC Equity Owners (namely Mr. WANG and Ms. ZHU) (as pledgors).
- Duration: Effective upon the pledge being duly registered by the relevant administrative authority and shall remain binding until the PRC Equity Owners discharge all their obligations under the Exclusive Business Co-operation Agreement and the Exclusive Purchase Right Agreement in full.
- Major terms: The PRC Equity Owners agree to pledge all of their equity interests in the OPCO in favour of Falcon Technology to secure any payment by the OPCO to Falcon Technology.
- In the event of the OPCO being required to be dissolved or liquidated under the relevant PRC Laws or arbitration order, any interests distributed to the PRC Equity Owners resulting from such dissolution or liquidation shall, pursuant to the instruction of Falcon Technology, be (i) deposited into an account designated and monitored by Falcon Technology for the purpose of discharging guarantee obligations or liabilities; or (ii) subject to the relevant PRC Laws, unconditionally gifted to Falcon Technology or any person designated by Falcon Technology.
- Falcon Technology is entitled to any dividend derived from the pledged equity interests during the term of the pledge.

(4) The Authorisation Letter

- Date: 23 July 2019
- Parties: Each of the PRC Equity Owners executed an Authorisation Letter respectively
- Duration: Effective upon execution and shall remain in effect until the expiry of the terms of the Exclusive Business Co-operation Agreement, the Exclusive Purchase Right Agreement and the Equity Pledge Agreement.
- Major terms: Each of the PRC Equity Owners (as grantor) unconditionally and irrevocably authorises Falcon Technology and its successor (including a liquidator) (who may further delegate such rights to other individuals) (as grantee, whereas the grantee shall exclude the PRC Equity Owners and their associates) to exercise all of his/her rights as a shareholder of the OPCO under the PRC Laws, including but not limited to:
- (i) convening, attending and participating in shareholders' meetings and board meetings of the OPCO (as the case may be);
 - (ii) exercising all shareholders' rights and voting rights under relevant laws and regulations and articles of association of the OPCO, including but not limited to selling, transferring, pledging or dealing with whole or part of the equity interests of each of the PRC Equity Owners in the OPCO, executing minutes of meetings, and submitting documents to relevant government institutions or regulatory authorities for filing purposes;

- (iii) as the authorised representative of each of the PRC Equity Owners, designating, appointing and removing the legal representative, director, supervisor, general manager and other senior management staff of the OPCO;
- (iv) managing or dealing with any of the assets and business of the OPCO;
- (v) exercising full rights to control and manage all financing, accounting and daily operation of the OPCO; and
- (vi) receiving all bonuses, distributions or dividends derived from the equity interests of each of the PRC Equity Owners in the OPCO; if any of the PRC Equity Owners receives any dividends, interests, distributions, capital distributions in any form, or remaining assets after liquidation, the PRC Equity Owners would transfer such dividends, interests, distributions, capital distributions and assets after liquidation to Falcon Technology or any entity designated by Falcon Technology without any compensation.

(5) The Confirmation Letter

Date: 23 July 2019

Parties: Each of the PRC Equity Owners executed the Confirmation Letter respectively

Major terms: Each of the PRC Equity Owners agrees:

- (i) that in the event of his/her death, incapacity, divorce or any circumstances that may affect his/her ability to exercise his/her shareholder's rights in the OPCO, the ownership of and the rights to deal with his/her equity interests in the OPCO shall be transferred and vested in Falcon Technology, and Falcon Technology shall deal with such equity interests in accordance with the relevant requirements under the PRC Laws;
- (ii) that all the equity interests held by the respective PRC Equity Owner in the OPCO shall not form and shall not be dealt with as part of his/her asset, estate or matrimonial property; and
- (iii) that if, pursuant to the PRC Laws as it currently stands and as amended from time to time, a person may be entitled to assume rights in the equity interests of the OPCO held by him/her (such as his/her successor, guardian, creditor or spouse), he/she shall procure the aforesaid person to be bound by the VIE Agreements.

