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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional advisor.

**If you have sold or transferred** all your Shares in TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED (the “Company”), you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee, or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED****TCL 多媒體科技控股有限公司***(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 01070)

**(1) RENEWAL OF AND/OR REVISING OF  
EXISTING CONTINUING CONNECTED TRANSACTIONS  
AND  
(2) ELECTION OF DIRECTORS**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**

**Beijing Securities**  
Beijing Securities Limited  
北京證券有限公司

**Beijing Securities Limited**

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A letter from the Board is set out on pages 9 to 50 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 51 of this circular. A letter from Beijing Securities Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 105 of this circular.

A notice convening the EGM of the Company to be held at 8/F., Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 22 December 2017, Friday at 2:30 p.m. is set out on pages 121 to 124 of this circular.

Whether or not you are able to attend the EGM or any adjournment thereof (as the case may be) in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

27 November 2017

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## DEFINITIONS

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

- “Acquisition Price” means the actual price paid by Qianhai Sailing Group for the acquisition of the Qianhai Goods from the supplier(s);
- “Adjustment Date” means the day on which the Premium is adjusted in accordance with the terms of the Qianhai Sailing Cooperation (2017 Renewal) Agreement;
- “After Sale Service” means (i) basic after sale service in relation to TV Products manufactured by TCL Corporation Group, including call centre, management services, basic installation, repair, backup, spare parts management, services before sale of TV Products manufactured by TCL Corporation Group, shared platform for spare parts, technical support and quality management (“Basic After Sale Service”); (ii) those services outside the scope of Basic After Sale Services, including but not limited to accidental incidents handlings, bulk incidents handling, return and rejection of goods handlings, extraordinary installation and all other related services as set out in the customer service policy given by the Group as service provider in relation to the TV Products in the PRC from time to time (“Other After Sale Service”) and (iii) after sale service in relation to TV Products manufactured by the Group, including but not limiting to pre-sale, during-sale and after sale repair services, basic installation backup, replacement, return, spare part management, technical support, participating and organizing sales, service brand building, handling complaints, accidental incidents handlings, market and product quality reviews, assistance regarding sampling by government authorities logistics and call centre services and other services requested or confirmed by the Group;
- “Announcement” the announcement of the Company dated 29 September 2017 relating to the Continuing Connected Transactions – Master Sale And Purchase (2017) Agreement, Master After Sale Service (2017) Agreement and Master Rental (2017) Agreement, Renewal of and/or Revising of Existing Continuing Connected Transactions and Major Transactions in respect of Master Sale And Purchase (2017) Agreement and Master Sourcing (2017 Renewal) Agreement;
- “associate(s)” has the meaning ascribed to it under the Listing Rules;
- “Board” the board of Directors;

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## DEFINITIONS

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“Business Day(s)”	day(s) on which banks in Hong Kong are open to conduct business generally throughout their normal business hours and the Stock Exchange is open for trading, excluding a Saturday, Sunday, public holidays and days on which a tropical cyclone warning number 8 or above or a black rainstorm warning signal is issued in Hong Kong at any time between 09:00 and 17:00 on weekdays;
“Company”	TCL Multimedia 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 (stock code: 01070);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“CSOT”	Shenzhen China Star Optoelectronics Technology Co., Ltd.* (深圳市華星光電技術有限公司), a company established in the PRC with limited liability and a Subsidiary of TCL Corporation;
“Delivery”	means the taking of physical possession of the Qianhai Goods by member(s) of the Group from Qianhai Sailing Group;
“Director(s)”	the director(s) of the Company;
“EBIT Percentage”	the percentage figure calculated by dividing the sum of the net income, net interest expenses and tax expenses of the Group by its consolidated net revenue after deduction for all payments by the Group due under the Master TCL Trademark License (2017 Renewal) Agreement;
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, approve the Non-exempt Transactions;
“Goods”	the Multimedia Products or the Parent Products (as the case may be) and the articles, things, components or raw materials required for the manufacture or production of such products and waste products arising from manufacturing or production of any such products;
“Group”	the Company and its Subsidiaries and for the purpose of the Non-exempt Transactions includes any entity that may become Subsidiary of the Company from time to time during the term of such agreements;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Robert Maarten Westerhof, Tseng Shieng-chang Carter, Wang Yijiang and LAU Siu Ki, established for the purpose of reviewing the terms of and the proposed annual caps for the Non-exempt Transactions;
“Independent Financial Adviser”	Beijing Securities Limited, a licensed corporation under the SFO authorised to carry out regulated activities of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the resolutions in respect of the Non-exempt Transactions;
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any connected person(s);
“Latest Practicable Date”	23 November 2017, being the latest practicable date prior to the bulk printing of this circular for the purpose of ascertaining certain information contained in this circular;
“LCD”	liquid crystal display;
“Leshi Zhixin”	Leshi Zhixin Electronic & Technology Co., Tianjin* (樂視致新電子科技(天津)有限公司), a limited liability company established in the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master After Sale Service (2014 Renewal) Agreement”	the master after sale service agreement (售後服務 (2014重續)主協議) entered into between TCL Corporation and the Company dated 11 November 2014;
“Master After Sale Service (TV Products) (2016 Renewal) Agreement”	the master after sale service agreement (電視產品之售後服務 (2016重續)主協議) entered into between TCL Corporation and the Company dated 24 October 2016;
“Master After Sale Service (2017) Agreement”	the master after sale service (2017) agreement (售後服務(2017)主協議) entered into between TCL Corporation and the Company dated 29 September 2017;

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## DEFINITIONS

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“Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement”	the master electronic and electrical goods or appliances supply framework agreement entered into between the Company and TCL Corporation on 11 November 2014;
“Master Logistics Service Supply (2014 Renewal) Agreement”	the master logistics service supply agreement (物流服務供應(2014重續)主協議) entered into between the Company and Shenzhen Speed Distribution Platform Co., Ltd. (predecessor of Speedex) on 11 November 2014;
“Master Logistics Service Supply (2017 Renewal) Agreement”	the master logistics service supply agreement (物流服務供應 (2017重續)主協議) entered into between the Company and Speedex on 29 September 2017;
“Master Qianhai Sailing Cooperation (2017 Renewal) Agreement”	the master Qianhai sailing cooperation (2017 renewal) agreement entered into between the Company and Qianhai Sailing on 29 September 2017 as amended and supplemented by the Supplemental Agreement;
“Master Sale and Purchase (2017) Agreement”	the master supply agreement entered into between the Company and TCL Corporation on 29 September 2017 in respect of the Sourcing of Goods and the Sale of Goods as amended and supplemented by the Supplemental Agreement;
“Master Sourcing (2014 Renewal) Agreement”	the master sourcing agreement entered into between the Company and TCL Corporation on 11 November 2014;
“Master Sourcing (2017 Renewal) Agreement”	the master sourcing agreement entered into between the Company and TCL Corporation on 29 September 2017 as amended and supplemented by the Supplemental Agreement;
“Master Strategic Cooperation (2017 Renewal) Agreement”	the master strategic cooperation (2017 Renewal) agreement (戰略合作(二零一七年重續)主協議) entered into between the Company and TCL Corporation dated 29 September 2017;
“Master Supply (2014 Renewal) Agreement”	the master supply agreement entered into between the Company and TCL Corporation on 11 November 2014 in respect of the Sourcing of Goods and the Sale of Goods;
“Master TCL Trademark License (2014 Renewal) Agreement”	the master TCL trademark license agreement dated 11 November 2014 entered into between TCL Corporation and the Company;
“Master TCL Trademark (2017 Renewal) License Agreement”	the master TCL trademark license agreement dated 29 September 2017 entered into between TCL Corporation and the Company;

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## DEFINITIONS

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“Maximum Price”	means the maximum Purchase Price to be paid by the relevant member of the Group to the relevant member of Qianhai Sailing Group for acquiring the Qianhai Goods as stated on the Plan;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers;
“Multimedia Products”	electronic consumer products including televisions, audio-visual products and commercial use display products manufactured, produced or otherwise sold or distributed by the Group;
“Non-exempt Transactions”	the transactions under the Master Sale and Purchase (2017) Agreement, Master After Sale Service (2017) Agreement, Master TCL Trademark License (2017 Renewal) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement, Master Sourcing (2017 Renewal) Agreement and Master Qianhai Sailing Cooperation (2017 Renewal) Agreement together with their respective proposed annual caps;
“ODM”	original design manufacturing;
“OEM”	original equipment manufacturing;
“Overseas Materials”	those articles, things, components or raw materials manufactured or produced in areas other than the PRC which are required for the manufacture or production of the Multimedia Products;
“Overseas Materials Sourcing Service”	the sale and purchase by the Group to and from TCL Corporation Group of the Overseas Materials for the manufacture of the Multimedia Products pursuant to the Master Sourcing (2014 Renewal) Agreement and the Master Sourcing (2017 Renewal) Agreement;
“Parent Products”	any goods or appliances including electronic, telecommunications, information technology or electrical and audio-visual products (including but not limited to refrigerators, dishwashers, air conditioners, home use telephones, electrical accessories and their components) designed, developed, manufactured, produced or otherwise sold, marketed or supplied by TCL Corporation Group and TCL Associates pursuant to the Master Sale and Purchase (2017) Agreement;
“PBOC”	the People’s Bank of China, the central bank of the PRC;

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## DEFINITIONS

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“PBOC Rate”	means the RMB benchmark loan interest rate of financial institutions for one-year loan (金融機構人民幣一年期貸款基準利率) as promulgated by PBOC from time to time;
“Plan”	means a production prediction plan of the Group for the three months following the date of such Plan;
“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 circular;
“Premium”	means a premium of 0.3% of the Acquisition Price for the Qianhai Goods;
“Purchase Agreements”	the Master Sale and Purchase (2017) Agreement, the Master Sourcing (2017 Renewal) Agreement and the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement;
“Purchase Limit”	has the meaning ascribed thereto under the paragraph “RENEWAL OF AND/OR REVISING OF EXISTING CONTINUING CONNECTED TRANSACTIONS – 1. Master Sale and Purchase (2017) Agreement” in the section “Letter from the Board”;
“Purchase Percentage”	the proportion of aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) to the Group’s then cost of sales;
“Purchase Price”	means the consideration for the sale of the Qianhai Goods from member(s) of Qianhai Sailing Group to member(s) of the Group;
“Qianhai Goods”	those articles, things, components or raw materials which are required for the manufacturing or production of the electronic products including televisions, audio-visual products and commercial use display products manufactured, produced or otherwise sold or distributed by the Group;
“Qianhai Sailing”	Shenzhen Qianhai Sailing Supply Chain Management Co. Ltd. (深圳前海啟航供應鏈管理有限公司), a company established in the PRC with limited liability;



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## DEFINITIONS

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“Qianhai Sailing Group”	Qianhai Sailing and its Subsidiaries;
“R&D Service”	the research and development services to be provided by TCL Corporation Group to the Group in relation to the Projects in a number of technological areas which may bring innovative ideas in developing high-end TV products;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale of Goods”	the sale of the Goods by the Group to TCL Corporation Group and the TCL Associates pursuant to the Master Sale and Purchase (2017) Agreement;
“SFO”	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong);
“Share(s)”	ordinary shares(s) of HK\$1.00 each in the issued share capital of the Company;
“Shareholder(s)”	holder(s) of Share(s);
“Sourcing of Goods”	the purchase by the Group from TCL Corporation Group and the TCL Associates of the Goods produced or manufactured in the PRC pursuant to the Master Sale and Purchase (2017) Agreement;
“Speedex”	Speedex Logistics Co. Ltd.*(速必達希杰物流有限公司), a company established in the PRC and a joint venture of TCL Corporation, which is principally engaged in the provision of logistics services in the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Storage Location”	means the premises where the Qianhai Goods are stored after the acquisition of the Qianhai Goods by Qianhai Sailing Group until Delivery;
“Subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly;
“Supplemental Agreement”	the supplemental agreement in respect of the Master Sale and Purchase (2017) Agreement, the Master Sourcing (2017 Renewal) Agreement and the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement entered into among the Company, Qianhai Sailing and TCL Corporation dated 27 November 2017;

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## DEFINITIONS

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“Supplemental Announcement”	the announcement of the Company dated 27 November 2017 in relation to, among others, the Supplemental Agreement and the revision of annual caps under certain Non-exempt Transactions;
“TCL Associates”	the associates of TCL Corporation;
“TCL Corporation”	TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the ultimate controlling Shareholder of the Company, the shares of which are listed on Shenzhen Stock Exchange (stock code: 000100);
“TCL Corporation Group”	TCL Corporation, its Subsidiaries, TCL Associates and any entity that may become Subsidiary of TCL Corporation or TCL Associates from time to time but does not include the Group for the purpose of this circular;
“TCL Industries”	T.C.L. Industries Holdings (H.K.) Limited (T.C.L.實業控股(香港)有限公司), a company incorporated under the laws of Hong Kong, a wholly-owned Subsidiary of TCL Corporation and the immediate holding company of the Company;
“TCL King Electrical”	TCL King Electrical Appliance (Huizhou) Company Limited* (TCL 王牌電器(惠州)有限公司), a wholly-owned Subsidiary of the Company, whose principal activities include manufacture and sale of TV products and trading of components;
“TV(s)”	television(s);
“TV Products”	television sets products and their accessories and ancillary products sold by TCL Corporation Group and/or the Company; and
“WACC”	means the weighted average cost of capital of the Group.

*The English translation 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.*

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## LETTER FROM THE BOARD

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### TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

TCL 多媒體科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

*Executive Directors:*

BO Lianming (*Chairman*)  
WANG Cheng Kevin  
YAN Xiaolin  
WANG Yi Michael

*Registered Office:*

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

*Non-executive Directors:*

Albert Thomas DA ROSA, Junior  
HUANG Xubin  
ZHANG Zhiwei  
LIU Hong

*Principal Place of Business in Hong Kong:*

7th Floor, Building 22E  
22 Science Park East Avenue  
Hong Kong Science Park  
Shatin  
New Territories  
Hong Kong

*Independent Non-executive Directors:*

Robert Maarten WESTERHOF  
TSENG Shieng-chang Carter  
WANG Yijiang  
LAU Siu Ki

27 November 2017

*To the Shareholders*

Dear Sir or Madam,

**(1) RENEWAL OF AND/OR REVISING OF  
EXISTING CONTINUING CONNECTED TRANSACTIONS  
AND  
(2) ELECTION OF DIRECTORS**

#### INTRODUCTION

Reference is made to the Announcement and the Supplemental Announcement. As stated in the Announcement, the Group had on 29 September 2017 entered into various agreements with certain connected persons and the transactions contemplated thereunder constitute continuing connected transactions, of which the following eight agreements are Non-exempt Transactions which are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements:

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## LETTER FROM THE BOARD

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1. Master Sale and Purchase (2017) Agreement;
2. Master After Sale Service (2017) Agreement;
3. Master TCL Trademark License (2017 Renewal) Agreement;
4. Master Logistics Service Supply (2017 Renewal) Agreement;
5. Master Sourcing (2017 Renewal) Agreement; and
6. Master Qianhai Sailing Cooperation (2017 Renewal) Agreement.

Further, as stated in the Supplemental Announcement, on 27 November 2017, the Company entered into the Supplemental Agreement with TCL Corporation and Qianhai Sailing to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Agreements 1 and 2 are new agreements consolidated from existing agreements and the terms of these agreements are in substance substantially incorporated from the respective existing agreements, whilst the agreements 3 to 6 are in substance renewal of the existing agreements and the terms in substance of most of the renewal agreements are substantially the same as the respective previous agreements.

As disclosed in the Supplemental Announcement, whilst the Company has regarded the transactions contemplated under the Master Sale and Purchase (2017) Agreement and Master Sourcing (2017 Renewal) Agreement as major transactions, having further reviewed and considered the nature of such transactions, it is noted that the transactions contemplated under the Master Sale and Purchase (2017) Agreement and Master Sourcing (2017 Renewal) Agreement are of a revenue nature in the ordinary and usual course of business of the Company as referred to in Rule 14.04(8) of the Listing Rules, they do not fall under the scope of transaction under Chapter 14 of the Listing Rules and would not be subject to the relevant notifiable transactions requirements under Chapter 14 of the Listing Rules.

The purposes of this circular are: (i) to provide the Shareholders with further information regarding the details of the Non-exempt Transactions and their relevant proposed caps; (ii) to provide the Shareholders with further information regarding the election of Directors; (iii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders and the advice of the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Transactions; and (iv) to give the Shareholders the notice of the EGM and other information in accordance with the requirements of the Listing Rules.

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## LETTER FROM THE BOARD

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### RENEWAL OF AND/OR REVISING OF EXISTING CONTINUING CONNECTED TRANSACTIONS

Based on the annual caps to be involved, the following transactions are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules:

#### 1. Master Sale and Purchase (2017) Agreement

The Company has entered into the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement on 11 November 2014 with TCL Corporation, both of which will be expired on 31 December 2017.

As the Company wishes to continue and consolidate continuing connected transactions contemplated thereunder, the Company entered into the Master Sale and Purchase (2017) Agreement, the terms of which are substantially incorporated from the Master Supply (2014 Renewal) Agreement and Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement, and the Supplemental Agreement on 27 November 2017 to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Set out below are the major terms of the Master Sale and Purchase (2017) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions thereunder:

Date:	29 September 2017
Parties:	(i) the Company (for itself and on behalf of its Subsidiaries)  (ii) TCL Corporation (for itself and on behalf of its Subsidiaries and TCL Associates)
Duration:	Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)
Major terms:	TCL Corporation shall sell and procure members of TCL Corporation Group and TCL Associates to sell and the Company shall purchase and procure members of the Group to purchase the Parent Products.  TCL Corporation shall purchase and procure members of TCL Corporation Group and TCL Associates to purchase and the Company shall sell and procure members of the Group to sell the Multimedia Products.

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## LETTER FROM THE BOARD

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Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of TCL Corporation Group on the one hand, and the relevant member of the Group on the other hand, provided that the terms of such sale and purchase contracts are consistent with the Master Sale and Purchase (2017) Agreement.

### **Sourcing of Goods**

The Company may purchase part of the Group's required Goods produced or manufactured in the PRC from TCL Corporation Group provided that they can offer terms (including price and payment terms) no less favourable than terms available from independent third parties and are capable of meeting the timeline, quality and quantity of the relevant order placed.

TCL Corporation shall procure the relevant members of TCL Corporation Group to sell to the relevant members of the Group the requested Goods.

Pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

### **Sale of Goods**

If the relevant member of TCL Corporation Group requests or makes a written offer to any member of the Group to purchase from the Group any Goods for its business including distribution resale or otherwise, the member of the Group is entitled offer to supply to or accept such offer to purchase made by relevant member of TCL Corporation Group provided that the terms (including price and payment terms) of the offer by TCL Corporation Group and the TCL Associates (as the case may be) are no less favourable than terms available to the Group from independent third parties.

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## LETTER FROM THE BOARD

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Pricing policy and  
price determination:

1. The terms (including price and payment terms) shall be agreed between the parties based on normal commercial terms after arm's length negotiations and with reference to the fair market price ranges of products comparable to Goods offered in the market as at the time when the relevant sale and purchase is performed.
2. The prices charged for the Goods are under regular review and may be adjusted from time to time on mutual agreement. In determining if the prices charged are on normal commercial terms, the Group shall obtain quotations from TCL Corporation Group and independent third parties for comparable goods on a periodic basis and make comparisons. The Group would consider, compare and take reference of the said price quotations in determining the final prices charged.
3. If at any time during the term of the Master Sale and Purchase (2017) Agreement, TCL Corporation Group provides Goods to other independent third parties at more favourable terms, TCL Corporation Group shall immediately offer to provide Goods to the Group at equivalent terms accorded to such other independent third parties starting from the next applicable period.
4. If no comparable transactions are available for references, the Group shall obtain quotations from independent third parties for provision of products similar to the Parent Products and the terms (including price and payment terms) shall be no less favourable than those available to or from the independent third parties for provision of products similar to the Parent Products.
5. The relevant member of the Group has the absolute discretion to decide whether to accept an offer from the relevant member of TCL Corporation Group.
6. The relevant member of the Group has the right to sell or resell the Parent Products which it has acquired from the relevant member of TCL Corporation Group at such price as it may in its absolute discretion determine.
7. The relevant member of the Group may demand the relevant member of TCL Corporation Group to purchase back the Parent Products at the original selling price offered to the Group if they remain unsold to third parties for six months.

Payment terms:

The payment terms will be governed by the individual sale and purchase agreements to be entered into between the parties.

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## LETTER FROM THE BOARD

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### 2. Master After Sale Service (2017) Agreement

The Company has entered into the Master After Sale Service (2014 Renewal) Agreement on 11 November 2014, pursuant to which TCL Corporation Group appointed the Group as its service provider of the After Sale Service in the PRC in respect of the TV Products manufactured by TCL Corporation Group, and the Group would provide TCL Corporation Group with certain Basic and Other After Sale Services in relation to the TV Products manufactured by TCL Corporation Group.