(6) The Spousal Consent Letter

Date: 23 July 2019

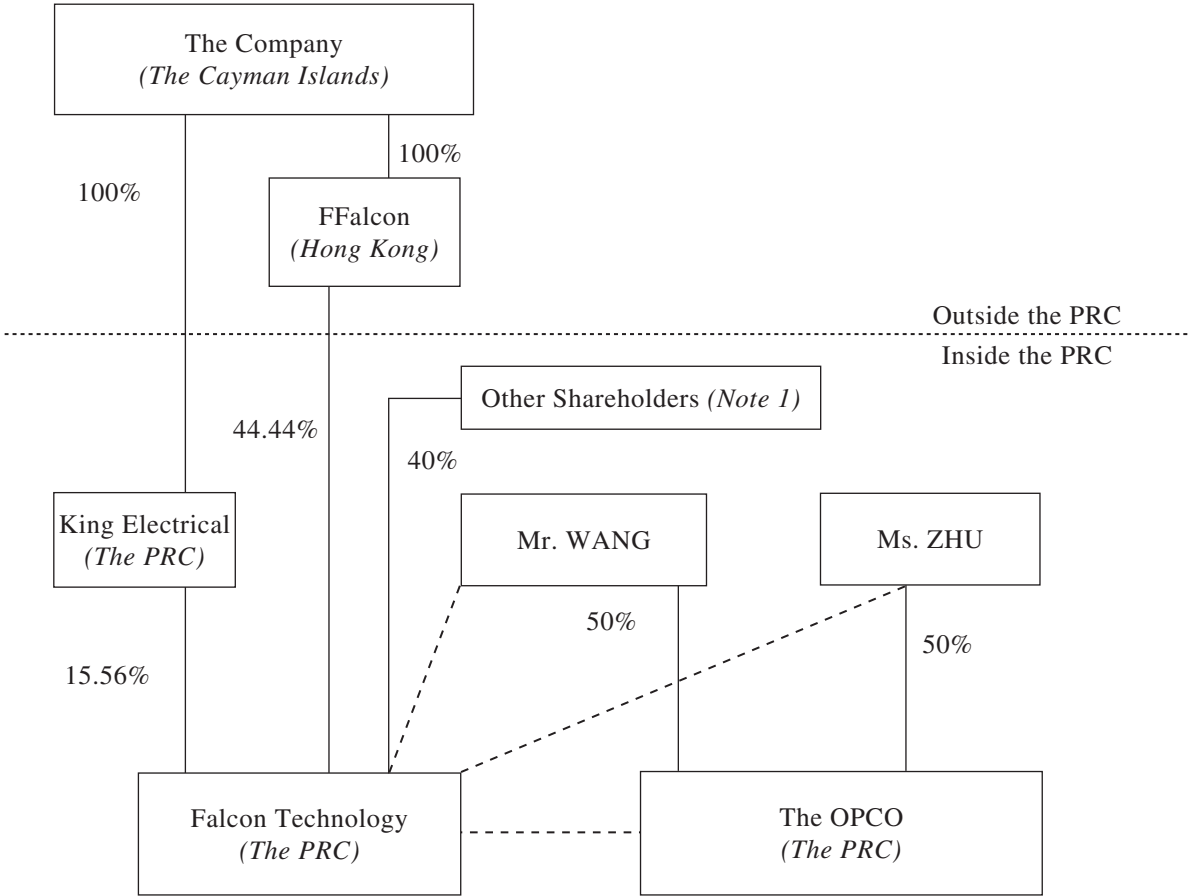
Parties: The spouse of each of the PRC Equity Owners

Major terms: The spouse of each of the PRC Equity Owners irrevocably agrees that:

- (i) All the equity interests held by the PRC Equity Owners in the OPCO and all the benefits derived from these equity interests shall not form part of their matrimonial property;
- (ii) He/She unconditionally and irrevocably waives any rights or entitlements to the equity interests of the OPCO;
- (iii) All the benefits derived from the equity interests in the OPCO belong to the PRC Equity Owners and can be dealt with in any way by the PRC Equity Owners without the consent of their spouses;
- (iv) He/She shall be bound by the relevant VIE Agreements in the event that they obtain any equity interest in the OPCO held by the PRC Equity Owners for any reason;
- (v) He/She shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance of the shareholder spouse's obligations under the VIE Agreements; and
- (vi) He/She, his/her successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in the equity interests of the OPCO held by him/her upon her death, incapacity, divorce or any circumstances that may affect his/her ability to exercise his/her shareholder's rights in the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of the shareholder spouse's obligations under the VIE Agreements.

DIAGRAM OF THE VIE STRUCTURE

The following diagram sets out the VIE Structure:



----- denotes contractual relationships under the VIE Agreements
 ————— denotes direct legal ownership in the equity interest

Note 1: The 40% equity interests of Falcon Technology are held by the following shareholders:

Name of shareholders	Approximate shareholding percentage in Falcon Technology
Shenzhen Zhida Tafang Technology Partnership (Limited Partnership)* (深圳智達拓方科技合夥企業(有限合夥)) (a limited partnership established in the PRC)	11.11%
Shenzhen Lexiang Tengsheng Technology Partnership (Limited Partnership)* (深圳樂享騰生科技合夥企業(有限合夥)) (a limited partnership established in the PRC)	11.11%
Tencent Digital (Shenzhen) Company Limited* (騰訊數碼(深圳)有限公司) (a company established under the laws of PRC with limited liability)	16.67%
Guangdong South New Media Company Limited* (廣東南方電視新媒體有限公司) (a company established under the laws of PRC with limited liability)	1.11%

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, other than FFalcon and King Electrical which are subsidiaries of the Company, (i) the other shareholders of Falcon Technology and their respective ultimate beneficial owners are independent third parties of the Company and its connected persons; and (ii) the other shareholders of Falcon Technology have no relationship with one another and act independently in their respective capacities as shareholders of Falcon Technology.

Information about Falcon Technology and the OPCO

Falcon Technology

Falcon Technology is an investment holding company incorporated in May 2017 which currently holds three subsidiaries in the PRC and one subsidiary in Hong Kong. Falcon Technology Group is principally engaged in research and development of software on smart TV devices and platform operation. As of the date of this announcement, the Company in aggregate holds 60% of the total equity interest of Falcon Technology.

The OPCO

The OPCO is a limited liability company established and subsisting under the laws of the PRC. As at the date of this announcement, the OPCO is wholly owned by the PRC Equity Owners (namely Mr. WANG and Ms. ZHU) and will be principally engaged in the Subject Business.

The OPCO was established in September 2016 and has been carrying on value-added services such as TV shopping, education, virtual reality (VR) business, gambling and FUNS show etc. on smart TV, which are completely different from the Subject Business. The Group has paid no consideration, whether to the PRC Equity Owners or to the OPCO, for entering into the VIE Agreements. Since August 2017, the OPCO ceased its then principal business activities, and by the end of 2017, the OPCO no longer had any employees. In the recent two years, the OPCO did not have any major business operation. Its revenue in late 2017 (around RMB2,280,000 for the period from August to December 2017) and year 2018 (around RMB1,076,000) mainly came from the settlement of pre-existing contractual sums and the selling of the remaining inventories from the previous business activities. As such, the business of the OPCO was readily convertible to the Subject Business without the need of making any additional arrangements.

The financial performance of the OPCO for the two recent financial years and the six months ended 30 June 2019 is set out below. As aforementioned, the OPCO has been carrying on business completely different from the Subject Business, and has ceased its principal business activities since August 2017. Accordingly, the financial information of the OPCO as disclosed below is only for information but will not serve as a useful reference to the financial performance of the OPCO in the Subject Business:

	For the six months ended 30 June 2019 (RMB'000)	For the year ended 31 December 2018 (RMB'000)	For the year ended 31 December 2017 (RMB'000)
Revenue	50	1,076	18,486
Net loss after tax	7,409	1,904	37,266
Total assets	2,614	9,741	12,218
– Non-current assets	–	3,000	3,000
– Inventories	–	940	1,034
– Receivables, prepayments and other current assets	1,013	4,173	7,737
– Cash	1,601	1,628	447
Total liabilities	2,821	2,539	3,112
– Payables	2,626	2,344	254
– Receipts in advance	195	195	2,518
– Salaries payable	–	–	340

The OPCO recorded a net loss after tax for the years ended 31 December 2017 and 2018 since, as explained above, it has ceased its principal business activities since August 2017. But the revenue was not enough to cover the fixed costs. Nevertheless, after setting up the VIE Structure and engaging in the Subject Business, the OPCO is expected to record a net profit after tax.

As of the date of this announcement, the liabilities of the OPCO were mainly payables to suppliers and loans borrowed for settling termination payments to employees. Since the OPCO is not a subsidiary of the Company prior to the entering into of the VIE Agreements, the net loss of the OPCO in the past was not consolidated into the Group and thus did not affect the Group's revenue and net profit after tax for the years ended 31 December 2017 and 2018.

After setting up the VIE Structure and engaging in the Subject Business, the OPCO is expected to record profit and thus contribute to the Group's profit for the year ending 31 December 2019. Further, it is expected that the setting up of the VIE Structure will not bring significant impact to the total assets and total liabilities of the Group. In particular, the paid-up capital of approximately RMB50,000,000 and accumulated loss of approximately RMB50,207,000 (up to 30 June 2019) of the OPCO will be set-off with the goodwill (recognised by the Group upon the OPCO being consolidated into the consolidated accounts of the Company, representing the difference between (A) the value of the consideration transferred (which is nil in the present case) and (B) the proportionate share of fair value of total identifiable net liabilities) and non-controlling interests at the consolidation level. For illustration purpose, based on the financial information of the OPCO as at 30 June 2019, the OPCO had a net liability of approximately RMB207,000. The Group is expected to recognise an increase in assets and liabilities of approximately RMB2,738,000 (including goodwill in the sum of RMB124,000 recognised upon the OPCO being consolidated into the consolidated accounts of the Company) and RMB821,000 respectively immediately after the OPCO is accounted for and consolidated in the consolidated accounts of the Company as a subsidiary following the entering into and coming into effect of the VIE Agreements. The actual financial impact as a result of the setting up of the VIE Structure is subject to the review and final audit by the auditor of the Company.

Notwithstanding the OPCO recorded a net loss and a net liability as at 30 June 2019, given it is not expected to bring a significant impact to the total assets and total liabilities of the Group and that the OPCO is expected to record a net profit after tax after it engages in the Subject Business after setting up of the VIE Structure as explained above and for reasons set out below, the Group considers it fair and reasonable to set up the VIE Structure through the OPCO instead of setting up a new company:

- (i) The Group intends to engage in the Subject Business as soon as possible in light of the pressing business needs. However, various preparation work, such as making applications to the relevant authority, opening bank and taxation accounts, are required for setting up a new company. Such preparation work would usually take at least 2 months and incur additional costs. On the other hand, the OPCO, as an established company, can engage in the Subject Business immediately after updating its business registration, which usually takes only one week. Accordingly, it is more time efficient and cost effective to set up the VIE Structure through the OPCO instead of setting up a new company. Further, existing licences possessed by the OPCO, including the Network Culture Operation License* (網絡文化經營許可證), is applicable and transferrable to the Subject Business, thus greatly facilitating the commencement of the Subject Business.

- (ii) During its course of business, the OPCO had co-operated with a number of business partners, which included some of the contemplated business partners of the Subject Business. Accordingly, the Group can utilise and ride on the existing contact network of the OPCO, thereby reducing communication obstacles by carrying on the Subject Business via the OPCO instead of setting up a new company.

BACKGROUND AND REASONS FOR USE OF THE VIE STRUCTURE

Laws and regulations relating to value-added telecommunications business in the PRC

According to the Telecommunication Regulation of the People's Republic of China (2016 Revision)* (《中華人民共和國電信條例(2016年修訂)》), which were promulgated by the PRC State Council on 25 September 2000 and amended on 29 July 2014 and 6 February 2016 respectively, the Ministry of Industry and Information Technology (“MIIT”) under the PRC State Council is responsible for the nation-wide supervision and administration of telecommunications. The telecommunications administrative authorities of all provinces, autonomous regions and municipalities under the direct control of the PRC central government are responsible, under the guidance of MIIT, for the supervision and administration of telecommunications in their regions. Telecommunications business shall be conducted with a licence obtained from MIIT or the telecommunications administrative authorities of the provinces, autonomous regions and municipalities under the direct control of the PRC central government. Telecommunications business is divided into two categories: basic telecommunications business and value-added telecommunications business. The provision of information services through fixed networks, mobile networks and Internet are regarded as value-added telecommunications business.