The Company has entered into the Master After Sale Service (TV Products) (2016 Renewal) Agreement on 24 October 2016, pursuant to which the Company appoints TCL Corporation as its service provider of the After Sale Services in the PRC in respect of the TV Products manufactured by the Group, and TCL Corporation Group would provide the Group with certain after sale services in relation to the TV Products manufactured by the Group.

As the Master After Sale Service (2014 Renewal) Agreement will expire on 31 December 2017 and the Master After Sale Service (TV Products) (2016 Renewal) Agreement will expire on 31 December 2019 and the Company wishes to continue the continuing connected transactions contemplated thereunder and consolidate the cooperation between the parties in terms of providing the relevant after sale services, the Company entered into the Master After Sale Service (2017) Agreement, the terms of which are substantially incorporated from the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement.

Upon the coming into effect of the Master After Sale Service (2017) Agreement, the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement shall be automatically terminated.

Set out below are the major terms of the Master After Sale Service (2017) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

- Date: 29 September 2017
- Parties:
- (i) the Company (for itself and on behalf of its Subsidiaries) – service provider regarding TV Products manufactured by TCL Corporation Group and user regarding TV Products
  - (ii) TCL Corporation (for itself and on behalf of its Subsidiaries and/or TCL Associates) – user regarding TV Products manufactured by TCL Corporation Group and service provider regarding TV Products manufactured by the Group
- Duration: Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)



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## LETTER FROM THE BOARD

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Major terms: TCL Corporation Group shall appoint the Group as its service provider of the relevant After Sale Services in the PRC in respect of the TV Products manufactured by TCL Corporation Group, whereas the Group shall appoint TCL Corporation Group as its service provider of the relevant After Sale Services in the PRC in respect of the TV Products manufactured by the Group.

Price determination: Regarding the relevant After Sale Service provided by the Group, before determining the service fees payable by the relevant members of the user, the Group shall make reference to the fair price ranges in the market for comparable services (including obtaining quotations from independent third parties for comparable services) and make comparisons. If no such market information is obtainable, the service fees paid for the TV Products involved shall then not be lower than the budgeted warranty costs of the Group and be determined on normal commercial terms and be agreed by both parties in accordance with their independent interests.

For the service fees for Other After Sale Service, they shall be determined with reference to the prevailing market fees for comparable services. If services other than the Basic After Sale Service are requested, the relevant parties shall determine the payment terms with reference to comparable practice in the market, and the relevant members of the service provider are entitled to terminate the After Sale Service if the relevant members of the user fail to pay the service fees within the specified time. Where no comparable reference terms are available, the terms (including fees and payment terms) shall be no less favourable than (i) those proposed by independent third parties to TCL Corporation Group and/or (ii) those given by the Group to independent third parties.

Regarding the relevant After Sale Service provided by TCL Corporation Group, relevant member(s) of the Group shall pay the relevant member(s) of TCL Corporation Group in respect of the provision of the relevant After Sale Services. The service fees shall be calculated and charged based on no more than 2.5% of the sales revenue of the relevant TV Products. The exact fee rate shall be negotiated and determined by both parties after taking into account various factors such as costs and inflation rate. The parties shall conduct an annual review of the provision of the relevant After Sale Services and the service fees to decide whether any revision shall be made.

Payment terms: The Group would pay the relevant After Sale Service fees to TCL Corporation Group within sixty (60) days upon receipt of the relevant invoice. However, such period may be altered from time to time by mutual agreement of the parties.

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## LETTER FROM THE BOARD

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### 3. Master TCL Trademark License (2017 Renewal) Agreement

The Company has entered into the Master TCL Trademark License (2014 Renewal) Agreement on 11 November 2014, which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master TCL Trademark License (2017 Renewal) Agreement, the terms of which are substantially the same as the Master TCL Trademark License (2014 Renewal) Agreement.

Set out below are major terms of the Master TCL Trademark License (2017 Renewal) Agreement and the price determination thereunder:

Date:	29 September 2017
Parties:	(i) TCL Corporation – Licensor (for itself and on behalf of its Subsidiaries)  (ii) Company – Licensee (for itself and on behalf of certain of its Subsidiaries)
Duration:	Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)
Major terms:	<p>TCL Corporation Group has granted to the Group an exclusive (subject to certain limited exceptions which are related to some existing obligations or business of TCL Corporation), non-sub-licensable and non-transferable license to use certain of its registered trademarks for the manufacture, production, sale and distribution of Multimedia Products in the territories as specified in the Master TCL Trademark License (2017 Renewal) Agreement (“Licensed Trademarks”). Under the Master TCL Trademark License (2017 Renewal) Agreement, the Group is also entitled (subject to certain exceptions) to use the trademark “TCL” as part of its business name and in all business applications in which a company’s name is commonly used.</p> <p>TCL Corporation Group will continue to conduct general brand promotion and marketing in respect of the Licensed Trademarks that the Group uses on products produced by it in its ordinary and usual course of business.</p>
Price determination:	The Group shall pay to TCL Corporation Group royalties which shall be calculated based on the net sales of Multimedia Products bearing any of the Licensed Trademarks under the Master TCL Trademark License (2017 Renewal) Agreement and the applicable royalty rates. Under the Master TCL Trademark License (2017 Renewal) Agreement, the royalty rates range from 0% to 1.5% depending on the types of trademarks, territories and performance of the Group.

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## LETTER FROM THE BOARD

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Under the Master TCL Trademark License (2017 Renewal) Agreement, the Group shall reimburse TCL Corporation Group for the relevant portion of the cost and expenses incurred for the general brand advertising costs by TCL Corporation or any other entities controlled by TCL Corporation Group or under the common control of TCL Corporation Group during the term of the Master TCL Trademark License (2017 Renewal) Agreement. Under the Master TCL Trademark License (2017 Renewal) Agreement, the annual amount of the general brand advertising costs payable by the Group to TCL Corporation Group shall range from 0.25% to 2.0% of the annual net sales of the Group for the relevant fiscal year depending on the types of products, provided that the aforesaid percentage may be varied from time to time with the written mutual consent of the parties.

Payment terms: The licence fee shall be payable by the Licensee on or prior to the forty fifth (45th) day after each relevant fiscal quarter in a calendar year.

#### **4. Master Logistics Service Supply (2017 Renewal) Agreement**

The Company has entered into the Master Logistics Service Supply Agreement on 11 November 2014, which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Logistics Service Supply (2017 Renewal) Agreement, the terms of which are substantially the same as the Master Logistics Service Supply Agreement.

Set out below are the major terms of the Master Logistics Service Supply (2017 Renewal) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

Date: 29 September 2017

Parties: (i) Speedex – service provider  
(ii) the Company – client (for itself and on behalf of its Subsidiaries)

Duration: Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)

Major terms: Speedex shall provide to the Group the following services:

1. delivery and transfer of raw materials, components, finished goods, etc. among the Group's suppliers, distributors, customers, warehouses and distribution centres;
2. storage and warehouse management service; and

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## LETTER FROM THE BOARD

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3. other logistics services as agreed between the parties to the agreement from time to time.

Where Speedex offers to the Company to provide logistics services at terms no less favourable than (i) those offered by Speedex to other independent third parties and/or (ii) those offered by other independent third parties to the Group, the Company shall procure itself and/or its Subsidiaries to actively consider using the service provided by Speedex. For the avoidance of doubt, the Group is entitled to use the logistics services provided by other independent service providers from time to time.

Pricing policy and price determination:

1. Speedex shall provide logistics services at terms no less favourable than (i) those offered by Speedex to other independent third parties and/or (ii) those offered by other independent third parties to the Group for the provision of comparable service.
2. The logistics services fees charged are under regular review and may be adjusted from time to time on mutual agreement of the parties. In determining if the logistics services are provided on normal commercial terms, the Group shall obtain quotations from Speedex and independent third parties for comparable logistics services on a periodic basis and make comparisons. The Group would consider, compare and make reference of the said price quotations in determining the final logistics services fees charged.
3. If at any time during the term of the Master Logistics Service Supply (2017 Renewal) Agreement, Speedex provides comparable logistics services at more favourable terms to other independent third parties, Speedex shall immediately offer to provide logistics services to the Group at equivalent terms offered to such other independent third parties starting from the next applicable period.
4. If there are no comparable terms offered to the Group by other independent third parties for comparable services, the terms of the services to be provided by Speedex to the Group shall then be determined after negotiations at arms' length between the parties and shall be on normal commercial terms.
5. If the logistics services provided by Speedex to the Group under Master Logistics Service Supply (2017 Renewal) Agreement involve engaging a third party service provider and/or any agent, and therefore Speedex has to pay for any such third party provider and/or agent's fees, Speedex shall only charge the Group the actual cost incurred by Speedex in this regard.

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## LETTER FROM THE BOARD

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6. If so requested by Speedex, the Company shall also reimburse Speedex for the cost and expenses incurred by Speedex in respect of any service improvement work at the request of or agreed by the Group based on terms previously agreed between the parties or any reasonable sum.

Payment terms: The Group would pay the relevant service fees to Speedex within sixty (60) days upon receipt of the invoice. The manner of payment would be mutually agreed by the Group and Speedex on a case-by-case basis.

### 5. Master Sourcing (2017 Renewal) Agreement

The Company has entered into the Master Sourcing (2014 Renewal) Agreement on 11 November 2014, which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Sourcing (2017 Renewal) Agreement, the terms of which are substantially the same as the Master Sourcing (2014 Renewal) Agreement, and the Supplemental Agreement on 27 November 2017 to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Set out below are the major terms of the Master Sourcing (2017 Renewal) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

Date: 29 September 2017

Parties: (i) the Company (for itself and on behalf of its Subsidiaries)

(ii) TCL Corporation (for itself and on behalf of its Subsidiaries and/or TCL Associates)

Duration: Three years from 1 January 2018 to 31 December 2020 (both dates inclusive) (Subject to the approval of the Independent Shareholders)

Major terms: Relevant member of TCL Corporation Group (i) acts as the intermediary for the Group to purchase and import the required Overseas Materials from the Company's Overseas Subsidiaries in places other than the PRC and/or from the independent third parties (designated by the Company's Overseas Subsidiaries) in places other than the PRC and (ii) sells such Overseas Materials to the Company's nominated Subsidiaries in the PRC as a local supplier.

It should be noted that the second part of the Overseas Materials Sourcing Service mentioned above is different from and does not form part of the transactions under the Sourcing of Goods described in the section of "Master Sale and Purchase (2017) Agreement" below.

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## LETTER FROM THE BOARD

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Pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

- Pricing policy and price determination:
1. In respect of the purchase of the Overseas Materials by TCL Corporation Group from the Company's Overseas Subsidiaries in places other than the PRC, the relevant member of the Group charges TCL Corporation Group the costs of the Overseas Materials.
  2. In respect of the sale of the Overseas Materials by TCL Corporation Group to the Company's nominated Subsidiaries in the PRC, TCL Corporation Group charges the relevant member of the Group for the acquisition cost of the Overseas Materials (i.e. the cost charged by the Group or independent third parties designated by the Overseas Subsidiaries to TCL Corporation Group as mentioned above) plus all import duties payable by TCL Corporation Group and an administrative charge covering import administrative expenses and insurance fee and all out - of - pocket expenses incurred by TCL Corporation Group relating to the importation and delivery of the relevant Overseas Materials into the PRC.
  3. The administrative charges charged by TCL Corporation Group shall be no less favourable than those charged by independent third parties for the purpose of importing overseas materials for the Group. The Group shall at regular intervals obtain quotations for comparable services from independent third parties, where available, in order to compare such quotations with the administrative charge proposed to be charged by TCL Corporation Group. TCL Corporation Group will pay the cost of the Overseas Materials to the relevant member of the Group in places other than the PRC after the receipt of payment (cost of the Overseas Materials plus import duties and administrative charge) from the relevant member of the Group in the PRC. The payment terms largely correspond to the payment terms allowed by the PRC governmental authorities and independent third parties to which import duties and other expenses are paid.

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## LETTER FROM THE BOARD

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### 6. Master Qianhai Sailing Cooperation (2017 Renewal) Agreement

The Company has entered into the Master Qianhai Sailing Cooperation Agreement on 12 August 2015 which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, the terms of which are substantially the same as the Master Qianhai Sailing Cooperation Agreement, and the Supplemental Agreement on 27 November 2017 to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Set out below are the major terms of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

Date:	29 September 2017
Parties:	(i) the Company (for itself and on behalf of its Subsidiaries)  (ii) Qianhai Sailing (for itself and on behalf of the Qianhai Sailing Group)
Duration:	Three years from 1 January 2018 to 31 December 2020 (both dates inclusive) (Subject to the approval of the Independent Shareholders)
Major terms:	<b>Sourcing of Qianhai Goods</b>

Member(s) of the Group may from time to time give member(s) of the Qianhai Sailing Group the Plan indicating the production need of the Group with particulars of the Qianhai Goods (including the quantity, models, technical specifications, preferred manufacturers and Maximum Price of the Qianhai Goods) to satisfy such need.

Qianhai Sailing Group shall use its best endeavours to prepare itself to meet the needs of the Group as set out in the Plan as soon as possible after the receipt of the plan by (i) arranging procurement of the Qianhai Goods on its own account and at its own expense in accordance with the needs of the Group as stated in the Plan and pursuant to the terms and conditions of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement; and (ii) arranging the Qianhai Goods so acquired to be stored at the Storage Location(s) at the own risk of and with the title vested in Qianhai Sailing Group.

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## LETTER FROM THE BOARD

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Pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

Pricing policy and price determination: The Purchase Price shall be the Acquisition Price plus the Premium, which shall not exceed the Maximum Price in any event.

The Acquisition Price is calculated as the actual price paid by Qianhai Sailing Group for the acquisition of the Qianhai Goods from the relevant supplier(s).

The Premium is calculated by 0.3% of the Acquisition Price for the Qianhai Goods.

If the PBOC Rate or the WACC differs from the respective values on the date of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement or the last Adjustment Date (whichever is later) by 10%, either Party may serve a written notice on the other Party proposing an adjustment to the Premium.

Payment terms: The relevant member(s) of the Group shall pay to the relevant member(s) of the Qianhai Sailing Group the Purchase Price for the Qianhai Goods within seventy five (75) days from the date of the delivery.

### PRICING POLICY OF THE GROUP

Other than disclosed above, the Group will follow the following pricing policies when conducting the Non-exempt Transactions:

#### 1. Master Sale and Purchase (2017) Agreement

##### *Sourcing of Goods*

- (1) Depending on the nature of Parent Products to be purchased by the Group, the selling price of the Parent Products offered by members of TCL Corporation Group to the Group generally is determined either with reference to the market price of relevant Parent Products. For Parent Products with comparable in the market, the Group will obtain a quote for the relevant products from at least two Independent Third Party suppliers before making each purchase to ensure the price offered by TCL Corporation Group represents the market price.



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## LETTER FROM THE BOARD

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- (2) The procurement department of the Group will also from time to time obtain a quote for the relevant Parent Products from at least two Independent Third Party suppliers and enter such market information in its internal database. Before each purchase of Parent Product is to be made with TCL Corporation Group, the Group will obtain quotation from TCL Corporation Group and compare the price offered by the relevant member of TCL Corporation Group for the relevant Parent Products with the its internal database for such market data to ensure the price charged by members of TCL Corporation Group and the terms of supply are on normal commercial terms and no less favourable to the Group than those offered by Independent Third Party suppliers.

### *Sale of Goods*

- (1) Under the Company's pricing model, the per unit price of the Multimedia Products is determined with reference to the target price offered by individual customers together with the raw material cost, direct labour cost, manufacturing overhead and the gross profit margin for the Company, and the weight of each factor will vary from order to order based on negotiations with its customers. The margin that the Company charges varies depending on factors such as market circumstances, customer relationship, credit granted, product specifications, transportation and mode of delivery, production cost, licensing cost.
- (2) Upon receiving proposed orders and pricing from customers, the sales and marketing team reviews the orders, and checks with relevant teams (including production, research and development, product plan control, procurement) for production capacity, production cost, pricing, production lead time and confirms or negotiates the terms with customers. The price will then be submitted to management for approval in accordance with the following procedures: if the margin between the proposed price and the production costs (the "Gross Profit Margin") is larger than 15%, the sales and marketing director of the relevant member of the Group is authorised to approve the quotation; if the gross profit margin is between 10-15%, the quotations needs approval from the finance director; if the gross profit margin is less than 10%, the quotation needs approval from the general manager. In general, the selling price quoted by the Group to members of TCL Corporation Group is based on cost plus a percentage of profit margin, which is in the range of 5-10%.
- (3) This pricing policy, including the percentage of profit margin as mentioned in the paragraph above is applicable to all Sales of Products by the Group regardless of whether the purchasers are Independent Third Parties or connected persons of the Company. Therefore, the Directors consider that the pricing policy could ensure that the transactions to be conducted under the Master Sale and Purchase (2017) Agreement are on normal commercial terms and on terms no less favourable than those offered by the Independent Third Parties and thus are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

There is no minimum commitment of purchases or sales by either TCL Corporation Group or the Company, and the Group is free to sell its products to other customers and to source from any Independent Third Parties.

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## LETTER FROM THE BOARD

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### 2. Master After Sale Service (2017 Renewal) Agreement

#### *Price determination*

Please refer to the “price determination” section above in major terms.

#### *Payment terms*

The parties shall meet regularly with each other to cross-check the settlement amounts in respect of the After Sale Service fees regarding the After Sale Service provided by TCL Corporation Group. Relevant member(s) of the service provider is required to issue an invoice to the relevant member(s) of the user on or before a specified date, and relevant member(s) of the user shall transfer the relevant service fees to the bank account designated by relevant member(s) of the service provider within 60 days (the exact number of days will be agreed in service contract(s)) after relevant member(s) of the user has been invoiced.

### 3. Master TCL Trademark Licence (2017 Renewal) Agreement

#### *Royalties*

The internal control unit of the Group has compared similar continuing connected transactions involving granting of trademark license (with royalty fee calculated based on sales revenue) of other companies listed on the Main Board of the Stock Exchange before entering into the Master TCL Trademark License (2017 Renewal) Agreement. The royalty rate was arrived at after arm’s length negotiations between the Company and TCL Corporation with reference to the royalty fees charged by other licensors for similar transactions and the prevailing market conditions.

Please refer to the “price determination” section above in major terms.

#### *Branding reimbursement*

Before the entering of the TCL Trademark Licence (2017 Renewal) Agreement, the internal control unit of the Group has assessed the rate of branding reimbursement based on a basket of factors, including:

- i) the historical amount paid under the TCL Trademark Licence (2014 Renewal) Agreement;
- ii) the proportion of the revenue of the Group to that of TCL Corporation;
- iii) the historical amount of branding expenses incurred by the TCL Corporation Group;
- iv) the anticipated amount of branding expenses to be incurred by the TCL Corporation Group;

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## LETTER FROM THE BOARD

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- v) the expected growth in sales of the Group derived from the branding promotion activities carried out by the TCL Corporation Group;
- vi) the expected branding reimbursement payable by the Group; and
- vii) the expected branding promotion expenses to be incurred by the Group in the event that it had not entered into the TCL Trademark Licence (2017 Renewal) Agreement.

The Directors considered that the branding reimbursement rate is determined after arms' length negotiation and is fair and reasonable.

Please refer to the "price determination" section above in major terms.

#### **4. Master Logistics Service Supply (2017 Renewal) Agreement**

Please refer to the "pricing policy and price determination" section above in major terms.

#### **5. Master Sourcing (2017 Renewal) Agreement**

Please refer to the "pricing policy and price determination" section above in major terms.

#### **6. Master Qianhai Sailing Cooperation (2017 Renewal) Agreement**

##### *Purchase Price*

Under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, the Purchase Price is the consideration for acquisition of the Qianhai Goods payable by the Group to Qianhai Sailing Group which shall be, subject to the Maximum Price, the Acquisition Price plus the Premium. The Acquisition Price represents the actual acquisition price paid by Qianhai Sailing Group for the Qianhai Goods acquired from the suppliers. The Premium, which is 0.3% of the Acquisition Price, represents the fee charged by Qianhai Sailing Group for provision of services to the Group under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement. The Maximum Price is the maximum acquisition price which is willing to be payable by the Group for the Qianhai Goods and is determined at the sole discretion of the Group. Qianhai Sailing Group shall use its best endeavours to meet the need of the Group as set out in the Plan including arranging procurement of the Goods on its own account at its own expense under the terms of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement.

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## LETTER FROM THE BOARD

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### *Adjustment of the Premium*

The Premium was determined after arm's length negotiations between the Company and Qianhai Sailing and the figure of 0.3% represents the sum of (i) all import duties payable by Qianhai Sailing Group, import administrative expenses, insurance fee, all out-of-pocket expenses incurred by Qianhai Sailing Group relating to the importation and delivery of the Qianhai Goods of approximately 0.1%; and (ii) a margin/financing charge to be charged by Qianhai Sailing Group of approximately 0.2%.

Under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, if the PBOC Rate or the WACC differs from the respective values on the date of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement or the last Adjustment Date (whichever is later) by 10%, either parties may serve a written notice (the "Adjustment Notice") on the other party proposing an adjustment of the Premium. the parties shall agree in writing on a new percentage for the Premium within ten (10) Business Days after the day on which the Adjustment Notice is issued (the "Stipulated Period"), provided always that (i) the adjustment to the Premium shall be proportional to the variation of the PBOC Rate or the WACC; and (ii) the annualised percentage rate of the Premium shall be no higher than the lower of the PBOC Rate or the WACC on the day of the Adjustment Notice. If no agreement is reached on or before the expiry date of the Stipulated Period, the Premium shall remain unchanged.

### **INTERNAL CONTROL PROCEDURES**

In order to further safeguard the interests of the Independent Shareholders, the Company will adopt the following measures with respect to the continuing connected transactions under the Non-exempt Transactions:

#### **1. Master Sale and Purchase (2017) Agreement**

##### *Sourcing of Goods*

- (1) The Group will set up half-year targets for purchase of Parent Products which together with the purchases under the Master Sourcing (2017 Renewal) Agreement and the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement should generally not exceed 50% of the total purchase target of the Group for the period, from which it could project the approximate amount of purchase from TCL Corporation Group, which will be subject to

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## LETTER FROM THE BOARD

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review from time to time by its internal control unit depending on the surrounding circumstances such as Group's performance and overall market conditions. The purchase unit will from time to time compare the actual figures against the purchase targets and the Purchase Limit and will make necessary adjustment for the purchase from TCL Corporation Group for the remaining half year period. For example, the Group will source less Parent Products from TCL Corporation Group during off-season where there will be fewer orders from customers, or delay the purchases from TCL Corporation Group until peak-season where the Group would have undertaken a lot orders from customers and thus have generated a greater overall revenue to ensure that the Purchase Limit will not be exceeded.

- (2) Upon receiving purchase requests from the production or research and development department of the Group, the procurement department of the Group will compare the Parent Products price offered by the at least two Independent Third Party suppliers and make an overall assessment of the terms of supply by such suppliers, including the quality of the Parent Products, past history of dealing with the such suppliers (if any), payment terms, and price of the Parent Products, to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2017) Agreement and in accordance with the Company's pricing policy. The procurement director of the Group is responsible for approving the purchase orders, the Group normally selects potential suppliers by reference to a number of factors such as their operation scale, product quality, cost, delivery arrangement, range of services and technology capability.
- (3) The Group would only engage TCL Corporation Group for provision of the Parent Products when, in accordance to the results of the overall assessment, TCL Corporation Group can offer the best terms of supply for the components or parts.
- (4) The aforesaid sourcing process and policy are the same for purchases made by the Group from all suppliers (including connected persons and Independent Third Parties).
- (5) The Group's internal control unit will monitor the aggregate amount of purchase made from TCL Corporation Group from time to time to ensure that the relevant annual cap for the corresponding financial year is not exceeded. The Group's internal control unit will prepare a monthly report on the status of the aggregate amount of purchase which will be submitted to finance director for review.
- (6) The internal control department of the Group will maintain a database to record (a) the total cost of sales; and (b) the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) to monitor the aggregate amount of purchase made from TCL Corporation Group from time to time. Where the Group proposes to make a purchase which may result in the then aggregate amount of purchase from TCL Corporation Group exceeding 50% of the then total cost of sales, the Group will favourably consider offers

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## LETTER FROM THE BOARD

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from other parties for the other purchases as when appropriate and will notify the relevant department requesting purchases and may temporarily decline or delay to process purchase instructions from the production or research departments of the Group and any further purchase instructions from the relevant departments can only be processed on discretionary basis until there are sufficient purchases from other parties to ensure that the Purchase Limit for the corresponding financial year will not be exceeded. The Group's finance department will prepare a monthly report on the status of the aggregate amount of purchase which will be submitted to the finance director for review. The management believes that with the concerted internal control measures of the internal control department and the finance department, this serves as check and balance and effectively reduces human errors.

### *Sale of Goods*

- (1) The Group will set up half-year targets for sales of Multimedia Products, from which it could project the approximate amount of sales to TCL Corporation Group, which will be subject to review from time to time by its finance director depending on the surrounding circumstances such as Group's performance and overall market conditions. The sales unit will from time to time compare the actual figures against the sales targets and will make necessary adjustment for the sales to from TCL Corporation Group for the remaining half year period.
- (2) Before selling any Multimedia Products to TCL Corporation Group, the Group would ensure that the transactions are on normal commercial terms and terms no less favourable from the perspective of the Group than those available to or offered by Independent Third Parties, and every time before conducting any such transactions, the sales department of the Group would first prepare the relevant contract for the sale of Multimedia Products and submit it to the internal control unit and legal department of the Group for review and approval. The internal control unit and the legal department of the Group would review the terms of the proposed transaction and the draft purchase order to be entered into to make sure that the terms are in compliance with the pricing policy of the Company and the overall terms (including payment terms, product warranty) are no more favourable to the connected persons than those which have been offered or to be offered by the Group to Independent Third Parties. The transactions could only be carried out after the internal control unit and the legal department have separately given their approval therefor.
- (3) The Group's internal control unit will monitor the aggregate amount of sales to TCL Corporation Group from time to time to ensure that the relevant annual cap for the corresponding financial year is not exceeded. The Group's internal control unit will prepare monthly report which will be submitted to finance director for review.

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## LETTER FROM THE BOARD

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### 2. Master After Sale Service (2017) Agreement

In respect of the continuing connected transactions contemplated under the Master After Sale Service Agreement, the Group adopts the following internal control procedures:

- (1) To ensure that the transactions under the Master After Sale Service Agreement are on normal commercial terms and on terms no less favourable from the perspective of the Group than those available to and/or offered by Independent Third Parties, every time before the relevant member of the Group engages the relevant member of the service provider and/or user for the After Sale Services, the operation unit of the relevant member of the Group will review the draft After Sale Service Contract for the engagement to confirm that the After Sale Services are capable to meet the needs of the user.
- (2) The internal control unit will then review the terms of the draft After Sale Service Contract to make sure that the terms are in compliance with the Master After Sale Service Agreement and the overall terms of the engagement are no less favourable from the perspective of the Group than those which have been offered to the Group and/or available to Independent Third Parties. Relevant member of the Group will only enter into the After Sale Service Contract with the relevant member of the TCL Corporation Group after receiving the approval by the internal control unit which confirms that the overall terms are no less favourable from the perspective of the Group than those which have been offered to the Group and/or available to Independent Third Parties. When evaluating the terms of a draft After Sale Service Contract, the internal control unit will compare it with all quotations obtained from Independent Third Parties for the same or equivalent services at comparable quality and determine whether on an overall evaluation of the After Sale Service fees to be charged, the payment terms as stated in the draft After Sale Service Contract and the expected quality of the After Sale Services to be received against the quotations obtained from Independent Third Parties, are the most favourable to the Group; and
- (3) In order to collect a fair and representative sample of quotations, the Group will obtain quotations from at least 3 Independent Third Parties (who, as the Group considers, are able to provide the required services of satisfactory quality and at satisfactory standard) once a year to make sure that the After Sale Service fees to be paid under the After Sale Service Contract is not higher than those offered to the Group by Independent Third Parties under prevailing local market conditions. The Group would also form time to time identify further Independent Third Parties who, as it considers, are capable of providing the required services of satisfactory quality and at satisfactory standard, and obtain quotations for the required After Sale Services from them upon identification and repeated annually.
- (4) The internal control unit of the Group will conduct a monthly review on whether the Group still has sufficient unused annual caps for carrying out the continuing connected transactions during the year. If it is anticipated that the annual caps may be exceed if the Group is to continue to carry out the continued connected transactions throughout the year, the Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules before entering into the proposed transactions.

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- (5) Before conducting any transactions with connected persons, the internal control unit of the relevant member of the Group shall ensure that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. The internal control unit would on an annual basis review the continuing connected transactions to assess, and compile a report, on (i) whether the continuing connected transactions of the Group have been carried out in accordance with the terms of the relevant agreements and the Group's pricing policy; (ii) whether the transactions have been conducted on normal commercial terms and on terms no less favourable than those offered by the Independent Third Parties; and (iii) the aggregate amounts of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded.

Since the internal control procedures above are clear and easy to follow while providing sufficient checks and balances, the Directors consider that such internal control procedures are adequate and efficient.

### **3. Master TCL Trademark Licence (2017 Renewal) Agreement**

#### *Royalties*

The Group is only required to pay royalty if the EBIT Percentage of the Group for the previous 4 consecutive quarters is 3% or more. It is not expected that the performance of the Group will trigger the royalty payment obligations for the three years ending 31 December 2020 as the estimated performance of the Group for the relevant period will not reach the threshold which triggers the royalty payment obligations under the Master TCL Trademark License (2017 Renewal) Agreement. Accordingly, the proposed annual caps for each of the financial years ending 31 December 2018, 2019 and 2020 are nil.

The internal control unit of the Group will closely monitor the EBIT Percentage of each quarter and make a EBIT Percentage forecast for the next quarter. Once there is a likelihood that the EBIT Percentage of the Group for 4 consecutive quarters will reach 3% or more, the internal control unit will report to the management immediately. The Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements under the Listing Rules.

#### *Branding reimbursement*

The annual amount of the general brand advertising costs payable by the Group to TCL Corporation is determined with reference to the annual net sales of the Group for the relevant fiscal year depending on the types of products. The internal control unit of the Group will closely monitor the net sales of the Group on quarterly basis and will make a net sale forecast for the next quarter. Once there is a likelihood that the amount payable for the financial year will exceed the relevant annual cap, the internal control unit will report to the management immediately. The Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules.



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Any variation of the branding promotion reimbursement percentage must be approved by the internal control unit and the management, which would consider its effect on the financial condition of the Group and the proposed caps for the remaining period of the agreement and the reasons for the variation. Once there is a likelihood that the variation will render the relevant annual cap being exceeded, the internal control unit will report to the management immediately. The Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules.

#### **4. Master Logistics Service Supply (2017 Renewal) Agreement**

Where Speedex offers to provide logistics services to the Group at terms no less favourable than (i) those offered by Speedex to other Independent Third Parties and/or (ii) those offered by other Independent Third Parties to the Group, the Company shall procure its Subsidiaries to actively consider using the services provided by Speedex. However, the Group is not restricted and is entitled to use the logistics services provided by other Independent Third Parties service providers if it considers desirable to do so.

The Group would also conduct regular review on the terms offered by Speedex as compared to other Independent Third Parties service providers regarding comparable logistics services, including but not limiting to obtaining quotations from Speedex and other Independent Third Parties for comparable logistics services on a periodic basis and making comparisons. If Speedex provides comparable logistics services at more favourable terms to other Independent Third Parties, Speedex shall immediately offer to provide logistics services to the Group at equivalent terms accorded to such other Independent Third Parties starting from the next applicable period. If there are no comparable terms offered to the Group by other Independent Third Parties, the terms of the services to be provided by Speedex to the Group shall then be determined after arm's length negotiations between the parties and shall be on normal commercial terms.

These internal control mechanisms would ensure the Group to obtain comparable logistics services at terms no less favourable than (i) those offered by Speedex to other Independent Third Parties and/or (ii) those offered by other Independent Third Parties to the Group for comparable service.

#### **5. Master Sourcing (2017 Renewal) Agreement**

In general, to ensure that the TCL Corporation Group purchases the Overseas Materials on normal commercial terms and payment terms shall be no less favourable than those available to the Group from Independent Third Parties, the parties have agreed that TCL Corporation Group are responsible for complying with or procuring the relevant member of the TCL Corporation Group for compliance with all procedures and apply for and provide all documentation required for the import of Overseas Materials into the PRC.

Concerning the sale of the Overseas Materials by TCL Corporation Group to the Company's nominated Subsidiaries in the PRC, the administrative charges charged by TCL Corporation Group are no less favourable than those charged by independent third parties for the purpose of importing Overseas Materials for the Group. This is confirmed by comparison with an independent third party providing

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similar import services as the Group. Regarding the rate of the administration fee charged by TCL Corporation, the Company conducts regular review to ensure that it is comparable with an independent third party providing similar import services.

The internal control procedures adopted ensure the purchase of Overseas Materials have entered into are on normal commercial terms and are fair and reasonable.

The Group would at regular interval obtain quotations for comparable services from Independent Third Parties, where available, to compare such quotations with the administrative fee proposed to be charged by the relevant member of the TCL Corporation Group. TCL Corporation Group will pay the cost of the Overseas Materials to the relevant member of the Group in places other than the PRC after the receipt of payment (cost of the Overseas Materials plus import duties and administrative charge) from the relevant member of the Group in the PRC and hence in effect the net sum to be paid by the Group pursuant to the Master Sourcing (2017 Renewal Agreement) is only the import duties and administrative charge. The payment terms largely correspond to the payment terms allowed by the PRC governmental authorities and Independent Third Parties to which import duties and other expense are paid.

Please refer to the paragraph 6 of internal control procedures of “*Master Sale and Purchase (2017 Agreement)*” under “*Sourcing of Goods*” above for internal control procedures in relation to the Purchase Limit.

### **6. Master Qianhai Sailing Cooperation (2017 Renewal) Agreement**

The Group will follow the following internal procedures when conducting transactions with Qianhai Sailing Group:

- (1) Before engaging Qianhai Sailing Group, the Group will:
  - (a) internally formulate a production schedule for every three months with reference to its business plan and orders from customers;
  - (b) identify its needs for Qianhai Goods based on the production schedule;
  - (c) obtain market information regarding Qianhai Goods to determine the models, technical specifications, preferred manufacturers and Maximum Price of Qianhai Goods;
  - (d) determine the portion of such Qianhai Goods that are to be sourced from Qianhai Sailing Group having considered the cashflow position of the Group and the costs which will be incurred if the Group directly sources Qianhai Goods on its own;
  - (e) prepare the Plan which will be passed to a supervisor responsible for supply chain management for review and approval; and
  - (f) send the Plan to Qianhai Sailing Group after the aforesaid approval;

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- (2) When determining the Maximum Price, the Group will take into account the aggregate costs which will be incurred by the Group if the Group is to source the Qianhai Goods and arrange for importation and/or delivery on its own and will make sure that the Maximum Price does not exceed the sum of (i) the lowest price at which the Group can obtain the Qianhai Goods directly from the market and (ii) the Premium to be paid to Qianhai Sailing Group if such Qianhai Goods are to be obtained through Qianhai Sailing Group's services, so as to ensure that the Group would purchase the Qianhai Goods through Qianhai Sailing Group only when it is better off for the Group to do so; and
- (3) After the Plan is sent to Qianhai Sailing Group, the Group will regularly review its production need and the price of Qianhai Goods available on the open market so as to facilitate the Group to decide whether it is in the interest of the Group to issue a Purchaser Order to Qianhai Sailing Group to acquire Qianhai Goods.

The adoption of these procedures could facilitate the Group to decide whether to source Qianhai Goods from Qianhai Sailing Group and the Group will only do so when (i) the total costs of the Group to acquire Qianhai Goods through Qianhai Sailing Group, in which case is the Purchase Price to be paid to Qianhai Sailing Group, is lower than the costs of the Group directly purchasing Qianhai Goods from the suppliers, which includes the acquisition costs, importation and delivery costs and other financial costs; and (ii) it is in the best interest of the Company and its Shareholders to do so. In view of the above, the Directors consider that such procedures can ensure that the transactions with Qianhai Sailing Group under the Master Qianhai Sailing Cooperation (2017) Agreement are conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

Please refer to the paragraph 6 of internal control procedures of "*Master Sale and Purchase (2017) Agreement*" under "*Sourcing of Goods*" above for internal control procedures in relation to the Purchase Limit.

Since the internal control procedures above are clear and easy to follow while providing sufficient checks and balances, the Directors consider that such internal control procedures are adequate and efficient.

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### HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

As disclosed in the Supplemental Announcement, the proposed annual caps of certain Non-exempt Transactions for the three years ending 31 December 2020 have been revised. Please refer to the Supplemental Announcement for details.

The following table sets out the respective actual amounts and proposed annual caps of the continuing connected transactions as described above for the two years ended 31 December 2016 and the six months ended 30 June 2017, and the respective revised annual caps for the three years ending 31 December 2020:

	For the year ended 31 December 2015 (audited for actual amount only) HK\$'000	For the year ended 31 December 2016 (audited for actual amount only) HK\$'000	For the 6 months ending 30 June 2017 (unaudited) (for actual amount only)/ for the year ending 31 December 2017 (for original annual cap only) HK\$'000	For the year ending 31 December 2018 HK\$'000	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000
<b>Continuing Connected Transactions (Note 1)</b>						
<i>Master Sale and Purchase (2017) Agreement</i>						
<i>Master Supply (2014 Renewal) Agreement</i>						
Sourcing of Goods						
– Actual	6,910,894	8,720,168	6,004,917			
– Original annual cap	18,954,763	22,495,059	25,650,532			
Sale of Goods						
– Actual	3,182,116	2,911,657	1,493,020			
– Original annual cap	7,988,320	12,216,885	18,201,831			

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	For the 6 months ending 30 June 2017 (unaudited) (for actual amount only)/					
	For the year ended 31 December 2015 (audited for actual amount only) HK\$'000	For the year ended 31 December 2016 (audited for actual amount only) HK\$'000	for the year ending 31 December 2017 (for original annual cap only) HK\$'000	For the year ending 31 December 2018 HK\$'000	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000
<i>Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement</i>						
– Actual	3,048	11,100	11,173			
– Original annual cap	34,679	46,320	63,487			
Proposed annual cap						
Sourcing of Goods				13,153,107	15,021,622	15,205,895
Sale of Goods				5,739,212	7,148,383	7,847,009
<i>Master After Sale Service (2017) Agreement</i>						
<i>Master After Sale Service (2014 Renewal) Agreement</i>						
– Actual	28,952	14,844	2,336			
– Original	58,163	66,119	75,956			
<i>Master After Sale Service (TV Products) (2016 Renewal) Agreement (Note 2)</i>						
– Actual	246,095	279,610	145,293			
– Original annual cap	649,546	795,491	423,666	469,524	512,014	
	(Note 3)	(Note 3)				
– Proposed annual cap				425,035	563,141	578,592

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	For the year ended 31 December 2015 (audited for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2016 (audited for actual amount only) <i>HK\$'000</i>	For the 6 months ending 30 June 2017 (unaudited) (for actual amount only)/ year ending 31 December 2017 (for original annual cap only) <i>HK\$'000</i>	For the year ending 31 December 2018 <i>HK\$'000</i>	For the year ending 31 December 2019 <i>HK\$'000</i>	For the year ending 31 December 2020 <i>HK\$'000</i>
<b><i>Master TCL Trademark License (2017 Renewal) Agreement</i></b>						
aggregate royalty (Note 4)						
– Actual	nil	nil	nil			
– Original annual cap	nil	nil	158,988			
– Proposed annual cap				0	0	0
aggregate branding fee reimbursement						
– Actual	431,952	315,370	70,085			
– Original annual cap	560,661	663,298	737,963			
– Proposed annual cap				773,521	906,831	1,100,904
<b><i>Master Logistics Service Supply (2017 Renewal) Agreement</i></b>						
– Actual	264,645	347,463	183,502			
– Original annual cap	507,529	615,125	733,229			
– Proposed annual cap				514,484	611,722	702,869
<b><i>Master Sourcing (2017 Renewal) Agreement</i></b>						
purchase of Overseas Materials by TCL Corporation Group from the Group						
– Actual	835,594	756,191	337,432			
– Original annual cap	857,425	1,076,386	1,360,851			
– Proposed annual cap				1,054,690	1,214,903	1,399,548

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	For the year ended 31 December 2015 (audited for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2016 (audited for actual amount only) <i>HK\$'000</i>	For the 6 months ending 30 June 2017 (unaudited) (for actual amount only)/ for the year ending 31 December 2017 (for original annual cap only) <i>HK\$'000</i>	For the year ending 31 December 2018 <i>HK\$'000</i>	For the year ending 31 December 2019 <i>HK\$'000</i>	For the year ending 31 December 2020 <i>HK\$'000</i>
sale of Overseas Materials by TCL Corporation Group to the Group						
– Actual	824,518	802,215	325,446			
– Original annual cap	1,063,207	1,334,718	1,687,455			
– Proposed annual cap				878,909	1,012,419	1,054,589
<b><i>Master Qianhai Sailing Cooperation (2017 Renewal) Agreement (Note 5)</i></b>						
– Actual	342,229	563,190	287			
– Original annual cap	1,179,490	3,113,854	3,425,239			
– Proposed annual cap				552,647	796,791	739,516

*Note 1:* For easy comparison of the historical figures and the proposed annual caps, names of the new master agreements are used herein.