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)* (《外商投資電信企業管理規定 (2016年修訂)》), which were promulgated by the PRC State Council on 11 December 2001 and amended on 10 September 2008 and on 6 February 2016 respectively, (i) the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%, and (ii) a foreign investor who invests in value-added telecommunications services company shall have a good track record and experience in providing value-added telecommunications business (the “**Qualification Requirement**”) in the PRC.

According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018)* (《外商投資准入特別管理措施(負面清單)(2018年版)》), the ratio of investment by a foreign investor in value-added telecommunications business shall not exceed 50%.

Accordingly, the value-added telecommunications business operated and to be operated by the OPCO is regarded as restricted foreign investment business. The ratio of investment by a foreign investor in such business shall not exceed 50% (other than e-commerce).

Laws and regulations relating to Internet cultural business in the PRC

According to the Interim Provisions on the Administration of Internet Culture (2017 Revision)* (《互聯網文化管理暫行規定(2017年修訂)》), “Internet cultural activities” include the activities of producing, reproducing, importing, publishing or disseminating Internet cultural products. Internet cultural activities can be divided into two categories, namely, operational and non-operational. Whoever applies for engaging in commercial Internet cultural activities shall file an application with the cultural administrative department of the people’s government of the province, autonomous region or municipality directly under the PRC central government at its locality for examination and approval. An “Internet Culture Business Permit” will be issued to the successful applicant.

According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018)* (《外商投資准入特別管理措施(負面清單)(2018年版)》), foreign investment in Internet cultural activities business is prohibited (other than music).

Accordingly, foreign investment in the Internet cultural business operated and to be operated by the OPCO is prohibited.

Reasons for adopting the VIE Structure

The primary purpose for the Group to adopt the VIE Structure is to enable the Group to engage in this new profitable Subject Business in the PRC, thereby deepening the Group’s reach to those business segments as well as widening the Group’s customer base. However, due to the foreign investment restrictions under the PRC Laws as outlined above, the Group was not able to engage in this new profitable business directly without first adopting the VIE Structure.

In order to comply with the PRC Laws, the VIE Agreements were entered into among Falcon Technology, the OPCO and the PRC Equity Owners. Through the VIE Agreements, Falcon Technology will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

The Company has discussed with its auditor and confirms that the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group under the prevailing accounting principles upon entering into the VIE Agreements.

On the basis of the aforesaid confirmation and pursuant to Rule 1.01 of the Listing Rules, the Company further confirms that the OPCO will be an indirect subsidiary of the Company whereas 60% of its equity interest is attributable to the Company through Falcon Technology.

COMMERCIAL BENEFITS OF THE TRANSACTIONS

Internet smart TVs are gaining popularity and prevalence as the channel for daily entertainment as they meet consumers' needs via on-demand services, which enable the users to enjoy a large variety of services at their fingertips when and where needed. The prevalence of Internet smart TV as the channel for daily entertainment has significantly contributed to the rising monetization capability of Internet smart TV business.

Internet smart TV business is mainly based on members subscription whereas Internet users who subscribe to the membership of Falcon Technology Group will be entitled to enjoy the resources offered at the Internet TV platform of Falcon Technology Group.

However, such membership business of Falcon Technology does not and cannot support auto-payment, "WeChat Pay to Merchant" or the like functions, because a valid Network Culture Operation License* (網絡文化經營許可證) or commonly known as NCO Licence (文網文牌照) is required to be obtained for any entity offering such functions but Falcon Technology as a sino-foreign joint venture in which the Company owns more than 50% interest does not and cannot obtain a valid NCO Licence pursuant to prevalent PRC Laws. On the other hand, the OPCO holds a valid NCO Licence which can therefore facilitate payment by members, thereby greatly increasing the penetration rate of members, the rate of payment conversion, and the scale of payment.

After controlling the OPCO through the VIE Structure, the OPCO will carry on the video membership business and other value-added services ancillary to and supportive of the business of Falcon Technology Group, with the view to expand the business and collect payment; whereas Falcon Technology Group, as the design/research/foundation operation centre, will provide comprehensive technological support service, product design and management service, as well as comprehensive application programming interfaces (API) operating business support, in order to ensure the smooth running of the video membership business and other value-added services business of the OPCO. The business of the OPCO can also feature new functions such as auto-payment and "WeChat Pay to merchant", which have a positive effect in the sector of membership payment, thereby increasing the penetration rate of video members, conversion rate of payment and scale of payment significantly.

With the auto-payment function available, if a customer subscribes to annual/quarterly/monthly video membership and activates the auto-payment function, the system will execute the auto-payment before the expiry of the subscription, so that the customer will not be required to manually re-subscribe. This can avoid the customers suffering from suspension or termination of services because of delayed re-subscription, which will not only prejudice the customers' continuous enjoyment of Falcon Technology Group's products and services but also the business of Falcon Technology Group. Currently, as Falcon Technology Group is not entitled to apply for NCO Licence, the existing products of Falcon Technology can only support manual re-subscription. It is expected that with the auto re-subscription function introduced, the income of Falcon Technology from the relevant products will significantly increase.

“WeChat Pay to Merchant” is a function offered by WeChat Pay. Via such function, when a customer with WeChat Pay account (which is ubiquitous in the PRC and currently a commonly and generally accepted payment method by people in the PRC) purchases products of video membership business or other value-added service business, an online payment service will be initiated and thereby the OPCO can accept payment from such customer’s WeChat Pay account directly. WeChat Pay will only offer such function to merchant with a valid NCO Licence. Currently, as Falcon Technology Group is not entitled to apply for NCO Licence, it cannot accept payment directly through WeChat Pay and the WeChat payment model of Falcon Technology is and can only be realised through third-party suppliers with relevant WeChat payment qualification by paying handling fees to such suppliers. Whilst WeChat Pay customers currently account for a substantive proportion of the existing paying customers of Falcon Technology Group, the handling fees also account for a substantive proportion of the total financial costs of Falcon Technology in this respect. With the “WeChat Pay to Merchant” function available, it is expected that the said handling fees will decrease significantly when operated through the OPCO. Further, without the need to engaging a third-party supplier, the OPCO need not face any credit risk that may arise from or may be associated with such third-party supplier.

Accordingly, through the VIE Agreements, Falcon Technology Group can effectively control the finance and operation of the OPCO, as well as all the benefits and economic interests generated by the OPCO, thereby ensuring the healthy operation and rapid development of the Falcon Technology Group, and at the same time lowering the corporate finance costs and corporate capital risk whilst complying with the relevant PRC Laws and regulations.

COMPLIANCE OF VIE AGREEMENTS WITH THE PRC LAWS, RULES AND REGULATIONS

As advised by the PRC legal adviser, the VIE Agreements comply with the PRC Laws, rules and regulations applicable to the business of Falcon Technology and the OPCO and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC Contract Law* (《中華人民共和國合同法》). The VIE Agreements entered into by Falcon Technology, the OPCO and the PRC Equity Owners are legally enforceable and binding on each party in accordance with their terms and provisions under the PRC Laws except certain terms of the VIE Agreements as set out in the paragraph headed “Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under the PRC Laws” below.

DISPUTE RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE VIE AGREEMENTS

Conflict of interest

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. Each of the PRC Equity Owners has made necessary consents, confirmations and the undertakings, details of which are set out in the section above headed “VIE Agreements” in this announcement.

Dispute resolution clauses

The VIE Agreements are governed by and will be construed in accordance with the PRC Laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to the Shenzhen Court of International Arbitration (also known as South China International Economic and Trade Arbitration Commission)* (深圳國際仲裁院，又稱「華南國際經濟貿易仲裁委員會」) in accordance with its arbitration rules. The arbitrators may award remedies over the equity interest or assets of the OPCO, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the OPCO. The results of the arbitration shall be final and binding. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, the Cayman Islands, the PRC and locations where the principal assets of the Company or the OPCO are located.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of the PRC Equity Owners, as if the successors were a signing party to the VIE Agreements. Although the VIE Agreements do not specify the identity of successors to such PRC Equity Owners, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements. In addition, the spouse of the individual PRC Equity Owner has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “VIE Agreements – (6) The Spousal Consent Letter” in this announcement.

Mechanism to deal with death or divorce of the PRC Equity Owners

Appropriate provisions have been incorporated in the VIE Agreements to protect the Group’s interests in the event of death or divorce of the PRC Equity Owners. The VIE Agreements have certain provisions which set out that the respective agreement shall be binding on the assignees or successors of the PRC Equity Owners, details of which are set out in the section above headed “The VIE Agreements”.

Bankruptcy

The Company's PRC legal adviser has advised that under the PRC laws, there is no concept of bankruptcy of a natural person and hence it is impossible for the PRC Equity Owners to become bankrupt.

In any event, under the Equity Pledge Agreement it is one of the events of default where any adverse change occurs to the finance of the PRC Equity Owners so that Falcon Technology considers that their ability to perform their obligations under the Equity Pledge Agreement will be affected. In such case, Falcon Technology shall be entitled to declare an event of default and enforce the pledge on the equity interests of the OPCO. Moreover, Falcon Technology may elect to purchase all or part of the equity interests and/or assets (as the case may be) in the OPCO under the Exclusive Purchase Right Agreement.

Liquidation

Pursuant to the Exclusive Purchase Right Agreement, when Falcon Technology exercises its right to dissolve and liquidate the OPCO, if the PRC Equity Owners receive any residual assets and proceeds upon dissolution or liquidation, they shall return such residual assets and proceeds to Falcon Technology at nil consideration.

Unwinding the VIE Structure

The Company will unwind the VIE Structure as soon as the PRC Laws allow the Subject Business to be operated without the VIE Structure, and the Company or its nominee may acquire the equity interests in the OPCO held by the PRC Equity Owners and/or the assets and inventory of the OPCO allocated to the Subject Business to the extent as permitted by then applicable PRC Laws. In the event Falcon Technology exercises the right under the Exclusive Purchase Right Agreement to acquire the equity interests in the OPCO held by the PRC Equity Owners and/or the assets of the OPCO to unwind the VIE Structure, each of the PRC Equity Owners and the OPCO has undertaken to return to Falcon Technology any consideration they received.

RISK FACTORS IN RELATION TO THE VIE STRUCTURE

The Group may bear economic risk which may arise from difficulties in the operation of the OPCO

As the primary beneficiary of the OPCO, the Group will bear economic risks which may arise from difficulties in the operation of their businesses. Falcon Technology will have to provide financial support in the event of financial difficulty of the OPCO. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to the OPCO.