*Note 2:* The Master After Sale Service (TV Products) (2016 Renewal) Agreement was for the term from 1 January 2017 to 31 December 2019.

*Note 3:* These represent the original annual caps under the Master After Sale Service (TV Products) Agreement dated 19 May 2014.

*Note 4:* No royalty was payable by the Group for the two years ended 31 December 2016 and six months ended 30 June 2017 as the actual performance of the Group for the relevant periods did not reach the threshold which triggered the royalty payment obligations under the Master TCL Trademark License (2014 Renewal) Agreement.

*Note 5:* The Master Qianhai Sailing Cooperation Agreement was for the term from 25 September 2015 to 31 December 2017.

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### **Purchase Limit under the Purchase Agreements**

In respect of the continuing connected transactions contemplated under the Purchase Agreements, pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

The Directors consider that the Group's cost of sales serves as a meaningful benchmark to monitor the level of purchase from TCL Corporation Group and Qianhai Sailing Group and therefore are of the view that it is appropriate to use the Purchase Limit to monitor the Group's level of purchases from TCL Corporation Group and Qianhai Sailing Group. The Purchase Limit forms part of the terms of each of the Purchase Agreements. Accordingly, the Group will follow the above internal control measures to keep track of the level of purchase from TCL Corporation Group and Qianhai Sailing Group to ensure that the Purchase Limit will not be exceeded, as well as to purchase Goods, Overseas Materials and/or Qianhai Goods (as the case may be) from Independent Third Parties from time to time to ensure that the Purchase Limit will not be exceeded.

### **REASONS FOR THE PROPOSED ANNUAL CAPS**

The major bases and assumptions for determining the proposed annual caps for the various continuing connected transactions are set out below.

#### **1. Proposed annual caps for the Master Sale and Purchase (2017) Agreement**

The proposed annual caps for the aggregated transactions under the Master Sale and Purchase (2017) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement;
- (ii) in respect of Sourcing of Goods,
  - the projected purchases would be mainly made by (i) TCL King Electrical from CSOT; (ii) commercial distribution unit and (iii) Strategic Client Business Centre;
  - the proposed caps are determined based on the possible requirements of raw materials, semi-finished materials and finished goods with respect to the projected business volumes and the estimated growth rates of the relevant business lines of the Group as set out below:



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Segments	Sales Volume ('000 units)		
	2018	2019	2020
China business	10,820	12,120	13,050
Overseas Business Centre	16,230	18,180	19,570
Total	27,050	30,300	32,620

- the above estimation are made by reference to, among other things, the business performance of the Group for the six months ended 30 June 2017, the relevant industry demand and the target market share of the Group

### *Business performance of the Group for the six months ended 30 June 2017*

#### PRC Market

For the second quarter in 2017, the Group's LCD TV turnover increased by 2.6% in the second quarter year-on-year, which was attributable to the optimisation of the product mix and the increase in the LCD TV's average selling price.

With continued product diversity optimisation, the proportion of middle-to-high-end products has been steadily increasing in the first half of 2017 (ODM business is excluded in calculating the data below).

- Smart TV sales volume amounted to 2.33 million sets, which accounted for 75.1% of the LCD TV sales volume in the first half of 2017, rising from 62.6% in the first half in 2016.
- 4K TV sales volume amounted to 1.26 million sets, which accounted for 40.6% of the LCD TV sales volume in the first half of 2017, rising from 33.9% in the first half of 2016.
- Market share of curved TVs was 35.2%, maintaining No.1 position (Source: CMM). Sales volume of curved TVs rose significantly by 79.4% year-on-year to 480,000 sets, which accounted for 15.4% of the LCD TV sales volume in the first half of 2017, increasing from 7.4% in the first half of 2016.
- The average size of TVs sold increased from 43.7 inches in the corresponding period of last year to 45.5 inches.

According to CMM's report, TCL's LCD TV brand price index increased from 92 in the first half of 2016 to 97, ranking No.3.

By engaging in different online marketing activities, the proportion of the Group's sales volume from electronic business sales channels increased from 20.2% in the first half of 2016 to 21.7% in the first half of 2017.

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### Overseas Markets

The Group is determined to improve its global business layout through internationalization strategy, leverage on many years of experience, combine with advantages of TCL's vertical integration of supply chain, proactively improve supply chain control and accelerate its product mix transition by increasing its proportion of high-end products.

In the first half of 2017, the Group's LCD TV sales volume increased by 34.1% year-on-year to 5.74 million sets, turnover was up by 51.0% year-on-year to HK\$8.38 billion, the average selling price increased by 12.5% year-on-year. Both sales volume and revenue in the overseas markets recorded significant increase, becoming a main driver for business growth.

Performance in the overseas markets in the first half of 2017:

- In the North American market, LCD TV sales volume surged by 215.9% year-on-year.
- LCD TV sales volume in the emerging markets rose by 20.5% year-on-year.
- LCD TV sales volume in the European market dropped by 38.7% year-on-year.
- LCD TV sales volume of the strategic ODM business was up by 9.6% when compared with the corresponding period of last year.

The Group enhanced its product mix through CBUS (curved, big screen, 4K and smart) strategy (excluding ODM business):

- The sales volume proportion of curved TV increased from 1.6% in the first half of 2016 to 1.9% in the first half of 2017.
- The sales volume proportion of TV with screen size of 55 inches and above rose from 13.8% in the first half of 2016 to 16.3% in the first half of 2017.
- The sales volume proportion of 4K TV increased from 12.5% in the first half of 2016 to 19.3% in the first half of 2017.
- The sales volume proportion of smart TV rose from 48.3% in the first half of 2016 to 77.0% in the first half of 2017.

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### *Relevant industry demand*

Whilst the Group does not foresee that there will be a substantial increase in the relevant industry demand, yet in view of the expected growth in sales volume, the Group targets to have an increase in the market share in future.

Ever since the Group implemented the “double +” strategic transformation, it has successfully established a customer-centric ecosystem based on platform operation to develop new business models; optimise software and hardware experiences, integrate product and operation platforms to optimise user experience and enhance platform capability. The results of successful implementation of “double +” strategic transformation have been reflected in the business performance of the Group and such aspiring results have encouraged the Group to actively implement the TV+ business strategy in the overseas markets.

At the same time, the Group has continued to pursue internationalisation. It has focused on branding by strengthening brand investment and enhancing brand image; enhanced efficiency and structural transformation to establish operating models with healthy and steady growth, and strengthened and enhanced existing businesses while focusing on breakthroughs in the key markets. The results of successful pursuance of internationalisation have borne fruits as reflected in the business performance of the Group.

Accordingly, the management expects the “double +” strategic transformation and pursuance of internationalization would play a key role and the market would maintain the momentum of growth for two financial years ended 31 December 2019. In the financial year ending 31 December 2020, the Group expects that the market would become relatively mature and therefore the results of the “double +” strategic transformation and pursuance of internationalization would become stable. By that time, the management expects to see a growth in the market, albeit at a steady rate.

### *Market share*

The Group ranked No.3 in the global LCD TV market with a market share of 7.3% in the first quarter of 2017 according to the latest IHS Technology figures and the Company’s shipment data, and ranked No.3 in the PRC LCD TV market with a market share of 13.6% in the first half of 2017 according to CMM’s report. The Group targets to record a gradual increase in market share in the three years ending 31 December 2020.

- (iii) in respect of Sale of Goods
  - the projected sales would be mainly made by: (i) TCL King Electrical; and (ii) TCL Overseas Marketing Limited (whose principal activities includes trading of television products and components);
  - please refer to (ii) for information in respect of the expected growth in Sale of Goods;
- (iv) the growth in the Group’s LCD business (please refer to (ii) above for detailed bases on details of growth).

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### **2. Proposed annual caps for the Master After Sale Service (2017) Agreement**

The proposed annual caps for the After Sale Service as contemplated under the Master After Sale Service (2017) Agreement have been determined taking into account

- (i) the historical transaction amounts under the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement;
- (ii) the estimated gradual increase in the sales amount and volume of the TV Products sold by the Group and TCL Corporation Group as stated in the paragraph under the heading “*Proposed annual caps for the Master Sale and Purchase (2017) Agreement*” herein and the budgeted warranty cost incurred by the relevant service provider resulting from (a) inflation and upward adjustment in service fees for After Sale Service in the comparable practice in the market; (b) expected diversity and complexity of After Sale Service to meet consumers’ expectations; and (c) the expected increase in costs of After Sale Service including but not limited to hardware costs and human resources costs as a result of optimising product diversity, thus leading to an estimated increasing demand for the After Sale Service during the term of the Master After Sale Service (2017) Agreement;
- (iii) the exchange rate between Renminbi and Hong Kong Dollar which is expected to be more or less the same until 31 December 2020; and
- (iv) the historical gross domestic product growth and anticipated inflation in the PRC, thus leading to an increase in the sales revenue of the TV Products and in turn the After Sale Service fees.

### **3. Proposed annual caps for the Master TCL Trademark License (2017 Renewal) Agreement**

Taken into account the sales growth of Multimedia Products in particular in the PRC and the emerging markets, it is still expected that no royalty will be payable by the Group for the three years ending 31 December 2020 as the estimated performance of the Group for the relevant period will not reach the threshold which triggers the royalty payment obligations under the Master TCL Trademark License (2017 Renewal) Agreement. The annual caps in respect of the aggregate branding fee reimbursement for the transaction under the Master TCL Trademark License (2017 Renewal) Agreement are estimated based on (i) the historical sales amount together with the expected growth in sales amount in the next three years based on the expected growth in market shares of the Group’s Multimedia Products and certain market estimates of the expected growth in the sales of televisions, especially the substantial growth in LCD televisions market consumption, in the PRC and other regions around the world as stated under the heading “*Proposed annual caps for the Master Sale and Purchase (2017) Agreement*” herein; and (ii) the estimated advertising and promotion expenses of the promotion projects intended to be launched during the coming 3 years. More potential cooperation opportunities with (i) well-known television shows such as “Voice of China” and (ii) certain open world sports events such as the Wuhan Open are expected to be continued in the future.

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### **4. Proposed annual caps for the Master Logistics Service Supply (2017 Renewal) Agreement**

The estimated transaction values of the transactions under the Master Logistics Service Supply (2017 Renewal) Agreement are determined based on (i) the historical cost and expenses incurred by the Group in respect of the logistics services provided by Speedex in the PRC; and (ii) the projected sales volume in the next three years determined with reference to, among other factors, future growth rates in sales volume, the increasing quantity of products sold in the PRC in particular having regard to the growth in the Group's LCD business in the PRC as stated under the heading "*Proposed annual caps for the Master Sale and Purchase (2017) Agreement*" herein.

### **5. Proposed annual caps for the Master Sourcing (2017 Renewal) Agreement**

The annual caps for the aggregated transactions under the Master Sourcing (2017 Renewal) Agreement are determined by reference to, among other things, (i) the historical amounts of the relevant transactions; (ii) the possible requirement of raw materials, semi-finished materials and finished goods with respect to the projected business volumes and the estimated growth rates of the relevant business lines of the Group (which in turn are estimated by reference to, among other things, the relevant industry demand and the target market share of the Group); (iii) TCL Corporation Group's projected requirement of raw materials, semi-finished materials and finished goods for its operations, which is expected to increase substantially; and (iv) the growth in the Group's LCD business.

For sale of Overseas Materials by TCL Corporation Group to the Group, the proposed annual caps are determined in particular with regard to the projected purchases of Overseas Materials by (i) TCL King Electrical; and (ii) Strategic Client Business Centre of the Company which was determined based on the historical amount of purchase in the year 2017 and the projected increase of turnover.

Please refer to the paragraph under the heading "*Proposed annual caps for the Master Sale and Purchase (2017) Agreement*" herein for more information.

### **6. Proposed annual caps for the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement**

The proposed annual caps for the aggregated transactions under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement are determined by reference to, among other things:

- (i) the historical amounts of the Qianhai Goods purchased by the Group through other channels;
- (ii) the possible requirement of raw materials, semi-finished materials and finished goods with respect to the projected business volumes and the estimated growth rates of the relevant business lines of the Group (which in turn are estimated by reference to, among other things, the relevant industry demand and the target market share of the Group); and
- (iii) the growth in the Group's LCD business.

The Group estimates that the amount of projected procurement of the Qianhai Goods from Qianhai Sailing would account for 5% of the total purchases by the Group for each year from 2018 to 2020.

Please refer to "*Proposed annual caps for the Master Sale and Purchase (2017) Agreement*" for more information.

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### REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors (other than the independent non-executive Directors, whose views are set out in “Letter from the Independent Board Committee”) consider that the terms of the aforesaid continuing connected transactions are fair and reasonable, on normal commercial terms, and it is in the interests of the Company and the Shareholders as a whole to enter the aforesaid continuing connected transactions for the following reasons:

#### 1. Master Sale and Purchase (2017) Agreement

The Directors consider that the transactions under the Sourcing of Goods will continue to facilitate the smooth operation of the Group’s business by providing a stable and reliable source of supply of the necessary materials manufactured in the PRC for the Group’s manufacture of the Multimedia Products and the necessary finished goods for the Group’s operations. The Sale of Goods will also allow the Group to better manage its level of raw materials by providing additional flexibility to the Group for managing its surplus materials (if any) and will allow the Group to widen its revenue base by supplying Goods to TCL Corporation Group.

The Master Sale and Purchase (2017) Agreement would also enable the Group to source TCL Products from TCL Corporation Group on normal commercial terms with a view to distributing such TCL Products for profits. It will continuously provide the Group with an additional source of revenue and margin by capitalising upon its established distribution network of the Group of TCL Products without incurring significant additional overheads; the Group will also benefit by securing a reliable source of high quality TCL Products for re-sale to customers and an additional income will be derived from re-selling the TCL Products to customers by utilising the Group’s existing distribution network in the territories concerned.

#### 2. Master After Sale Service (2017) Agreement

The Group has vast experiences with display and multimedia products and is equipped with experienced personnel and equipment for providing after sale service in respect of these products, the Directors believe that the Group would be able to fully utilise the existing resources and generate additional source of income by providing the Service to TCL Corporation Group in respect of the TV Products. Furthermore, by acting as a service provider of the After Sale Service in relation to TV Products, it will help the Group build up its image as an experienced display products manufacturer, and thereby putting the Group in a better position to attract and retain more customers, which will in turn increase the revenue of the Group.

On the other hand, as the evolution of the sales channel for, and upgrading of, television sets products have become increasingly fast nowadays, the demand for provision to customers of specialized After Sale Service is acute. Certain members within TCL Corporation Group have vast and past experience with the provision of After Sale Services for electronic appliances and are well equipped with experienced personnel and advanced IT systems for providing After Sale Services. The Group believes that TCL Corporation Group will be able to fully utilise its existing resources to continue providing the After Sale Service s for TV Products.

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## LETTER FROM THE BOARD

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The provision by TCL Corporation Group of specialized and high quality services will help put the Group in a better position to attract and retain more customers, which will in turn increase the sales volume and sales revenue of the Group. Also, by outsourcing the relevant After Sale Services to TCL Corporation Group, the Group will be able to better focus, and concentrate its resources, on its core business of the manufacture, assembly and distribution of TV Products, whereby the core competitiveness of the Group can be maintained and further promoted.

### **3. Master TCL Trademark License (2017 Renewal) Agreement**

TCL Corporation Group owns and has registered certain trademarks which are used by the Group for the marketing and distribution of Multimedia Products. Such trademarks are considered to be important to the successful long-term operation of the business of the Group. The Master TCL Trademark License (2017 Renewal) Agreement allows the Group to secure the use of such trademarks over a reasonable period of time at attractive rates.

### **4. Master Logistics Service Supply (2017 Renewal) Agreement**

In order to streamline the cost structure and operations of the Group, the Company considers it is beneficial to the Group to continue to outsource the logistics services to specialized service units. Given the close relationship between the Group and TCL Corporation Group, the Group will be placed in a better position to monitor the services to be provided under the Master Logistics Service Supply (2017 Renewal) Agreement than by other outside service providers.

### **5. Master Sourcing (2017 Renewal) Agreement**

In respect of the Master Sourcing (2017 Renewal) Agreement, the arrangement under the Overseas Materials Sourcing Service is the best alternative for the Group to source Overseas Materials for the Group's production in view of the requirements of the business licenses of certain members of the Group.

### **6. Master Qianhai Sailing Cooperation (2017 Renewal) Agreement**

Using Qianhai Sailing Group as an intermediary to purchase the Qianhai Goods for supply to the Group, the Group has no obligation to pay for the Qianhai Goods acquired by Qianhai Sailing Group before Delivery. The Group would issue a purchase order to instruct a member of the Qianhai Group to sell to a member of the Group the Qianhai Goods only when it requires the Qianhai Goods in its manufacturing process and the Group is only required to settle the Purchase Price within seventy five (75) days after the date of the Delivery. This arrangement could significantly speed up the Group's inventory turnover and relief the strain on the Group's cash flow position.

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## LETTER FROM THE BOARD

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The suppliers of the Qianhai Goods from time to time offer discount on their products. In the past, the Group may not be able to fully capitalize on such opportunity because of its tight cashflow position. However, with the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, the Group would be able to seize the opportunity by giving Qianhai Sailing Group the Plan and specify the particulars of the Qianhai Goods and the Maximum Price so that Qianhai Sailing Group could acquire the Qianhai Goods at discounted price at its own costs first. When the Group is in need of the Qianhai Goods and its cashflow position allows, it could then purchase the Qianhai Goods from Qianhai Sailing Group at the Acquisition Price plus the Premium. Since the Premium when fixed and adjusted would be lower than the PBOC Rate and the WACC, the Group is better off with this arrangement instead of obtaining other financing for acquiring the Qianhai Goods. This arrangement also gives the Group much more flexibility in managing its inventory and cashflow.

### ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

The Non-exempt Transactions will be subject to the following annual review requirements:

1. the independent non-executive Directors shall review annually the Non-exempt Transactions and confirm in the Company's corresponding annual report that the Non-exempt Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) on normal commercial terms and on terms no less favourable to the Group than those available from the independent third parties; and
  - (c) in accordance with the respective agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
2. the auditors of the Company shall review annually the Non-exempt Transactions and confirm in a letter to the Board (a copy of which shall be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) that whether anything has come to their attention that causes them to believe that the Non-exempt Transactions:
  - (a) have not been approved the Board;
  - (b) were not, in all material respects, in accordance with the pricing policies of the Group (for these Non-exempt Transactions involving the provision of goods and services by the Group);
  - (c) were not entered into in accordance with the respective agreements; and
  - (d) have exceeded the caps; and



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## LETTER FROM THE BOARD

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3. the Directors shall state in the Company's annual report whether its auditors have confirmed the matters stated in Rule 14A.56 of the Listing Rules.

The Company shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (1) and/or (2) respectively.

The Company shall allow, and shall procure that the counterparties shall allow the Company's auditors access to the relevant records for the purpose of the auditors' review of the Non-exempt Transactions referred to in paragraph (2) above.

### LISTING RULES IMPLICATIONS

TCL Corporation, retain ultimate controlling Shareholder of the Company, currently holds approximately 51.83% of the issued shares of the Company, and is a connected person of the Company under the Listing Rules.

Since Speedex is a joint venture of TCL Corporation and Qianhai Sailing is owned as to 40% by TCL Corporation, each of them is a TCL Associate thus the aforesaid (including TCL Corporation) are connected persons of the Company under the Listing Rules. The transactions contemplated under the aforesaid agreements between the Group on the one hand and TCL Corporation or TCL Associates on the other hand therefore constitute continuing connected transactions.

Notwithstanding the respective interest and/or role of certain Directors in TCL Corporation Group, none of them is considered as having a material interest in the transactions contemplated under the various agreements on continuing connected transactions to be renewed or entered into, therefore all Directors are entitled to vote pursuant to the Company's articles of association.

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the respective annual caps of the Non-exempt Transactions exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising Robert Maarten Westerhof, Tseng Shieng-chang Carter, Wang Yijiang and LAU Siu Ki has been established to advise the Independent Shareholders on the terms and the proposed caps of the Non-exempt Transactions. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

TCL Corporation and TCL Associates will abstain from voting in respect of the Non-exempt Transactions required to be put forward at the EGM.

The Directors including independent non-executive Directors (whose views are set out in the letter from the Independent Board Committee of this circular) consider the agreements were negotiated between the parties on arm's length basis and were on normal commercial terms, and the terms thereunder together with the proposed annual caps in respect thereof are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### GENERAL INFORMATION ON THE PARTIES

The Group is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television 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://multimedia.tcl.com> (the information that appears in this website does not form part of this circular).

TCL Corporation and its Subsidiaries (including the Group) is a major PRC conglomerate that designs, develops, manufactures and markets a wide range of the electronic, audio-visual products, telecommunications, information technology and electrical products. For more information on TCL Corporation, please visit TCL Corporation's official website at [www.tcl.com](http://www.tcl.com) (the information that appears in this website does not form part of this circular).

Speedex is principally engaged in the provision of logistics services in the PRC.

Qianhai Sailing is principally engaged in the business of logistics and supply chain management. It currently has one wholly owned subsidiary established in Hong Kong, i.e. Qihang Import & Export Limited, which carries out the business of trading, storage and logistics.

### ELECTION OF DIRECTORS

Reference is made to the announcements of the Company dated

- (i) 22 September 2017 in relation to, amongst others, the appointment of Mr. Kevin WANG Cheng and Mr. Michael WANG Yi as executive Directors of the Company;
- (ii) 3 November 2017 in relation to, amongst others, the appointment of Mr. Lau Siu Ki as an independent non-executive Director of the Company;
- (iii) 21 November 2017 in relation to, amongst others, the appointment of Mr. ZHANG Zhiwei as a non-executive Director of the Company.

Pursuant to code provision A.4.2 of Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Accordingly, each of Mr. Kevin WANG Cheng, Mr. Michael WANG Yi, Mr. ZHANG Zhiwei and Mr. Lau Siu Ki is subject to election by Shareholders at the EGM. Their particulars required to be disclosed under the Listing Rules are set out in Appendix III to this circular. The Director being elected will hold office until the conclusion of the annual general meeting of the Company of 2020.

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## LETTER FROM THE BOARD

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### EGM

The Company will convene the EGM at 8/F., Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 22 December 2017, Friday at 2:30 p.m., at which resolutions will be proposed for the purposes of considering and if thought fit, approving the Non-exempt Transactions and their respective proposed annual caps. The notice of the EGM is set out on pages 121 to 124 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

### RECORD DATE FOR EGM

Record date (being the last date of registration of any transfer of Share given there will be no closure of register of members) for the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM will be on 15 December 2017, Friday. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 14 December 2017, Thursday.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 51 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Non-exempt Transactions and their respective proposed annual caps; (ii) the letter from Beijing Securities Limited, the Independent Financial Adviser, set out on pages 52 to 105 of this circular which contains its advice (together with the principal factors and reasons considered in arriving at such advice) to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Non-exempt Transactions and their respective proposed annual caps; and (iii) additional information set out in the appendix to this circular.

The Independent Board Committee, having taken into account the advice (together with the principal factors and reasons considered in arriving at such advice) of Beijing Securities Limited, the Independent Financial Adviser, considers that the Non-exempt Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and that the terms thereof and their respective proposed annual caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Non-exempt Transactions and their respective proposed annual caps.-

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## LETTER FROM THE BOARD

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The Board considers that the transactions under the Non-exempt Transactions and the proposed annual caps thereof are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board also considers that the resolutions proposed in the notice of EGM are in the best interests of the Company and the Independent Shareholders and therefore recommend you to vote in favour of all the relevant resolutions to be proposed at the EGM.

Yours faithfully,  
On behalf of the Board  
**BO Lianming**  
*Chairman*



**TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED**

**TCL 多媒體科技控股有限公司**

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

(Stock Code: 01070)

27 November 2017

*To: the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF AND/OR REVISING OF  
EXISTING CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 27 November 2017 of the Company (the “Circular”) to the Shareholders, of which this letter forms part. Terms defined in the Circular bear the same meanings in this letter unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider and advise the Independent Shareholders in respect of the terms of the Non-exempt Transactions and their respective proposed annual caps, details of which are set out in the Circular.

We wish to draw your attention to the letter from the Board and the letter of advice from Beijing Securities Limited set out on pages 9 to 50 and pages 52 to 105 of the Circular respectively.

Having taken into account of the advice (together with the principal factors and reasons considered in arriving at such advice) of Beijing Securities Limited, the Independent Financial Adviser, we consider that the Non-exempt Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the terms thereof and their respective proposed annual caps are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Non-exempt Transactions and their respective proposed annual caps.

Yours faithfully,

**Robert Maarten WESTERHOF, TSENG Shieng-chang  
Carter, WANG Yijiang and LAU Siu Ki**

*Independent Board Committee*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice from Beijing Securities Limited to the Independent Board Committee and the Independent Shareholders for incorporation in this circular.*

**Beijing Securities**  
Beijing Securities Limited  
北京證券有限公司

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### BEIJING SECURITIES LIMITED

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14th Floor, Shanghai Industrial Investment Building, 48 Hennessy Road, Wanchai, Hong Kong

27 November 2017

*To the Independent Board Committee and the Independent Shareholders of  
TCL Multimedia Technology Holdings Limited*

Dear Sirs,

### **RENEWAL OF AND/OR REVISING OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 27 November 2017 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement and the Supplemental Announcement. As stated in the Announcement, the Group had on 29 September 2017 entered into various agreements with certain connected persons and the transactions contemplated thereunder constitute continuing connected transactions, of which the following agreements are the Non-exempt Transactions which are subject to the reporting, announcement, Independent Shareholders’ approval and annual review requirements:

- (a) Master Sale and Purchase (2017) Agreement;
- (b) Master After Sale Service (2017) Agreement;
- (c) Master TCL Trademark License (2017 Renewal) Agreement;
- (d) Master Logistics Service Supply (2017 Renewal) Agreement;
- (e) Master Sourcing (2017 Renewal) Agreement; and
- (f) Master Qianhai Sailing Cooperation (2017 Renewal) Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further, as stated in the Supplemental Announcement, the Company entered into the Supplemental Agreement with TCL Corporation and Qianhai Sailing to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

As at the Latest Practicable Date, TCL Corporation, the ultimate controlling Shareholder of the Company, holds approximately 51.83% of the issued shares of the Company and is a connected person of the Company under the Listing Rules. Since Speedex is a joint venture of TCL Corporation and Qianhai Sailing is owned as to 40% by TCL Corporation, each of them is a TCL Associate thus the aforesaid (including TCL Corporation) are connected persons of the Company under the Listing Rules. The transactions contemplated under the aforesaid agreements between the Group on the one hand and TCL Corporation or TCL Associates on the other hand therefore constitute continuing connected transactions.

Further, as one or more of the applicable percentage ratios (other than the profits ratio) with reference to the respective annual caps of the Non-exempt Transactions exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Board currently comprises four executive Directors, four non-executive Directors, and four independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Mr. LAU Siu Ki and Professor WANG Yijiang, has been established to advise the Independent Shareholders regarding the Non-exempt Transactions, the transactions contemplated thereunder and their proposed annual caps. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

Beijing Securities Limited is not connected with the Directors, chief executive or substantial Shareholders and/or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Beijing Securities Limited will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders, and/or any of their respective associates. Within the past two years from the Latest Practicable Date, Beijing Securities Limited was engaged as the independent financial adviser by the Company on three occasions, details of which were set out in the circular of the Company dated 21 June 2016, 21 November 2016 and 19 April 2017. These past engagements were limited to providing independent advisory services to the independent board committee and the independent shareholders of the Company pursuant to the Listing Rules. Given our independence role and normal professional fees received from the Company under the past engagements, we consider it would not affect our independence to form our opinion in this letter.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps are in the ordinary and usual course of business and on normal commercial terms and whether they are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps at the EGM.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors, the Company and its management.

We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

### **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION**

In formulating our opinion in respect of the Non-exempt Transactions, we have considered the following principal factors and reasons:

#### **1. Background information of the Group**

The Group is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television sets. The Group has factories in the PRC, Poland, Mexico and Vietnam and distributes its products in all major markets globally.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is the summary financial information of the Group for the two years ended 31 December 2016 as extracted from the Company's annual report for the year ended 31 December 2016 (the "2016 Annual Report") and for the six months ended 30 June 2017 as extracted from the Company's interim report for the six months ended 30 June 2017 (the "2017 Interim Report"):

	For the six months ended 30 June 2017 <i>(unaudited)</i> <i>HK\$'000</i>	For the year ended 31 December 2016 <i>(audited)</i> <i>HK\$'000</i>	2015 <i>(audited)</i> <i>HK\$'000</i>
<b>Turnover</b>	17,022,807	33,361,250	34,016,833
<b>Gross profit</b>	2,626,137	5,815,725	5,753,022
<b>Profit for the period/year</b>	<u>143,878</u>	<u>176,778</u>	<u>10,140</u>

According to the 2016 Annual Report, the Group was ranked third in the global liquid-crystal-display ("LCD") television market with a market share of approximately 9.0% in 2016 according to the IHS Technology figures and the Company's data, and ranked third in the PRC LCD television market with a market share of approximately 14.2% in 2016 according to China Market Monitor Co., Ltd.'s report.

The Group's turnover was approximately HK\$33.36 billion for the year ended 31 December 2016, representing a slight decrease of approximately 1.9% from approximately HK\$34.02 billion for the year ended 31 December 2015. The slight drop was mainly due to the depreciation in the average exchange rate of Renminbi against Hong Kong dollars in 2016 and the decrease in the average selling price of LCD televisions. However, the Group sold approximately 19.96 million sets of LCD televisions, representing an increase of approximately 15.1% from the prior year. In particular, sales volume of LCD televisions in the PRC market increased by approximately 1.8% from the prior year to approximately 9.41 million sets, whilst sales volume of LCD televisions in the overseas markets grew by approximately 30.2% from the prior year to approximately 10.54 million sets.

The Group's gross profit was approximately HK\$5.82 billion for the year ended 31 December 2016, representing a slight increase of approximately 1.1% from approximately HK\$5.75 billion for the year ended 31 December 2015. Profit for the year also amounted to approximately HK\$176.78 million for the year ended 31 December 2016, representing a significant increase from approximately HK\$10.14 million for the year ended 31 December 2015. The increase in profit for the year for the year ended 31 December 2016 was mainly due to, among others, decrease in finance costs and administrative expenses.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Looking forward, the Group will continue to enhance its product mix. As disclosed in the 2016 Annual Report, the Group was able to steadily increase its mid-to-high end products in 2016. For example, for the PRC market (excluding ODM business) (i) smart television sales volume increased by approximately 10.1% to approximately 5.15 million sets in 2016; (ii) 4K television sales volume increased by approximately 63.3% to approximately 2.83 million sets in 2016; (iii) market share of curved television was 30.4% in 2016, maintaining the Group's number one position among the domestic brands in the market; and (iv) proportion of the sales volume of products with screen size of 55 inches and above increased from 16.6% of LCD television sales volume in 2015 to 29.0% in 2016.

The Group's turnover was approximately HK\$17.02 million for the six months ended 30 June 2017, representing an increase of approximately 19.7% from approximately HK\$14.23 million for the six months ended 30 June 2016. The increase is mainly due to the significant increase in LCD TV sales volume. For the six months ended 30 June 2017, the Group sold approximately 9.60 million sets of LCD televisions, representing an increase of approximately 12.2% from the prior period. In particular, sales volume of LCD televisions in the overseas markets increased by approximately 34.1% from the prior period to approximately 5.74 million sets. It is also noted that high-end televisions such smart televisions and 4K televisions grew approximately 49.8% and approximately 45.6% respectively from the prior period.

The Group's gross profit was approximately HK\$2.63 billion for the six months ended 30 June 2017, representing an increase of approximately 6.3% from approximately HK\$2.47 billion for the six months ended 30 June 2016. Profit for the period also amounted to approximately HK\$143.88 million for the six months ended 30 June 2017, representing a significant increase of approximately 63.9% from approximately HK\$87.80 million for the six months ended 30 June 2016. The increase in profit for the year for the six months ended 30 June 2017 was mainly due to (1) the great extent of increase in sales revenue and LCD TV sales volume of 19.7% and 12.2% respectively; (2) the improvement of product structure; and (3) the control of selling and distribution expenses and administrative expenses.

Further, as disclosed in the 2016 Annual Report and 2017 Interim Report, the Group has set the LCD television sales volume target for the year 2017 to be 22.00 million sets. In particular, the sales volume of large-screen TVs would see continuous growth trend, and the sales revenue and profit are expected to rise driven by large-size middle-to-high-end products. In addition, the Group will continue its internationalization and also strive to improve its operational efficiency and further implement stringent cost control measures, thus strengthening the core brand competitiveness, improving profitability and achieving sustainable development. The Group will also take full advantage of the resources of TCL Corporation to deepen cooperation with different parties along the integrated supply chain and to gradually establish and anchor its multi-faceted internet-based capabilities. The Group will also actively build a comprehensive ecosystem for smart televisions to provide users with an experience with smart products and services. The goal of the Group is to continue to enhance its enterprise value and profitability.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Background information of the counter parties to the Non-exempt Transactions

TCL Corporation and its Subsidiaries (including the Group) is a major PRC conglomerate that designs, develops, manufactures and markets a wide range of the electronic, audio-visual products, telecommunications, information technology and electrical products.

Speedex is principally engaged in the provision of logistics services in the PRC.

Qianhai Sailing is principally engaged in the business of logistics and supply chain management. It currently has one wholly owned subsidiary established in Hong Kong, i.e. Qihang Import & Export Limited, which carries out the business of trading, storage and logistics.

### 3. Background, principal terms, internal control procedures and the reasons for entering into of the Non-exempt Transactions

#### (a) *Master Sale and Purchase (2017) Agreement*

The Company has entered into the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement on 11 November 2014 with TCL Corporation, both of which will be expired on 31 December 2017.

As the Company wishes to continue and consolidate the continuing connected transactions contemplated thereunder, the Company entered into the Master Sale and Purchase (2017) Agreement, the terms of which are substantially incorporated from the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement, and the Supplemental Agreement to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Set out below are the major terms of the Master Sale and Purchase (2017) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions thereunder:

Date:	29 September 2017
Parties:	(i) the Company (for itself and on behalf of its Subsidiaries) (ii) TCL Corporation (for itself and on behalf of its Subsidiaries and TCL Associates)
Duration:	Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Major terms: TCL Corporation shall sell and procure members of TCL Corporation Group and TCL Associates to sell and the Company shall purchase and procure members of the Group to purchase the Parent Products.

TCL Corporation shall purchase and procure members of TCL Corporation Group and TCL Associates to purchase and the Company shall sell and procure members of the Group to sell the Multimedia Products.

Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of TCL Corporation Group on the one hand, and the relevant member of the Group on the other hand, provided that the terms of such sale and purchase contracts are consistent with the Master Sale and Purchase (2017) Agreement.

### **Sourcing of Goods**

The Company may purchase part of the Group's required Goods produced or manufactured in the PRC from TCL Corporation Group provided that they can offer terms (including price and payment terms) no less favourable than terms available from independent third parties and are capable of meeting the timeline, quality and quantity of the relevant order placed.

TCL Corporation shall procure the relevant members of TCL Corporation Group to sell to the relevant members of the Group the requested Goods.

Pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

**Sale of Goods**

If the relevant member of TCL Corporation Group requests or makes a written offer to any member of the Group to purchase from the Group any Goods for its business including distribution resale or otherwise, the member of the Group is entitled offer to supply to or accept such offer to purchase made by relevant member of TCL Corporation Group provided that the terms (including price and payment terms) of the offer by TCL Corporation Group are no less favourable than terms available to the Group from independent third parties.

Pricing policy and price determination:

1. The terms (including price and payment terms) shall be agreed between the parties based on normal commercial terms after arm's length negotiations and with reference to the fair market price ranges of products comparable to Goods offered in the market as at the time when the relevant sale and purchase is performed.
2. The prices charged for the Goods are under regular review and may be adjusted from time to time on mutual agreement. In determining if the prices charged are on normal commercial terms, the Group shall obtain quotations from TCL Corporation Group and independent third parties for comparable goods on a periodic basis and make comparisons. The Group would consider, compare and take reference of the said price quotations in determining the final prices charged.
3. If at any time during the term of the Master Sale and Purchase (2017) Agreement, TCL Corporation Group provides Goods to other independent third parties at more favourable terms, TCL Corporation Group shall immediately offer to provide Goods to the Group at equivalent terms accorded to such other independent third parties starting from the next applicable period.
4. If no comparable transactions are available for references, the Group shall obtain quotations from independent third parties for provision of products similar to the Parent Products and the terms (including price and payment terms) shall be no less favourable than those available to or from the independent third parties for provision of products similar to the Parent Products.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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5. The relevant member of the Group has the absolute discretion to decide whether to accept an offer from the relevant member of TCL Corporation Group.
6. The relevant member of the Group has the right to sell or resell the Parent Products which it has acquired from the relevant member of TCL Corporation Group at such price as it may in its absolute discretion determine.
7. The relevant member of the Group may demand the relevant member of TCL Corporation Group to purchase back the Parent Products at the original selling price offered to the Group if they remain unsold to third parties for six months.

Further details of the pricing policy of the Master Sale and Purchase (2017) Agreement is also set out under the section “PRICING POLICY OF THE GROUP” in the Letter from the Board.

Payment terms: The payment terms will be governed by the individual sale and purchase agreements to be entered into between the parties.

We have reviewed the Master Sale and Purchase (2017) Agreement and have discussed with the management of the Company the major terms therein. In our discussions with the management of the Company and our review of the major terms of the Master Sale and Purchase (2017) Agreement, we note that the terms thereof are incorporated substantially from the Master Supply (2014 Renewal) Agreement and the Master Electronic and the Electrical Goods Sourcing (2014 Renewal) Agreement. Further, the Group is not restricted from purchasing/selling any Goods from/to other independent third parties. If the relevant member of the Group decides to purchase/sell any Goods from/to TCL Corporation Group, it shall be conducted based on normal commercial terms that are no less favourable than the terms offered by other independent third parties and which are in the interests of the Group. In addition, under the Supplemental Agreement, the Purchase Limit is set where the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement shall not exceed 50% of the Group’s then total cost of sales in each of the financial years during the term of the Purchase Agreements. Accordingly, the Group will have sufficient level of purchase from Independent Third Parties during the relevant financial year to ensure that it is not over reliant in TCL Corporation Group and/or Qianhai Sailing Group for the purchase of Goods, Overseas Materials and/or Qianhai Goods.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Furthermore, we note from the 2016 Annual Report that annual review of the continuing connected transactions contemplated under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties. The 2016 Annual Report also confirmed that the Company's auditors has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with its terms and that the proposed annual caps are not being exceeded. Further, the Master Sale and Purchase (2017) Agreement will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and annual confirmation by the auditors of the Company.

In addition, we have obtained six purchase and sale contracts/invoices and other documents and information (i.e., description of the items being purchased and sold) under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement made between the Group and the relevant members of TCL Corporation Group and compared that to the figures/information of similar Goods offered by other independent third parties and/or offered by TCL Corporation Group to other parties. In our review of the purchase and sale contracts/invoices, we have reviewed the items being purchased and sold and their unit prices. The figures/information is a list of items (including similar items from the purchase and sale contracts/invoices) with their range of market unit prices as offered by other independent third parties and/or offered by TCL Corporation Group to other parties as recorded by the Group. The comparison shows that the unit prices of the purchases and sales made by the Group from/to the relevant members of TCL Corporation Group is in line with the market unit prices.

In the light of the above, we are of the view that the terms, the pricing policy and the price determination of the Master Sale and Purchase (2017) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Internal control procedures

#### *Sourcing of Goods*

- (1) The Group will set up half-year targets for purchase of Parent Products which together with the purchases under the Master Sourcing (2017 Renewal) Agreement and the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement should generally not exceed 50% of the total purchase target of the Group for the period, from which it could project the approximate amount of purchase from TCL Corporation Group, which will be subject to review from time to time by its internal control unit depending on the surrounding circumstances such as Group's performance and overall market conditions. The purchase unit will from time to time compare the actual figures against the purchase targets and the Purchase Limit and will make necessary adjustment for the purchase from TCL Corporation Group for the remaining half year period. For example, the Group will source less Parent Products from TCL Corporation Group during off-season where there will be fewer orders from customers, or delay the purchases from TCL Corporation Group until peak-season where the Group would have undertaken a lot orders from customers and thus have generated a greater overall revenue to ensure that the Purchase Limit will not be exceeded.
- (2) Upon receiving purchase requests from the production or research and development department of the Group, the procurement department of the Group will compare the Parent Products price offered by the at least two Independent Third Party suppliers and make an overall assessment of the terms of supply by such suppliers, including the quality of the Parent Products, past history of dealing with the such suppliers (if any), payment terms, and price of the Parent Products, to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2017) Agreement and in accordance with the Company's pricing policy. The procurement director of the Group is responsible for approving the purchase orders, the Group normally selects potential suppliers by reference to a number of factors such as their operation scale, product quality, cost, delivery arrangement, range of services and technology capability.
- (3) The Group would only engage TCL Corporation Group for provision of the Parent Products when, in accordance to the results of the overall assessment, TCL Corporation Group can offer the best terms of supply for the components or parts.
- (4) The aforesaid sourcing process and policy are the same for purchases made by the Group from all suppliers (including connected persons and Independent Third Parties).
- (5) The Group's internal control unit will monitor the aggregate amount of purchase made from TCL Corporation Group from time to time to ensure that the relevant annual cap for the corresponding financial year is not exceeded. The Group's internal control unit will prepare a monthly report on the status of the aggregate amount of purchase which will be submitted to finance director for review.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (6) The internal control department of the Group will maintain a database to record (a) the total cost of sales; and (b) the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) to monitor the aggregate amount of purchase made from TCL Corporation Group from time to time. Where the Group proposes to make a purchase which may result in the then aggregate amount of purchase from TCL Corporation Group exceeding 50% of the then total cost of sales, the Group will favourably consider offers from other parties for the other purchases as when appropriate and will notify the relevant department requesting purchases and may temporarily decline or delay to process purchase instructions from the production or research departments of the Group and any further purchase instructions from the relevant departments can only processed on discretionary basis until there are sufficient purchases from other parties to ensure that the Purchase Limit for the corresponding financial year will not be exceeded. The Group's finance department will prepare a monthly report on the status of the aggregate amount of purchase which will be submitted to the finance director for review.