Loss sharing

As advised by Company's PRC legal adviser, none of the VIE Agreements provide that Falcon Technology is obliged to share the losses of the OPCO or provide financial support to the OPCO. Further, Falcon Technology is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. In any event, since the Group conducts the Subject Business through the OPCO and the financial results of the OPCO are consolidated into the financial statements of the Group, any losses suffered by the OPCO would be reflected in the Group's consolidated financial statements and the Group's consolidated financial position such as the consolidated earnings and profits will be adversely affected.

There is no assurance that the VIE Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Agreements do not comply with applicable regulations

Despite there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities, the PRC legal adviser has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current PRC Laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements.

Development of Foreign Investment Law in the PRC and its Implications on the VIE Agreements

On 15 March 2019, the National People's Congress of China approved the 2019 FIL, which will become effective on 1 January 2020; and according to the provisions therein, the Sino-Foreign Equity Joint Ventures Law of the PRC* (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-Owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》), and the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC* (《中華人民共和國中外合作經營企業法》) will be repealed after implementation of the 2019 FIL.

According to the second paragraph of Article 2 of the 2019 FIL, “*Foreign investment referred to in this Law refers to the investment activities of foreign natural persons, enterprises or other organizations (hereinafter referred to as “foreign investors”), whether directly or indirectly, in the PRC, which includes the following situations: (1) Foreign investors setting up foreign-invested enterprises in the PRC whether alone or together with other investors; (2) Foreign investors acquiring shares, equity interest, sharing in property or other similar rights and interests of Chinese domestic enterprises; (3) Foreign investors investing in new projects in the PRC whether alone or together with other investors; (4) other forms of investment prescribed by laws, administrative regulations or the State Council.*”* (The original text is “本法所稱外商投資，是指外國的自然人、企業或者其他組織(以下稱外國投資者)直接或者間接在中國境內進行的投資活動，包括下列情形：(一)外國投資者單獨或者與其他投資者共同在中國境內設立

外商投資企業；(二)外國投資者取得中國境內企業的股份、股權、財產份額或者其他類似權益；(三)外國投資者單獨或者與其他投資者共同在中國境內投資新建項目；(四)法律、行政法規或者國務院規定的其他方式的投資。”)。As regards the terms “*directly or indirectly*” in the foregoing provision and “*other forms of investment*” in item (4), there is no further detailed regulation whether in the 2019 FIL or other prevalent laws, regulations, or other regulatory documents.

The concepts of “*actual control*” and “*contractual control*” introduced in the consultation draft of the Foreign Investment Law of the PRC* (《中華人民共和國外國投資法(草案徵求意見稿)》) published in 2015 have been deleted in the formally promulgated 2019 FIL, and that contractual control arrangement is not included in the scope of foreign investment under regulation. Therefore, the PRC legal adviser of the Company is of the view that the formally promulgated 2019 FIL will not affect the legality and validity of the VIE Agreements, and that the VIE Agreements will be binding on the relevant contractual parties upon due execution.

The VIE Agreements may not be as effective as direct ownership in providing control over the OPCO

The Group relies on the contractual arrangement under the VIE Agreements to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing Falcon Technology with control over the OPCO as direct ownership. If Falcon Technology has direct ownership of the OPCO, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owners of their obligations under the VIE Agreements to exercise control over the OPCO. Therefore, the VIE Agreements with the PRC Equity Owners may not be as effective in ensuring Falcon Technology’s control over the OPCO as direct ownership would be.

The PRC Equity Owners may potentially have a conflict of interests with the Group

The Group’s control over the OPCO is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Conflict of interests may occur when the interest of the PRC Equity Owners no longer align with that of the Group. The PRC Equity Owners may breach or cause the OPCO to breach the VIE Agreements. If the Group fails to resolve this internally, it may have to resort to dispute resolution, other legal means, or ultimately removing and replacing the PRC Equity Owners, which might affect the investors’ confidence in the VIE Structure.

Nevertheless, pursuant to the Authorisation Letter, the PRC Equity Owners will irrevocably appoint any PRC nationals as designated by Falcon Technology as their representative to exercise the voting rights of the shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Company and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the PRC Equity Owners.

Certain terms of the VIE Agreements may not be enforceable under the PRC Laws

The VIE Agreements provide that the arbitration tribunal of the PRC may award remedies over the equity interests or assets of the OPCO or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, the Cayman Islands, the PRC and the location where the principal assets of the Company or the OPCO are located.

However, the PRC legal adviser is of the view that pursuant to the PRC Laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong and the Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC Laws. As a result, in the event that the OPCO or any of the PRC Equity Owners breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected.

The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of VIE Agreements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Agreements.

Limitations in acquiring ownership in the equity interests of the OPCO

In case Falcon Technology exercises its option to acquire all or part of the OPCO Equity Interests under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC Laws and will be subject to necessary approvals and relevant procedures under applicable PRC Laws. In addition, the aforementioned acquisitions may be subject to the Permissible Minimum Price or other limitations as imposed by applicable PRC Laws. Further, a substantial amount of other costs (if any), and time may be involved in acquiring and transferring the ownership of the OPCO, which may have a material adverse impact on Falcon Technology and/or the OPCO's businesses, prospects and profitability.