### *Sale of Goods*

- (1) The Group will set up half-year targets for sales of Multimedia Products, from which it could project the approximate amount of sales to TCL Corporation Group, which will be subject to review from time to time by its finance director depending on the surrounding circumstances such as Group's performance and overall market conditions. The sales unit will from time to time compare the actual figures against the sales targets and will make necessary adjustment for the sales to from TCL Corporation Group for the remaining half year period.
- (2) Before selling any Multimedia Products to TCL Corporation Group, the Group would ensure that the transactions are on normal commercial terms and terms no less favourable from the perspective of the Group than those available to or offered by Independent Third Parties, and every time before conducting any such transactions, the sales department of the Group would first prepare the relevant contract for the sale of Multimedia Products and submit it to the internal control unit and legal department of the Group for review and approval. The internal control unit and the legal department of the Group would review the terms of the proposed transaction and the draft purchase order to be entered into to make sure that the terms are in compliance with the pricing policy of the Company and the overall terms (including payment terms, product warranty) are no more favourable to the connected persons than those which have been offered or to be offered by the Group to Independent Third Parties. The transactions could only be carried out after the internal control unit and the legal department have separately given their approval therefor.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (3) The Group's internal control unit will monitor the aggregate amount of sales to TCL Corporation Group from time to time to ensure that the relevant annual cap for the corresponding financial year is not exceeded. The Group's internal control unit will prepare monthly report which will be submitted to finance director for review.

We understand that the Group has set the Purchase Limit in order to ensure that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the three years ending 31 December 2020. Given that the purchases of Goods, Overseas Materials and Qianhai Goods will be recorded as cost of sales of the Group, we are of the view that the Group's cost of sales serves as a meaningful benchmark to monitor the level of purchase from TCL Corporation Group and Qianhai Sailing Group. In this respect, the Group will implement an internal control procedure whereby it will maintain a database to record the Group's total cost of sales as well as the aggregate purchases of Goods, Overseas Materials and Qianhai Goods as well as having a monthly report on the aggregate amount of purchases which will be submitted to the finance director for review as set out above. We are of the view that the internal control procedure in respect of the Purchase Limit adopted by the Company is adequate and effective given that the database maintained by the Group and the monthly report will provide sufficient information on aggregate purchases of Goods, Overseas Materials and Qianhai Goods in terms of the Group's total cost of sales and also allow the Group to adjust its purchases from TCL Corporation Group and Qianhai Sailing Group if the Purchase Limit of 50% of the Group's total cost of sales is being approached.

Having discussed with the management of the Company and reviewed of the internal control procedures as set out above and given that the internal control procedures as set out above include: (i) a clearly setout procedure for the Group to follow in relation to the continuing connected transactions contemplated under the Master Sale and Purchase (2017) Agreement; (ii) the procedures is to ensure that the transactions will be conducted on normal commercial terms; and (iii) an internal control procedure to ensure that the aggregate amount of purchase placed with TCL Corporation Group and/or Qianhai Sailing Group does not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements as discussed in the preceding paragraph, we are of the view that the internal control procedures adopted by the Company are adequate and effective to ensure that the transactions contemplated under the Master Sale and Purchase (2017) Agreement will be conducted on normal commercial terms.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Reasons for entering into the Master Sale and Purchase (2017) Agreement**

As discussed with the Company, the purchase of Goods under the Master Sale and Purchase (2017) Agreement will allow the Group to continue to facilitate the smooth operation of the Group's business by providing a stable and reliable source of supply of the necessary materials manufactured in the PRC for the Group's manufacture of the Multimedia Products and the necessary finished goods for the Group's operations. The Sale of Goods will also allow the Group to better manage its level of raw materials by providing additional flexibility to the Group for managing its surplus materials (if any) and will allow the Group to widen its revenue base by supplying Goods to TCL Corporation Group.

The sale of Goods under the Master Sale and Purchase (2017) Agreement will also allow the source TCL Products from TCL Corporation Group on normal commercial terms with a view to distributing such TCL Products for profits. It will continuously provide the Group with an additional source of revenue and margin by capitalising upon its established distribution network of the Group of TCL Products without incurring significant additional overheads; the Group will also benefit by securing a reliable source of high quality TCL Products for re-sale to customers and an additional income will be derived from re-selling the TCL Products to customers by utilising the Group's existing distribution network in the territories concerned.

In light of the above, we are of the view that the entering into the Master Sale and Purchase (2017) Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### ***(b) Master After Sale Service (2017) Agreement***

The Company has entered into the Master After Sale Service (2014 Renewal) Agreement on 11 November 2014, pursuant to which TCL Corporation Group appointed the Group as its service provider of the After Sale Service in the PRC in respect of the TV Products manufactured by TCL Corporation Group, and the Group would provide TCL Corporation Group with certain Basic and Other After Sale Services in relation to the TV Products manufactured by TCL Corporation Group.

The Company has entered into the Master After Sale Service (TV Products) (2016 Renewal) Agreement on 24 October 2016, pursuant to which the Company appoints TCL Corporation as its service provider of the After Sale Services in the PRC in respect of the TV Products manufactured by the Group, and TCL Corporation Group would provide the Group with certain after sale services in relation to the TV Products manufactured by the Group.

As the Master After Sale Service (2014 Renewal) Agreement will expire on 31 December 2017 and the Master After Sale Service (TV Products) (2016 Renewal) Agreement will expire on 31 December 2019 and the Company wishes to continue the continuing connected transactions contemplated thereunder and consolidate the cooperation between the parties in terms of providing the relevant after sale services, the Company entered into the Master After Sale Service (2017) Agreement, the terms of which are substantially incorporated from the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Upon the coming into effect of the Master After Sale Service (2017) Agreement, the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement shall be automatically terminated.

Set out below are the major terms of the Master After Sale Service (2017) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

- Date: 29 September 2017
- Parties:
- (i) the Company (for itself and on behalf of its Subsidiaries) – service provider regarding TV Products manufactured by TCL Corporation Group and user regarding TV Products manufactured by the Group
  - (ii) TCL Corporation (for itself and on behalf of its Subsidiaries and/or TCL Associates) – user regarding TV Products manufactured by TCL Corporation Group and service provider regarding TV Products manufactured by the Group
- Duration: Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)
- Major terms: TCL Corporation Group shall appoint the Group as its service provider of the relevant After Sale Services in the PRC in respect of the TV Products manufactured by TCL Corporation Group, whereas the Group shall appoint TCL Corporation Group as its service provider of the relevant After Sale Services in the PRC in respect of the TV Products manufactured by the Group.
- Price determination: Regarding the relevant After Sale Service provided by the Group, before determining the service fees payable by the relevant members of the user, the Group shall make reference to the fair price ranges in the market for comparable services (including obtaining quotations from independent third parties for comparable services) and make comparisons. If no such market information is obtainable, the service fees paid for the TV Products involved shall then not be lower than the budgeted warranty costs of the Group and be determined on normal commercial terms and be agreed by both parties in accordance with their independent interests.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For the service fees for Other After Sale Service, they shall be determined with reference to the prevailing market fees for comparable services. If services other than the Basic After Sale Service are requested, the relevant parties shall determine the payment terms with reference to comparable practice in the market, and the relevant members of the service provider are entitled to terminate the After Sale Service if the relevant members of the user fail to pay the service fees within the specified time. Where no comparable reference terms are available, the terms (including fees and payment terms) shall be no less favourable than (i) those proposed by independent third parties to TCL Corporation Group and/or (ii) those given by the Group to independent third parties.

Regarding the relevant After Sale Service provided by TCL Corporation Group, relevant member(s) of the Group shall pay the relevant member(s) of TCL Corporation Group in respect of the provision of the relevant After Sale Services. The service fees shall be calculated and charged based on no more than 2.5% of the sales revenue of the relevant TV Products. The exact fee rate shall be negotiated and determined by both parties after taking into account various factors such as costs and inflation rate. The parties shall conduct an annual review of the provision of the relevant After Sale Services and the service fees to decide whether any revision shall be made.

Further details of the pricing policy of the Master After Sale Service (2017) Agreement is also set out under the section “PRICING POLICY OF THE GROUP” in the Letter from the Board.

Payment terms: The Group would pay the relevant After Sale Service fees to TCL Corporation Group within sixty (60) days upon receipt of the relevant invoice. However, such period may be altered from time to time by mutual agreement of the parties.

We have reviewed the Master After Sale Service (2017) Agreement and have discussed with the management of the Company the major terms therein. In our discussions with the management of the Company and our review of the major terms of the Master After Sale Service (2017) Agreement, we note that the terms thereof are incorporated substantially from the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement. Further, the Group is not obliged to provide the relevant After Sale Service or engage the relevant members of TCL Corporation Group for the provision of the relevant After Sale Services. If the relevant member of the Group decides to provide or engage the relevant members of TCL Corporation Group for the provision of the relevant After Sale Services, it shall be conducted based on normal commercial terms that are no less favourable than the terms offered by other independent third parties and which are in the interests of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Furthermore, we note from the 2016 Annual Report that annual review of the continuing connected transactions contemplated under the from the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the from the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties. The 2016 Annual Report also confirmed that the Company's auditors has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with its terms and that the proposed annual caps are not being exceeded. Further, the Master After Sale Service (2017) Agreement will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and annual confirmation by the auditors of the Company.

In addition, we have obtained six service contracts and other documents and information (i.e., description of the after sale services) under the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement made between the Group and the relevant members of TCL Corporation Group and compared that to the figures/information of similar after sale service offered by other independent third parties and/or offered by the relevant members of TCL Corporation Group to other parties. In our review of the service contracts, we have reviewed the after sale service rendered and the service fees paid by the Group or the relevant members of TCL Corporation Group. The figures/information is a list containing different relevant after sale services (including after sale services similar to those provided in the service contracts reviewed) with the relevant market service fee chargeable by other independent third parties and/or offered by TCL Corporation Group to other parties as recorded by the Group. The comparison shows that the service fees charged/paid by the Group to the relevant members of TCL Corporation Group is in line with the market service fees.

Also, we note that the service fees chargeable by independent third parties for services similar with comparable service quality to the After Sale Services were up to 4%. As such, the 2.5% service fee payable by the Group to relevant members of TCL Corporation Group for the provision of relevant After Sale Service is within the market range chargeable by independent third parties.

In the light of the above, we are of the view that the terms and the price determination of the Master After Sale Service (2017) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Internal control procedures

In respect of the continuing connected transactions contemplated under the Master After Sale Service Agreement, the Group adopts the following internal control procedures:

- (1) To ensure that the transactions under the Master After Sale Service Agreement are on normal commercial terms and on terms no less favourable from the perspective of the Group than those available to and/or offered by Independent Third Parties, every time before the relevant member of the Group engages the relevant member of the service provider and/or user for the After Sale Services, the operation unit of the relevant member of the Group will review the draft After Sale Service Contract for the engagement to confirm that the After Sale Services are capable to meet the needs of the user.
- (2) The internal control unit will then review the terms of the draft After Sale Service Contract to make sure that the terms are in compliance with the Master After Sale Service Agreement and the overall terms of the engagement are no less favourable from the perspective of the Group than those which have been offered to the Group and/or available to Independent Third Parties. Relevant member of the Group will only enter into the After Sale Service Contract with the relevant member of the TCL Corporation Group after receiving the approval by the internal control unit which confirms that the overall terms are no less favourable from the perspective of the Group than those which have been offered to the Group and/or available to Independent Third Parties. When evaluating the terms of a draft After Sale Service Contract, the internal control unit will compare it with all quotations obtained from Independent Third Parties for the same or equivalent services at comparable quality and determine whether on an overall evaluation of the After Sale Service fees to be charged, the payment terms as stated in the draft After Sale Service Contract and the expected quality of the After Sale Services to be received against the quotations obtained from Independent Third Parties, are the most favourable to the Group.
- (3) In order to collect a fair and representative sample of quotations, the Group will obtain quotations from at least 3 Independent Third Parties (who, as the Group considers, are able to provide the required services of satisfactory quality and at satisfactory standard) once a year to make sure that the After Sale Service fees to be paid under the After Sale Service Contract is not higher than those offered to the Group by Independent Third Parties under prevailing local market conditions. The Group would also from time to time identify further Independent Third Parties who, as it considers, are capable of providing the required services of satisfactory quality and at satisfactory standard, and obtain quotations for the required After Sale Services from them upon identification and repeated annually.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (4) The internal control unit of the Group will conduct a monthly review on whether the Group still has sufficient unused annual caps for carrying out the continuing connected transactions during the year. If it is anticipated that the annual caps may be exceeded if the Group is to continue to carry out the continued connected transactions throughout the year, the Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules before entering into the proposed transactions.
- (5) Before conducting any transactions with connected persons, the internal control unit of the relevant member of the Group shall ensure that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. The internal control unit would on an annual basis review the continuing connected transactions to assess, and compile a report, on (i) whether the continuing connected transactions of the Group have been carried out in accordance with the terms of the relevant agreements and the Group's pricing policy; (ii) whether the transactions have been conducted on normal commercial terms and on terms no less favourable than those offered by the Independent Third Parties; and (iii) the aggregate amounts of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded.

Having discussed with the management of the Company and reviewed of the internal control procedures as set out above and given that the internal control procedures as set out above include: (i) a clearly set out procedure for the Group to follow in relation to the continuing connected transactions contemplated under the Master After Sale Service (2017) Agreement; and (ii) the Group will ensure that the overall terms of After Sale Service Contract with the relevant member of the TCL Corporation Group shall be no less favourable from the perspective of the Group than those which have been offered to the Group and/or available to Independent Third Parties, we are of the view that the internal control procedures adopted by the Company are adequate and effective to ensure that the transactions contemplated under the Master After Sale Service (2017) Agreement will be conducted on normal commercial terms.

### **Reasons for entering into the Master After Sale Service (2017) Agreement**

As discussed with the Company, for engagement of relevant members of TCL Corporation Group for relevant After Sale Service, as certain members within TCL Corporation Group have vast experience with the provision of after-sale service for electronic appliances and are well equipped with experienced personnel and advanced IT system, entering into the Master After Sale Service (2017) Agreement to enable the Group to engage relevant members of TCL Corporation Group will enable the customers of the Group to get access to specialized and high quality services, which helps to attract and retain more customers and improve sales performance.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For provision of relevant After Sale Service by the Group to relevant members of TCL Corporation Group, the Group has vast experiences with display and multimedia products and is equipped with experienced personnel and equipment for providing after sale service in respect of these products, the Group would be able to fully utilise the existing resources and generate additional source of income by providing the Service to TCL Corporation Group in respect of the TV Products. Furthermore, by acting as a service provider of the After Sale Service in relation to TV Products, it will help the Group build up its image as an experienced display products manufacturer, and thereby putting the Group in a better position to attract and retain more customers, which will in turn increase the revenue of the Group.

In light of the above, we are of the view that the entering into the Master After Sale Service (2017) Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

**(c) *Master TCL Trademark License (2017 Renewal) Agreement***

The Company has entered into the Master TCL Trademark License (2014 Renewal) Agreement on 11 November 2014, which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master TCL Trademark License (2017 Renewal) Agreement.

Set out below are major terms of the Master TCL Trademark License (2017 Renewal) Agreement and the price determination thereunder:

Date:	29 September 2017
Parties:	(i) TCL Corporation – Licensor (for itself and on behalf of its Subsidiaries)  (ii) Company – Licensee (for itself and on behalf of certain of its Subsidiaries)
Duration:	Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Major terms: TCL Corporation Group has granted to the Group an exclusive (subject to certain limited exceptions which are related to some existing obligations or business of TCL Corporation), non-sub-licensable and non-transferable license to use certain of its registered trademarks for the manufacture, production, sale and distribution of Multimedia Products in the territories as specified in the Master TCL Trademark License (2017 Renewal) Agreement (“**Licensed Trademarks**”). Under the Master TCL Trademark License (2017 Renewal) Agreement, the Group is also entitled (subject to certain exceptions) to use the trademark “TCL” as part of its business name and in all business applications in which a company’s name is commonly used.

TCL Corporation Group will continue to conduct general brand promotion and marketing in respect of the Licensed Trademarks that the Group uses on products produced by it in its ordinary and usual course of business.

Price determination: The Group shall pay to TCL Corporation Group royalties which shall be calculated based on the net sales of Multimedia Products bearing any of the Licensed Trademarks under the Master TCL Trademark License (2017 Renewal) Agreement and the applicable royalty rates. Under the Master TCL Trademark License (2017 Renewal) Agreement, the royalty rates range from 0% to 1.5% depending on the types of trademarks, territories and performance of the Group. The Group is only required to pay royalty if the EBIT Percentage of the Group for previous 4 consecutive quarters is 3% or more.

Under the Master TCL Trademark License (2017 Renewal) Agreement, the Group shall reimburse TCL Corporation Group for the relevant portion of the cost and expenses incurred for the general brand advertising costs by TCL Corporation or any other entities controlled by TCL Corporation Group or under the common control of TCL Corporation Group during the term of the Master TCL Trademark License (2017 Renewal) Agreement. Under the Master TCL Trademark License (2017 Renewal) Agreement, the annual amount of the general brand advertising costs payable by the Group to TCL Corporation Group shall range from 0.25% to 2.0% of the annual net sales of the Group for the relevant fiscal year depending on the types of products, provided that the aforesaid percentage may be varied from time to time with the written mutual consent of the parties.

Further details of the pricing policy of the Master TCL Trademark License (2017 Renewal) Agreement is also set out under the section “PRICING POLICY OF THE GROUP” in the Letter from the Board.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Payment terms: The licence fee shall be payable by the Licensee on or prior to the forty fifth (45th) day after each relevant fiscal quarter in a calendar year.

We have reviewed the Master TCL Trademark License (2017 Renewal) Agreement and have discussed with the management of the Company the major terms therein.

We note from the 2016 Annual Report that annual review of the continuing connected transactions contemplated under the Master TCL Trademark License (2014 Renewal) Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Master TCL Trademark License (2014 Renewal) Agreement were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties. The 2016 Annual Report also confirmed that the Company's auditors has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with its terms and that the proposed annual caps are not being exceeded. Further, the Master TCL Trademark License (2017 Renewal) Agreement will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and annual confirmation by the auditors of the Company.

Under the Master TCL Trademark License (2017 Renewal) Agreement, the Group shall pay to TCL Corporation Group royalties which shall be calculated based on the net sales of Multimedia Products bearing any of the Licensed Trademark and the applicable royalty rates. Under the Master TCL Trademark License (2017 Renewal) Agreement, the royalty rates range from 0% to 1.5% depending on the trademarks, territories and performance of the Group. Under the Master TCL Trademark License (2017 Renewal) Agreement, the Group is not required to pay any royalty if its EBIT Percentage for previous 4 consecutive quarters is less than 3%.

We understand that sales revenue is the main basis of charging brand royalty. As a reference, we set out below information regarding certain continuing connected transactions involving granting of trademark license (with royalty fee calculated based on sales revenue) of which we are aware of as announced by companies listed on the Main Board of the Stock Exchange since the beginning of year 2017 up to 31 October 2017 (the "**Comparable Trademark License Transactions**").

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Announcement date	Company (stock code)	Business	Basis of calculation	Basis of calculation
3 Jan 2017	China Animation Characters Company Limited (1566)	Trading of animation derivative products, licensing of animation characters, establishment and operation of indoor theme park and multimedia animation entertainment	1%	1% of the gross sales revenue arising from the sales or manufacturing of goods or the rides and operation of the interactive entertainment parks
28 Feb 2017	C. P. Pokphand Company Limited (43)	Manufacture and sale of animal feed products; breeding, farming and sale of livestock, aquatic animals and value-added processed food products	0.2% and 0.4%	(i) 0.2% of the net sale value of fresh-food products; and (ii) 0.4% of the net sale value of cooked-food products
31 Mar 2017	China Overseas Grand Oceans Group Limited (81)	Property investment and development, property leasing and investment holding	1%	Royalty fee of 1% of its audited annual consolidated turnover
12 May 2017	CHTC Fong's Industries Company Limited (641)	Manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and manufacture and sale of stainless steel casting products	0% to 1%	Royalty-free basis for eight years and thereafter a royalty fee of 1% of the ex-works sales price of the dryer sold in relation to the trademark
30 Aug 2017	Air China Limited (753)	Providing air passenger, air cargo and airline-related services in the PRC	0%	Transaction is on a royalty-free basis
3 Oct 2017	China Aluminum Cans Holdings Limited (6898)	Manufacture and sale of aluminum aerosol cans and content filing of aerosol cans and production and sale of aerosol products and non-aerosol products	2.5%	2.5% on the net sales price of all products sold in relation to the twelve trademarks

We note from the above table that the maximum royalty rate charged by TCL Corporation is within the range of rates of the Comparable Trademark License Transactions of 0% up to 2.5%. The applicable pre-agreed royalty rates payable by the Group are on an escalating scale, ranging from 0% to 1.5%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further, the Group is a major revenue contributor of TCL Corporation. Sales of the Group represented approximately 27.6% of the total sales of TCL Corporation for year ended 31 December 2016 as set out in the annual report of TCL Corporation for the year ended 31 December 2016 (“**TCL Corp Annual Report**”). Brand awareness and recognition is very important to the continual success of the Group, as well as other members of TCL Corporation Group. In the year ended 31 December 2015 and 2016, TCL Corporation Group charged the Group for branding reimbursement under the Master TCL Trademark License (2014 Renewal) Agreement amounting to approximately HK\$432.0 million and HK\$315.7 million respectively. We understand from the Company that the branding reimbursement paid to TCL Corporation is less than the actual amount of branding expenses incurred by TCL Corporation Group. As set out in the TCL Corp Annual Report, the branding fee expenses payable by TCL Corporation Group amounted to RMB559.1 million and RMB421.8 million respectively for the year ended 31 December 2015 and 2016 respectively. We also note that significant branding campaigns as well as potential cooperation opportunities with well-known television shows such as “Voice of China” and certain open world sports events such as the Wuhan Open are expected to continue in the future. As such, branding promotion is one of the very significant factors affecting the business development of the Group and it is therefore fair and reasonable for the Group to contribute to the branding activities.

In light of the above, we are of the view that the terms and the price determination under the Master TCL Trademark License (2017 Renewal) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### **Internal control procedures**

#### *Royalties*

The Group is only required to pay royalty if the EBIT Percentage of the Group for the previous 4 consecutive quarters is 3% or more. It is not expected that the performance of the Group will trigger the royalty payment obligations for the three years ending 31 December 2020 as the estimated performance of the Group for the relevant period will not reach the threshold which triggers the royalty payment obligations under the Master TCL Trademark License (2017 Renewal) Agreement. Accordingly, the proposed annual caps for each of the financial years ending 31 December 2018, 2019 and 2020 are nil.

As discussed with the Company, the internal control unit of the Group will closely monitor the EBIT Percentage of each quarter and make a EBIT Percentage forecast for the next quarter. Once there is a likelihood that the EBIT Percentage of the Group for 4 consecutive quarters will reach 3% or more, the internal control unit will report to the management immediately. The Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements under the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Branding reimbursement*

The annual amount of the general brand advertising costs payable by the Group to TCL Corporation is determined with reference to the annual net sales of the Group for the relevant fiscal year depending on the types of products. We understand from the Company that the internal control unit of the Group will closely monitor the net sales of the Group on quarterly basis and will make a net sale forecast for the next quarter. Once there is a likelihood that the amount payable for the financial year will exceed the relevant annual cap, the internal control unit will report to the management immediately. The Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules.

Further, as discussed with the Company, any variation of the branding promotion reimbursement percentage must be approved by the internal control unit and the management, which would consider its effect on the financial condition of the Group and the proposed caps for the remaining period of the agreement and the reasons for the variation. Once there is a likelihood that the variation will render the relevant annual cap being exceeded, the internal control unit will report to the management immediately. The Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules.

Having considered the internal control procedures in relation to royalties and brand reimbursement and that the Group will monitor closely the amount to be paid or payable for royalties and brand reimbursement, we are of the view that the internal control procedures adopted by the Company are adequate and effective to ensure that the transactions contemplated under the Master TCL Trademark Licence (2017 Renewal) Agreement will be conducted on normal commercial terms.

### **Reasons for entering into the Master TCL Trademark License (2017 Renewal) Agreement**

As discussed with the Company, TCL Corporation Group owns and has registered certain trademarks which are used by the Group for the marketing and distribution of Multimedia Products. Such trademarks are considered to be important to the successful long-term operation of the business of the Group. The Master TCL Trademark License (2017 Renewal) Agreement allows the Group to secure the use of such trademarks over a reasonable period of time at attractive rates.

In light of the above, we are of the view that the entering into the Master TCL Trademark License (2017 Renewal) Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(d) Master Logistics Service Supply (2017 Renewal) Agreement*

The Company has entered into the Master Logistics Service Supply Agreement on 11 November 2014, which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Logistics Service Supply (2017 Renewal) Agreement, the terms of which are substantially the same as the Master Logistics Service Supply Agreement.

Set out below are the major terms of the Master Logistics Service Supply (2017 Renewal) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

- Date: 29 September 2017
- Parties: (i) Speedex – service provider
- (ii) the Company – client (for itself and on behalf of its Subsidiaries)
- Duration: Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)
- Major terms: Speedex shall provide to the Group the following services:
1. delivery and transfer of raw materials, components, finished goods, etc. among the Group's suppliers, distributors, customers, warehouses and distribution centres;
  2. storage and warehouse management services; and
  3. other logistics services as agreed between the parties to the agreement from time to time.

Where Speedex offers to the Company to provide logistics services at terms no less favourable than (i) those offered by Speedex to other independent third parties and/or (ii) those offered by other independent third parties to the Group, the Company shall procure itself and/or its Subsidiaries to actively consider using the service provided by Speedex. For the avoidance of doubt, the Group is entitled to use the logistics services provided by other independent service providers from time to time.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pricing policy and  
price determination:

1. Speedex shall provide logistics services at terms no less favourable than (i) those offered by Speedex to other independent third parties and/or (ii) those offered by other independent third parties to the Group for the provision of comparable service.
2. The logistics services fees charged are under regular review and may be adjusted from time to time on mutual agreement of the parties. In determining if the logistics services are provided on normal commercial terms, the Group shall obtain quotations from Speedex and independent third parties for comparable logistics services on a periodic basis and make comparisons. The Group would consider, compare and make reference of the said price quotations in determining the final logistics services fees charged.
3. If at any time during the term of the Master Logistics Service Supply (2017 Renewal) Agreement, Speedex provides comparable logistics services at more favourable terms to other independent third parties, Speedex shall immediately offer to provide logistics services to the Group at equivalent terms offered to such other independent third parties starting from the next applicable period.
4. If there are no comparable terms offered to the Group by other independent third parties for comparable services, the terms of the services to be provided by Speedex to the Group shall then be determined after negotiations at arms' length between the parties and shall be on normal commercial terms.
5. If the logistics services provided by Speedex to the Group under Master Logistics Service Supply (2017 Renewal) Agreement involve engaging a third party service provider and/or any agent, and therefore Speedex has to pay for any such third party provider and/or agent's fees, Speedex shall only charge the Group the actual cost incurred by Speedex in this regard.
6. If so requested by Speedex, the Company shall also reimburse Speedex for the cost and expenses incurred by Speedex in respect of any service improvement work at the request of or agreed by the Group based on terms previously agreed between the parties or any reasonable sum.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further details of the pricing policy of the Master Logistics Service Supply (2017 Renewal) Agreement is also set out under the section “PRICING POLICY OF THE GROUP” in the Letter from the Board.

Payment terms: The Group would pay the relevant service fees to Speedex within sixty (60) days upon receipt of the invoice. The manner of payment would be mutually agreed by the Group and Speedex on a case-by-case basis.

We have reviewed the Master Logistics Service Supply (2017 Renewal) Agreement and have discussed with the management of the Company the major terms therein. In our discussions with the management of the Company and our review of the major terms of the Master Logistics Service Supply (2017 Renewal) Agreement, we note that the terms thereof substantially the same as the Master Logistics Service Supply Agreement. Further, the Group is not restricted from engaging other independent third parties for logistic services similar to the Master Logistics Service Supply (2017 Renewal) Agreement. If the relevant member of the Group decides to engage Speedex, it shall be conducted based on normal commercial terms that are no less favourable than the terms offered by other independent third parties and which are in the interests of the Group.

Furthermore, we note from the 2016 Annual Report that annual review of the continuing connected transactions contemplated under the Master Logistics Service Supply Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Master Logistics Service Supply Agreement were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties. The 2016 Annual Report also confirmed that the Company’s auditors has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with its terms and that the proposed annual caps are not being exceeded. Further, the Master Logistics Service Supply (2017 Renewal) Agreement will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company’s subsequent published annual reports and annual confirmation by the auditors of the Company.

In addition, we have obtained six agreements and other documents and information (i.e., description of the logistic services) under the Master Logistics Service Supply Agreement made between the Group and Speedex and compared that to the figures/information of similar logistics services offered by other independent third parties and/or offered by Speedex to other parties. In our review of the agreements, we have reviewed the logistic services provided and the fees paid by the Group to Speedex. The figures/information is a list containing similar logistics services as those in the agreements reviewed and their relevant market fees chargeable by other independent third parties and/or offered by Speedex to other parties. The comparison shows that the fees paid by the Group to Speedex is in line with the market rates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In the light of the above, we are of the view that the terms, the pricing policy and the price determination of the Master Logistics Service Supply (2017 Renewal) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Internal control procedures**

Where Speedex offers to provide logistics services to the Group at terms no less favourable than (i) those offered by Speedex to other Independent Third Parties and/or (ii) those offered by other Independent Third Parties to the Group, the Company shall procure its Subsidiaries to actively consider using the services provided by Speedex. However, the Group is not restricted and is entitled to use the logistics services provided by other Independent Third Parties service providers if it considers desirable to do so.

The Group would also conduct regular review on the terms offered by Speedex as compared to other Independent Third Parties service providers regarding comparable logistics services, including but not limiting to obtaining quotations from Speedex and other Independent Third Parties for comparable logistics services on a periodic basis and making comparisons. If Speedex provides comparable logistics services at more favourable terms to other Independent Third Parties, Speedex shall immediately offer to provide logistics services to the Group at equivalent terms accorded to such other Independent Third Parties starting from the next applicable period. If there are no comparable terms offered to the Group by other Independent Third Parties, the terms of the services to be provided by Speedex to the Group shall then be determined after arm's length negotiations between the parties and shall be on normal commercial terms.

These internal control mechanisms would ensure the Group to obtain comparable logistics services at terms no less favourable than (i) those offered by Speedex to other Independent Third Parties and/or (ii) those offered by other Independent Third Parties to the Group for comparable service.

Having discussed with the management of the Company and reviewed of the internal control procedures as set out above and given that the internal control procedures as set out above include a regular review on the terms offered by Speedex as compared to other Independent Third Parties service providers regarding comparable logistics services, we are of the view that the internal control procedures adopted by the Company are adequate and effective to ensure that the transactions contemplated under the Master Logistics Service Supply (2017 Renewal) Agreement will be conducted on normal commercial terms.

### **Reasons for entering into the Master Logistics Service Supply (2017 Renewal) Agreement**

As discussed with the Company, in order to streamline the cost structure and operations of the Group, it is beneficial to the Group to continue to outsource the logistics services to specialised service units. Further, given the close relationship between the Group and TCL Corporation Group, the Group will be placed in a better position to monitor the services to be provided under the Master Logistics Service Supply (2017 Renewal) Agreement than by other outside service providers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In light of the above, we are of the view that the entering into the Master Logistics Service Supply (2017 Renewal) Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

*(e) Master Sourcing (2017 Renewal) Agreement*

The Company has entered into the Master Sourcing (2014 Renewal) Agreement on 11 November 2014, which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Sourcing (2017 Renewal) Agreement, the terms of which are substantially the same as the Master Sourcing (2014 Renewal) Agreement, and the Supplemental Agreement to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Set out below are the major terms of the Master Sourcing (2017 Renewal) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

Date:	29 September 2017
Parties:	(i) the Company (for itself and on behalf of its Subsidiaries)  (ii) TCL Corporation (for itself and on behalf of its Subsidiaries and/or TCL Associates)
Duration:	Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)
Major terms:	Relevant member of TCL Corporation Group (i) acts as the intermediary for the Group to purchase and import the required Overseas Materials from the Company's Overseas Subsidiaries in places other than the PRC and/or from the independent third parties (designated by the Company's Overseas Subsidiaries) in places other than the PRC and (ii) sells such Overseas Materials to the Company's nominated Subsidiaries in the PRC as a local supplier.

It should be noted that the second part of the Overseas Materials Sourcing Service mentioned above is different from and does not form part of the transactions under the Sourcing of Goods described in the section of "Master Sale and Purchase (2017) Agreement".

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

Pricing policy and  
price determination:

1. In respect of the purchase of the Overseas Materials by TCL Corporation Group from the Company's Overseas Subsidiaries in places other than the PRC, the relevant member of the Group charges TCL Corporation Group the costs of the Overseas Materials.
2. In respect of the sale of the Overseas Materials by TCL Corporation Group to the Company's nominated Subsidiaries in the PRC, TCL Corporation Group charges the relevant member of the Group for the acquisition cost of the Overseas Materials (i.e. the cost charged by the Group or independent third parties designated by the Overseas Subsidiaries to TCL Corporation Group as mentioned above) plus all import duties payable by TCL Corporation Group and an administrative charge covering import administrative expenses and insurance fee and all out-of-pocket expenses incurred by TCL Corporation Group relating to the importation and delivery of the relevant Overseas Materials into the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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3. The administrative charges charged by TCL Corporation Group shall be no less favourable than those charged by independent third parties for the purpose of importing overseas materials for the Group. The Group shall at regular intervals obtain quotations for comparable services from independent third parties, where available, in order to compare such quotations with the administrative charge proposed to be charged by TCL Corporation Group. TCL Corporation Group will pay the cost of the Overseas Materials to the relevant member of the Group in places other than the PRC after the receipt of payment (cost of the Overseas Materials plus import duties and administrative charge) from the relevant member of the Group in the PRC. The payment terms largely correspond to the payment terms allowed by the PRC governmental authorities and independent third parties to which import duties and other expenses are paid.

Further details of the pricing policy of the Master Sourcing (2017 Renewal) Agreement is also set out under the section “PRICING POLICY OF THE GROUP” in the Letter from the Board.

We have reviewed the Master Sourcing (2017 Renewal) Agreement and have discussed with the management of the Company the major terms therein. In our discussions with the management of the Company and our review of the major terms of the Master Sourcing (2017 Renewal) Agreement, we note that the terms thereof are substantially the same as the Master Sourcing (2014 Renewal) Agreement. Further, the Group is not restricted from engaging other independent third parties for similar import services as under the Master Sourcing (2017 Renewal) Agreement. If the relevant member of the Group decides to engage TCL Corporation Group, the administrative charges charged by TCL Corporation Group shall be no less favourable than those charged by independent third parties for the purpose of importing overseas materials for the Group. In addition, under the Supplemental Agreement, the Purchase Limit is set where the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements. Accordingly, the Group will have sufficient level of purchase from Independent Third Parties during the relevant financial year to ensure that it is not over reliant in TCL Corporation Group and/or Qianhai Sailing Group for the purchase of Goods, Overseas Materials and/or Qianhai Goods.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Furthermore, we note from the 2016 Annual Report that annual review of the continuing connected transactions contemplated under the Master Sourcing (2014 Renewal) Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Master Sourcing (2014 Renewal) Agreement were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties. The 2016 Annual Report also confirmed that the Company's auditors has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with its terms and that the proposed annual caps are not being exceeded. Further, the Master Sourcing (2017 Renewal) Agreement will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and annual confirmation by the auditors of the Company.

In addition, we have obtained documents and information (i.e., invoices, accounting records and description of the relevant materials) of six transactions under the Master Sourcing (2014 Renewal) Agreement and information on the acquisition costs of overseas materials and rate of administration fee chargeable by other independent third parties for providing similar import services. In our review of the transactional documents and information, we have reviewed the acquisition costs of the Overseas Materials and the rate of administration fee in respect of the purchase of the Overseas Materials and the sale of the Overseas Materials respectively. In respect of the purchase of the Overseas Materials by TCL Corporation Group from the Company's Overseas Subsidiaries in places other than the PRC, the relevant member of the Group charges TCL Corporation Group the costs of the Overseas Materials which is in line with the arrangement of other independent third parties providing similar import services. In respect of the sale of the Overseas Materials by TCL Corporation Group to the Company's nominated Subsidiaries in the PRC, TCL Corporation Group charges the relevant member of the Group for the acquisition cost of the Overseas plus all import duties payable by TCL Corporation Group and an administrative charge which is in line with the arrangement of other independent third parties providing similar import services. Also, upon our review of the rate of administration fee charged by TCL Corporation Group and other independent third parties for providing similar import services as those in the transactional documents, the review shows that the rate of administration fee charged by TCL Corporation Group Materials is in line with those offered by other independent third parties.

In the light of the above, we are of the view that the terms, the pricing policy and the price determination of the Master Sourcing (2017 Renewal) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Internal control procedures**

In general, to ensure that the TCL Corporation Group purchases the Overseas Materials on normal commercial terms and payment terms shall be no less favourable than those available to the Group from Independent Third Parties, the parties have agreed that TCL Corporation Group are responsible for complying with or procuring the relevant member of the TCL Corporation Group for compliance with all procedures and apply for and provide all documentation required for the import of Overseas Materials into the PRC.

Concerning the sale of the Overseas Materials by TCL Corporation Group to the Company's nominated Subsidiaries in the PRC, the administrative charges charged by TCL Corporation Group are no less favourable than those charged by independent third parties for the purpose of importing Overseas Materials for the Group. This is confirmed by comparison with an independent third party providing similar import services as the Group.

Regarding the rate of the administration fee charged by TCL Corporation, the Company conducts regular review to ensure that it is comparable with an independent third party providing similar import services.

The internal control procedures adopted ensure the purchase of Overseas Materials have entered into are on normal commercial terms and are fair and reasonable.

The Group would at regular interval obtain quotations for comparable services from Independent Third Parties, where available, to compare such quotations with the administrative fee proposed to be charged by the relevant member of the TCL Corporation Group. TCL Corporation Group will pay the cost of the Overseas Materials to the relevant member of the Group in places other than the PRC after the receipt of payment (cost of the Overseas Materials plus import duties and administrative charge) from the relevant member of the Group in the PRC and hence in effect the net sum to be paid by the Group pursuant to the Master Sourcing (2017 Renewal Agreement) is only the import duties and administrative charge. The payment terms largely correspond to the payment terms allowed by the PRC governmental authorities and Independent Third Parties to which import duties and other expense are paid.

Please refer to the paragraph 6 in the subsection "Internal control procedures" of the section "Master Sale and Purchase (2017) Agreement" under the heading "Sourcing of Goods" above for internal control procedures in relation to the Purchase Limit.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having discussed with the management of the Company and reviewed of the internal control procedures as set out above and given that the internal control procedures as set out above include: (i) having TCL Corporation Group agreed to comply with all procedures and to apply for and to provide all documentation required for the import of Overseas Materials into the PRC; (ii) ensuring the administrative charges being no less favourable than those charged by independent third parties for the purpose of importing Overseas Materials for the Group; and (iii) an internal control procedure to ensure that the aggregate amount of purchase placed with TCL Corporation Group and/or Qianhai Sailing Group does not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements as discussed under the subsection "Internal Control Procedures" of the section "Mast Sale and Purchase (2017) Agreement" above, we are of the view that the internal control procedures adopted by the Company are adequate and effective to ensure that the transactions contemplated under the Master Sourcing (2017 Renewal) Agreement will be conducted on normal commercial terms.

### **Reasons for entering into the Master Sourcing (2017 Renewal) Agreement**

As discussed with the Company, the arrangement under the Overseas Materials Sourcing Service is the best alternative for the Group to source Overseas Materials for the Group's production in view of the requirements of the business licenses of certain members of the Group.

In light of the above, we are of the view that the entering into the Master Sourcing (2017 Renewal) Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### ***(f) Master Qianhai Sailing Cooperation (2017 Renewal) Agreement***

The Company has entered into the Master Qianhai Sailing Cooperation Agreement on 12 August 2015 which will expire on 31 December 2017. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, the terms of which are substantially the same as the Master Qianhai Sailing Cooperation Agreement, and the Supplemental Agreement to incorporate the Purchase Limit to the continuing connected transactions contemplated under the Purchase Agreements.