The PRC government may determine that the VIE Agreements do not comply with the applicable regulations

The PRC legal adviser is of the opinion that, notwithstanding some of the arbitration clauses of the VIE Agreements have no legal basis under the PRC Laws and thus may not be endorsed by the arbitration body during arbitration or recognised by the PRC court when enforcing arbitration award, under all applicable PRC Laws (including but not limited to the PRC Contract Law* (《中華人民共和國合同法》) and the General Principles of the Civil Law of the PRC* (《中華人民共和國民法通則》): (i) each of the VIE Agreements is legal and effective, and after entry into force, is binding among the parties thereto and enforceable pursuant to the PRC Laws; (ii) would not be deemed as concealing illegal intentions with a lawful form and void under the PRC Contract Law; and (iii) do not contravene the relevant articles of Falcon Technology and the OPCO. However, the PRC legal adviser is also of the view that the relevant PRC governmental or judicial authorities may in the future interpret the existing PRC Laws or regulations with the result that the VIE Agreements will not be deemed to be in compliance of the PRC Laws and regulations.

The VIE Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed

The Group could face adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust income and expenses of Falcon Technology and/or the OPCO for the PRC tax purposes, which could result in higher tax liabilities on Falcon Technology and/or the OPCO.

The operating and financial results of Falcon Technology may be adversely affected if the tax liabilities of the OPCO or those of Falcon Technology increase significantly or if they are required to pay interest on late payments and other penalties.

Interference or encumbrance in the PRC

To the best of the knowledge, information and belief of the Group, having made all reasonable enquiries, as at the date of the announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

With a view to enhancing effective control over and safeguarding the assets of the OPCO, the Exclusive Purchase Right Agreement and the Equity Pledge Agreement provided that the PRC Equity Owners shall not sell, transfer, mortgage or otherwise dispose of any of their interests in the OPCO or be allowed to create any encumbrances on them without the prior written consent of Falcon Technology. Under the Exclusive Purchase Right Agreement, Falcon Technology has the right to request for the OPCO's financial information to ascertain its consolidated profit before tax from time to time.

In addition, the Company has also put in place the following internal control measures:

- (i) the seals, chops, incorporation documents of the OPCO are kept at the office of Falcon Technology to the extent permitted by the PRC Laws;
- (ii) Falcon Technology is involved in making corporate strategy, business plan and budgets of the OPCO;
- (iii) terms of appointment of senior management of the OPCO are subject to review by Falcon Technology; and
- (iv) Falcon Technology is involved in assessing material financial matters of the OPCO.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, the Board is of the view that

- (i) the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and are enforceable under the relevant PRC Laws;
- (ii) the VIE Agreements enable the Group to gain control over the OPCO and to be entitled to the economic interests and benefits of the OPCO;
- (iii) pursuant to the relevant provisions of the VIE Agreements, Falcon Technology has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow Falcon Technology to register itself as the shareholder of the OPCO;

- (iv) save for potential unenforceability of the arbitration clause (in particular, please refer to the paragraph above headed “Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under the PRC Laws” for details), the VIE Agreements are enforceable under the relevant PRC Laws;
- (v) the VIE Agreements provide a mechanism that enables the Group to exercise effective control over the OPCO; and
- (vi) the VIE Agreements and the transactions contemplated thereunder are fair and reasonable where the Company and the Shareholders as a whole are concerned.

LISTING RULES IMPLICATIONS

Mr. WANG is a director of various subsidiaries of the Company whilst Ms. ZHU is the supervisor of a subsidiary of Falcon Technology. In other words, each of the PRC Equity Owners and hence the OPCO (being an associate of the PRC Equity Owners) is a connected person at subsidiary level of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements constitute connected transactions and continuing connected transactions of the Company.

The Board has approved the transactions contemplated under the VIE Agreements and the independent non-executive Directors have also confirmed that the terms of the VIE Agreements are fair and reasonable and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, by virtue of Rule 14A.101 of the Listing Rules, the transactions contemplated under the VIE Agreements are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and Shareholders’ approval requirements.

APPLICATION FOR WAIVER

The Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for transactions contemplated under each of the VIE Agreements to be subject to the requirement of setting a fixed term or limiting the term to three years or less under Rule 14A.52 and the transactions contemplated under the Exclusive Business Co-operation Agreement to be subject to the requirement of setting an annual cap under Rule 14A.53.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) setting a fixed term for each of the VIE Agreements pursuant to Rule 14A.52 of the Listing Rules; and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to Falcon Technology under the relevant VIE Agreements subject to the following conditions:

1. *No change without independent non-executive Directors' approval:* Save for any mandatory change required under or resulting from applicable laws and regulations, no change to the terms of the VIE Agreements will be made without the approval of the independent non-executive Directors, so long as the transactions contemplated under the VIE Agreements remain as connected transactions of the Company with “*connected person at the subsidiary level*” of the Company, and the Company shall comply with the requirements under Chapter 14A of the Listing Rules if it proposes to effect a material change to the VIE Agreements.
2. *No material change without independent Shareholders' approval:* Save for any mandatory change required under or resulting from applicable laws and regulations, and save as disclosed in paragraph 5 below, no material changes to the VIE Agreements will be made without the approval of the independent Shareholders. Once independent Shareholders' approval of any material changes has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further material changes are proposed. The periodic reporting requirement regarding the VIE Agreements as set out in paragraph 4 below will however continue to be applicable.
3. *Economic benefits and flexibility:* The VIE Agreements shall continue to enable the Group to receive the economic benefits derived from the OPCO through: (i) the Group's rights (if and when so allowed under applicable PRC Laws) to purchase, all or part of the entire equity interests and asset in the OPCO at the minimum price as permitted under the applicable PRC Laws; (ii) the business structure under which the net profits generated by the OPCO are retained by the Group; and (iii) the Group's absolute right to control the management and operation of, as well as, in substance, all of the shareholders' rights (which include the voting rights) of the OPCO.

4. *Ongoing reporting and approvals*: the Group will disclose details relating to the VIE Structure on an ongoing basis as follows:
- (a) the VIE Agreements in place during each financial period will be disclosed in the Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules;
 - (b) the independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Agreements, and have been operated so that the profit generated by the OPCO has been substantially retained by the Group; (ii) no dividends or other distributions have been made by the OPCO to the PRC Equity Owners which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO during the relevant financial period under paragraph 5 (*Renewal and reproduction of the VIE Agreements*) below are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;
 - (c) the Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before bulk printing of the Company's annual report, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO to the PRC Equity Owners which are not otherwise subsequently assigned or transferred to the Group;
 - (d) for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the OPCO will be treated as the Company's subsidiary, but at the same time its directors, chief executives or substantial shareholders and their respective associates will be treated as the Company's connected persons, and transactions between these connected persons and the Group other than those under the VIE Agreements shall comply with Chapter 14A of the Listing Rules; and
 - (e) the OPCO will undertake that, during the term of the Exclusive Business Co-operation Agreement, the OPCO will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of auditors' review of the connected transactions pursuant to the VIE Agreements.

5. *Renewal and reproduction of the VIE Agreements:* On the basis that the VIE Agreements provide an acceptable framework for the relationship between the members of the Group in which the Company have direct shareholding on the one hand, and the OPCO on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the VIE Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish will, upon renewal and, or reproduction of the VIE Agreements, however be treated as connected persons of the Company and transactions between these connected persons and the Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.

GENERAL INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and sale of a wide range of electronic consumer products including TV sets. The Group has factories in the PRC, Poland, Mexico and Vietnam and distributes its products in all major markets globally. For more information on the Group, please visit its official website at <http://electronics.tcl.com> (the information that appears in this website does not form part of this announcement).

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings when used herein:

“2019 FIL”	means the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) promulgated by the National People’s Congress on 15 March 2019 and will be effective on 1 January 2020;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Authorisation Letter(s)”	the authorisation letter(s) entered into by each of Mr. WANG and Ms. ZHU on 23 July 2019;
“Board”	the board of Directors;

“Company”	TCL Electronics 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 (stock code: 01070);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“Confirmation Letter(s)”	the confirmation letter(s) entered into by each of Mr. WANG and Ms. ZHU on 23 July 2019;
“Consent Letter(s)”	the consent letter(s) entered into by each of Mr. WANG and Ms. ZHU on 23 July 2019;
“Director(s)”	the director(s) of the Company;
“Equity Pledge Agreement”	the equity pledge agreement (股份質押協議) entered into among Falcon Technology, the OPCO, Mr. WANG and Ms. ZHU on 23 July 2019;
“Exclusive Business Co-operation Agreement”	the exclusive business co-operation agreement (獨家業務合作協議) entered into among Falcon Technology and the OPCO on 23 July 2019;
“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) entered into among Falcon Technology, the OPCO, Mr. WANG and Ms. ZHU on 23 July 2019;
“Falcon Technology”	Shenzhen Falcon Network Technology Co., Ltd.* (formerly literally translated and known as Shenzhen Thunderbird Network Technology Company Limited) (深圳市雷鳥網絡科技有限公司), a limited liability company established and subsisting under the laws of the PRC;
“Falcon Technology Group”	Falcon Technology and its subsidiaries from time to time;
“FFalcon”	FFalcon Technology Holding Limited, a limited liability company incorporated and subsisting under the laws of Hong Kong and a subsidiary of the Company;
“Group”	the Company and its Subsidiaries and associates;

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“King Electrical”	TCL King Electrical Appliances (Huizhou) Company Limited* (TCL王牌電器(惠州)有限公司), a limited liability company established and subsisting under the laws of the PRC and a subsidiary of the Company;
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange;
“Mr. WANG”	Mr. WANG Hao;
“Ms. ZHU”	Ms. ZHU Xiaojiang;
“OPCO”	Hawk Digital Entertainment Technology (Shenzhen) Co., Ltd.* (豪客數字娛樂科技(深圳)有限公司), a limited liability company established and subsisting under the laws of the PRC, which is legally owned as to 50% and 50% by Mr. WANG and Ms. ZHU respectively;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement;
“PRC Equity Owners”	Mr. WANG and Ms. ZHU;
“PRC Laws”	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subordinate legislations currently in force and publicly available in the PRC as of the date hereof;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	holder(s) of share(s) of the Company;
“Spousal Consent Letter(s)”	the spousal consent letter(s) entered into by the spouse of each of Mr. WANG and Ms. ZHU on 23 July 2019;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Subject Business”	value-added telecommunications business and Internet cultural business in the PRC including video membership business with autopay and/or “WeChat Pay to merchant” and/or the like function;
“subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly;
“TV(s)”	television(s);
“VIE Agreements”	collectively the Exclusive Business Co-operation Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Authorisation Letters, the Confirmation Letters and the Spousal Consent Letters;
“VIE Structure”	the contractual arrangement pursuant to the VIE Agreements for the Group to indirectly participate in the Subject Business; and
“%”	per cent.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 23 July 2019

The English transliteration of Chinese names or words in this announcement, where indicated by “”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

As at the date of this announcement, the Board comprises Mr. LI Dongsheng, Mr. WANG Cheng Kevin, Mr. YAN Xiaolin and Mr. WANG Yi Michael as executive Directors, Mr. Albert Thomas DA ROSA, Junior, Mr. YANG Anming and Mr. LI Yuhao as non-executive Directors and Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki as independent non-executive Directors.