Set out below are the major terms of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

Date: 29 September 2017

Parties: (i) the Company (for itself and on behalf of its Subsidiaries)  
(ii) Qianhai Sailing (for itself and on behalf of the Qianhai Sailing Group)



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Duration: Three years from 1 January 2018 to 31 December 2020 (both days inclusive) (Subject to the approval of the Independent Shareholders)

Major terms: **Sourcing of Qianhai Goods**

Member(s) of the Group may from time to time give member(s) of the Qianhai Sailing Group the Plan indicating the production need of the Group with particulars of the Qianhai Goods (including the quantity, models, technical specifications, preferred manufacturers and Maximum Price of the Qianhai Goods) to satisfy such need.

Qianhai Sailing Group shall use its best endeavours to prepare itself to meet the needs of the Group as set out in the Plan as soon as possible after the receipt of the plan by (i) arranging procurement of the Qianhai Goods on its own account and at its own expense in accordance with the needs of the Group as stated in the Plan and pursuant to the terms and conditions of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement; and (ii) arranging the Qianhai Goods so acquired to be stored at the Storage Location(s) at the own risk of and with the title vested in Qianhai Sailing Group.

Pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

Pricing policy and price determination: The Purchase Price shall be the Acquisition Price plus the Premium, which shall not exceed the Maximum Price in any event.

The Acquisition Price is calculated as the actual price paid by Qianhai Sailing Group for the acquisition of the Qianhai Goods from the relevant supplier(s).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Premium is calculated by 0.3% of the Acquisition Price for the Qianhai Goods. If the PBOC Rate or the WACC differs from the respective values on the date of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement or the last Adjustment Date (whichever is later) by 10%, either Party may serve a written notice on the other Party proposing an adjustment to the Premium.

Further details of the pricing policy of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement is also set out under the section “PRICING POLICY OF THE GROUP” in the Letter from the Board.

Payment terms: The relevant member(s) of the Group shall pay to the relevant member(s) of the Qianhai Sailing Group the Purchase Price for the Goods within seventy five (75) days from the date of the delivery.

We have reviewed the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement and have discussed with the management of the Company the major terms therein. In our discussions with the management of the Company and our review of the major terms of Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, we note that the terms thereof are substantially the same as the Master Qianhai Sailing Cooperation Agreement. In addition, under the Supplemental Agreement, the Purchase Limit is set where the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement shall not exceed 50% of the Group’s then total cost of sales in each of the financial years during the term of the Purchase Agreements. Accordingly, the Group will have sufficient level of purchase from Independent Third Parties during the relevant financial year to ensure that it is not over reliant in TCL Corporation Group and/or Qianhai Sailing Group for the purchase of Goods, Overseas Materials and/or Qianhai Goods.

Furthermore, we note from the 2016 Annual Report that annual review of the continuing connected transactions contemplated under the Master Qianhai Sailing Cooperation Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Master Qianhai Sailing Cooperation Agreement were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties. The 2016 Annual Report also confirmed that the Company’s auditors has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with its terms and that the proposed annual caps are not being exceeded. Further, the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company’s subsequent published annual reports and annual confirmation by the auditors of the Company.

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We understand from the Company that the Premium of 0.3% represents the sum of (i) the costs for arranging the import and delivery of the Qianhai Goods, comprising all import duties payable by Qianhai Sailing Group, import administrative expenses, insurance fee, all out-of-pocket expenses incurred by Qianhai Sailing Group relating to the importation and delivery of the Goods of approximately 0.1%; and (ii) a margin/financing charge to be charged by Qianhai Sailing Group of approximately 0.2%.

In addition, we have obtained documents and information (i.e., agreements and information, prices and accounting records of goods sourced) relating to six transactions under the Master Qianhai Sailing Cooperation Agreement and information/figures on the rate of service fee, i.e. the Premium, charged by other independent third parties. In our review of the transactions under the Master Qianhai Sailing Cooperation Agreement, we have reviewed the goods sourced, the acquisition price for the relevant goods and the rate of service fee charged. The information/figures on the rate of service fee charged by other independent third parties includes quotations from them in providing similar services as those under the Master Qianhai Sailing Cooperation Agreement. Our review of the rate of service fee charged by Qianhai Sailing Group with those offered by other independent third parties shows that the rate of administration fee charged by Qianhai Sailing Group is lower than the rate charged by other independent third parties (i.e., a premium more than 0.3%).

In the light of the above, we are of the view that the terms, the pricing policy and the price determination of the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Internal control procedures**

The Group will follow the following internal procedures when conducting transactions with Qianhai Sailing Group:

- (1) Before engaging Qianhai Sailing Group, the Group will:
  - (a) internally formulate a production schedule for every three months with reference to its business plan and orders from customers;
  - (b) identify its needs for Qianhai Goods based on the production schedule;
  - (c) obtain market information regarding Qianhai Goods to determine the models, technical specifications, preferred manufacturers and Maximum Price of Qianhai Goods;
  - (d) determine the portion of such Qianhai Goods that are to be sourced from Qianhai Sailing Group having considered the cashflow position of the Group and the costs which will be incurred if the Group directly sources Qianhai Goods on its own;

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- (e) prepare the Plan which will be passed to a supervisor responsible for supply chain management for review and approval; and
  - (f) send the Plan to Qianhai Sailing Group after the aforesaid approval;
- (2) When determining the Maximum Price, the Group will take into account the aggregate costs which will be incurred by the Group if the Group is to source the Qianhai Goods and arrange for importation and/or delivery on its own and will make sure that the Maximum Price does not exceed the sum of (i) the lowest price at which the Group can obtain the Qianhai Goods directly from the market and (ii) the Premium to be paid to Qianhai Sailing Group if such Qianhai Goods are to be obtained through Qianhai Sailing Group's services, so as to ensure that the Group would purchase the Qianhai Goods through Qianhai Sailing Group only when it is better off for the Group to do so; and
- (3) After the Plan is sent to Qianhai Sailing Group, the Group will regularly review its production need and the price of Qianhai Goods available on the open market so as to facilitate the Group to decide whether it is in the interest of the Group to issue a Purchaser Order to Qianhai Sailing Group to acquire Qianhai Goods.

Please refer to the paragraph 6 in the subsection "Internal control procedures" of the section "Master Sale and Purchase (2017) Agreement" under the heading "Sourcing of Goods" above for internal control procedures in relation to the Purchase Limit.

Having discussed with the management of the Company and reviewed of the internal control procedures as set out above and given that the internal control procedures as set out above could facilitate the Group to decide whether to source Qianhai Goods from Qianhai Sailing Group and the Group will only adopt when the total costs of the Group to acquire Qianhai Goods through Qianhai Sailing Group, in which case is the Purchase Price to be paid to Qianhai Sailing Group, is lower than the costs of the Group directly purchasing Qianhai Goods from the suppliers, which includes the acquisition costs, importation and delivery costs and other financial costs and also that the internal control procedure is in placed to ensure that the aggregate amount of purchase placed with TCL Corporation Group and/or Qianhai Sailing Group does not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements as discussed under the subsection "Internal Control Procedures" of the section "Master Sale and Purchase (2017) Agreement" above, we are of the view that the internal control procedures adopted by the Company are adequate and effective to ensure that the transactions contemplated under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement will be conducted on normal commercial terms.

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### **Reasons for entering into the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement**

As discussed with the Company, when using Qianhai Sailing Group as an intermediary to purchase the Qianhai Goods for supply to the Group, the Group has no obligation to pay for the Qianhai Goods acquired by Qianhai Sailing Group before Delivery. The Group would issue the Purchase Order only when it requires the Qianhai Goods in its manufacturing process and the Group is only required to settle the Purchase Price within 75 days after the date of the Delivery. This arrangement could significantly speed up the Group's inventory turnover and relief the strain on the Group's cash flow position.

The suppliers of the Qianhai Goods from time to time offer discount on their products. In the past, the Group may not be able to fully capitalize on such opportunity because of its tight cashflow position. However, with the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, the Group would be able to seize the opportunity by giving Qianhai Sailing Group the Plan and specify the particulars of the Qianhai Goods and the Maximum Price so that Qianhai Sailing Group could acquire the Qianhai Goods at discounted price at its own costs first. When the Group is in need of the Qianhai Goods and its cashflow position allows, it could then purchase the Qianhai Goods from Qianhai Sailing Group at the Acquisition Price plus the Premium. Since the Premium when fixed and adjusted would be lower than the PBOC Rate and the WACC, the Group is better off with this arrangement instead of obtaining other financing for acquiring the Qianhai Goods. This arrangement also gives the Group much more flexibility in managing its inventory and cashflow.

In light of the above, we are of the view that the entering into the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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**4. Historical figures and proposed caps of the Non-exempt Transactions**

The following table sets out the respective actual amounts and proposed annual caps of the continuing connected transactions as described above for the two years ended 31 December 2016 and the six months ended 30 June 2017, and the respective annual caps for the three years ending 31 December 2020:

	For the year ended 31 December 2015 (audited for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2016 (audited for actual amount only) <i>HK\$'000</i>	For the six months ended 30 June 2017 (unaudited) (for actual amount only)/for the year ending 31 December 2017 (for original annual cap only) <i>HK\$'000</i>	For the year ending 31 December 2018 <i>HK\$'000</i>	For the year ending 31 December 2019 <i>HK\$'000</i>	For the year ending 31 December 2020 <i>HK\$'000</i>
<b>Continuing Connected Transactions</b> <i>(Note 1)</i>						
<i>(a) Master Sale and Purchase (2017) Agreement Master Supply (2014 Renewal) Agreement</i>						
<i>Sourcing of Goods</i>						
– Actual	6,910,894	8,720,168	6,004,917			
– Original annual cap	18,954,763	22,495,059	25,650,532			
<i>Sale of Goods</i>						
– Actual	3,182,116	2,911,657	1,493,020			
– Original annual cap	7,988,320	12,216,885	18,201,831			
<i>Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement</i>						
– Actual	3,048	11,100	11,173			
– Original annual cap	34,679	46,320	63,487			

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	For the year ended 31 December 2015 (audited for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2016 (audited for actual amount only) <i>HK\$'000</i>	For the six months ended 30 June 2017 (unaudited) (for actual amount only)/for the year ending 31 December 2017 (for original annual cap only) <i>HK\$'000</i>	For the year ending 31 December 2018 <i>HK\$'000</i>	For the year ending 31 December 2019 <i>HK\$'000</i>	For the year ending 31 December 2020 <i>HK\$'000</i>
Continuing Connected Transactions <i>(Note 1)</i>						
Proposed annual cap						
– Sourcing of Goods				13,153,107	15,021,622	15,205,895
– Sale of Goods				5,739,212	7,148,383	7,847,009
<b>(b) Master After Sale Service (2017) Agreement</b>						
<i>Master After Sale Service (2014 Renewal) Agreement</i>						
– Actual	28,952	14,844	2,336			
– Original annual cap	58,163	66,119	75,956			
<i>Master After Sale Service (TV Products) (2016 Renewal) Agreement (Note 2)</i>						
– Actual	246,095	279,610	145,293			
– Original annual cap	649,546 <i>(Note 3)</i>	795,491 <i>(Note 3)</i>	423,666	469,524	512,014	
Proposed annual cap				425,035	563,141	578,592

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	For the year ended 31 December 2015 (audited for actual amount only) HK\$'000	For the year ended 31 December 2016 (audited for actual amount only) HK\$'000	For the six months ended 30 June 2017 (unaudited) (for actual amount only)/for the year ending 31 December 2017 (for original annual cap only) HK\$'000	For the year ending 31 December 2018 HK\$'000	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000
<b>Continuing Connected Transactions</b> <i>(Note 1)</i>						
<i>(c) Master TCL Trademark License (2017 Renewal) Agreement</i>						
<i>Aggregate royalty (Note 4)</i>						
– Actual	nil	nil	nil			
– Original annual cap	nil	nil	158,988			
Proposed annual cap				0	0	0
<i>Aggregate branding fee reimbursement</i>						
– Actual	431,952	315,370	70,085			
– Original annual cap	560,661	663,298	737,963			
Proposed annual cap				773,521	906,831	1,100,904
<i>(d) Master Logistics Service Supply (2017 Renewal) Agreement</i>						
– Actual	264,645	347,463	183,502			
– Original annual cap	507,529	615,125	733,229			
Proposed annual cap				514,484	611,722	702,869



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	For the year ended 31 December 2015 (audited for actual amount only) HK\$'000	For the year ended 31 December 2016 (audited for actual amount only) HK\$'000	For the six months ended 30 June 2017 (unaudited) (for actual amount only)/for the year ending 31 December 2017 (for original annual cap only) HK\$'000	For the year ending 31 December 2018 HK\$'000	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000
<b>Continuing Connected Transactions</b> <i>(Note 1)</i>						
<i>(e) Master Sourcing (2017 Renewal) Agreement Purchase of Overseas Materials by TCL Corporation Group from the Group</i>						
– Actual	835,594	756,191	337,432			
– Original annual cap	857,425	1,076,386	1,360,851			
Proposed annual cap				1,054,690	1,214,903	1,399,548
<i>Sale of Overseas Materials by TCL Corporation Group to the Group</i>						
– Actual	824,518	802,215	325,446			
– Original annual cap	1,063,207	1,334,718	1,687,455			
Proposed annual cap				878,909	1,012,419	1,054,589
<i>(f) Master Qianhai Sailing Cooperation (2017 Renewal) Agreement (Note5)</i>						
– Actual	342,229	563,190	287			
– Original annual cap	1,179,490	3,113,854	3,425,239			
Proposed annual cap				552,647	796,791	739,516

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*Notes:*

- 1) For easy comparison of the historical figures and the proposed annual caps, names of the new master agreements are used herein.
- 2) The Master After Sale Service (TV Products) (2016 Renewal) Agreement was for the term from 1 January 2017 to 31 December 2019.
- 3) These represent the original annual caps under the Master After Sale Service (TV Products) Agreement dated 19 May 2014.
- 4) No royalty was payable by the Group for the two years ended 31 December 2016 and six months ended 30 June 2017 as the actual performance of the Group for the relevant period did not reach the threshold which triggered the royalty payment obligations under the Master TCL Trademark License (2014 Renewal) Agreement.
- 5) The Master Qianhai Sailing Cooperation Agreement was for the term from 25 September 2015 to 31 December 2017.

### **Purchase Limit under the Purchase Agreements**

In respect of the continuing connected transactions contemplated under the Purchase Agreement, pursuant to the Supplemental Agreement, each of the Company, TCL Corporation and Qianhai Sailing undertakes with each other that the aggregate amount of purchases by the Group of Goods under the Master Sale and Purchase (2017) Agreement, of Overseas Materials under the Master Sourcing (2017 Renewal) Agreement and of Qianhai Goods under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement from TCL Corporation Group and Qianhai Sailing Group (as the case may be) shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements (i.e. Purchase Limit).

The Directors consider that the Group's cost of sales serves as a meaningful benchmark to monitor the level of purchase from TCL Corporation Group and Qianhai Sailing Group and therefore are of the view that it is appropriate to use the Purchase Limit to monitor the Group's level of purchases from TCL Corporation Group and Qianhai Sailing Group. The Purchase Limit forms part of the terms of each of the Purchase Agreements. Accordingly, the Group will follow the above internal control measures to keep track of the level of purchase from TCL Corporation Group and Qianhai Sailing Group to ensure that the Purchase Limit will not be exceeded, as well as to purchase Goods, Overseas Materials and/or Qianhai Goods (as the case may be) from Independent Third Parties from time to time to ensure that the Purchase Limit will not be exceeded.

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In order to assess the fairness and reasonableness of the proposed annual caps for the Non-exempt Transactions, we have taken into consideration the following:

**(a) Master Sale and Purchase (2017) Agreement**

*Sourcing of Goods*

- (i) The Group is ranked No. 3 in the global LCD television market with a market share of 7.3% in the first quarter of 2017 according to the latest IHS Technology figures and the Company's shipment data, and is also ranked No. 3 in the PRC LCD television market with a market share of 13.6% in the first half of 2017 according to CMM's report. As discussed with the Company, the Group is targeting to record a gradual increase in market share in the three years ending 31 December 2020.
- (ii) For the year ended 31 December 2016, the actual amount of Goods sourced under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement was approximately HK\$8.7 billion, which represented an increase of approximately 27% from the actual amount of Goods sourced of approximately HK\$6.9 billion for the year ended 31 December 2015.
- (iii) For the six months ended 30 June 2017, the actual amount of Goods sourced under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement was approximately HK\$6 billion. If such amount is annualised, the amount of Goods sourced under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement for the year ending 31 December 2017 is estimated to be in the region of approximately HK\$12 billion, which would represent an increase of approximately 38% from the actual amount of Goods sourced for the year ended 31 December 2016. Whilst after having reviewed the financial information of the Group for the past three years, we note that the sales of Group is in general seasonal and the peak season normally falls on the second half of the year with the Group's revenue for the second half of a year accounting for approximately 55% to 62% of the total sales, however, for the purpose of estimating the actual amount for the year ending 31 December 2017, a conservative approach is used and the annualised figure from the actual amount from the six months ended 30 June 2017 is adopted to determine the estimated amount for the year ending 31 December 2017.

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- (iv) The sales volume of the Group’s television sets is increasing and the Group has set the sales target of 22 million television sets to be sold in the year 2017 as compared with approximately 19.96 million television sets sold in the year ended 31 December 2016. The following table also sets out the sales volume and the growth of the Group’s LCD television sets for the two years ended 31 December 2016 and for the six months ended 30 June 2017:

	For the six months ended 30 June			For the year ended 31 December		
	2016	2017	Year-on-year growth	2015	2016	Year-on-year growth
Total sales volume of LCD televisions						
(million sets)	8.56	9.60	12.2%	17.34	19.96	15.1%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

- (v) As discussed with the Company and as set out in the section “Background information of the Group” above, the Group will continue to enhance its product mix with steadily increasing proportion of high-end products (new products such as quantum dot, curved, 4K and large screen televisions, etc) which will be conducive in maintaining better selling price. Further, the Group will continue its overseas expansion and also strive to improve its operational efficiency and further implement stringent cost control measures, thus strengthening the core brand competitiveness, improving profitability and achieving sustainable development. As such, for the six months ended 30 June 2017, the Group was able to achieve turnover and sale volume of LCD televisions of approximately HK\$17.02 million and 9.60 million television sets respectively, which represented an increase of approximately 19.7% and 12.2% respectively from the prior period. It should also be noted that for the six months ended 30 June 2017, high-end televisions such as smart televisions and 4K televisions grew approximately 49.8% and 45.6% respectively from the prior period which is beneficial for the Group in maintaining selling price.
- (vi) Given the growth in the business of the Group such as the increase in sales volume of LCD televisions and the other factors as discussed above, (a) the amount of Goods to be sourced under the Master Sale and Purchase (2017) Agreement for the year ending 31 December 2018 of approximately HK\$13.2 billion, which represents an increase of approximately 10% from the estimated annualised amount of Goods sourced under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement of approximately HK\$12 billion for the year ending 31 December 2017; and (b) the amount of Goods to be sourced under the Master Sale and Purchase (2017) Agreement for the year ending 31 December 2019 and 2020 of approximately HK\$15 billion and HK\$15.2 billion respectively, which represent a year-on-year increase of approximately 14% and 1% respectively from the respective prior year, are reasonable in our view.

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### *Sales of Goods*

- (i) For the year ended 31 December 2015 and 2016, the actual amount of sales of Goods under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement was approximately HK\$3.2 billion and HK\$2.9 billion respectively.
- (ii) For the six months ended 30 June 2017, the actual amount of sales of Goods under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement was approximately HK\$1.5 billion. If such amount is annualised, the amount of sales of Goods under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement for the year ending 31 December 2017 is estimated to be in the region of approximately HK\$3 billion. As discussed in item (iii) in the discussion regarding the proposed annual caps of the Sourcing of Goods under the Master Sale and Purchase (2017) Agreement above, whilst the Group's peak season normally falls on the second half, however, for the purpose of estimating the actual amount for the year ending 31 December 2017, a conservative approach is used and the annualised figure from the actual amount from the six months ended 30 June 2017 is adopted to determine the estimated amount for the year ending 31 December 2017.
- (iii) For the three years ending 31 December 2020, the annual caps for the sales of Goods was made by the projected sales mainly made by: (a) TCL King Electrical; and (b) TCL Overseas Marketing Limited (whose principal activities includes trading of television products and components) which are the main entities to have purchased Goods from the Group in the last year under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement. In estimating the purchases by the abovementioned entities from the Group, it is estimated that there will, in particular, be an increase in the sourcing of the Group's television products for the overseas market. As set out in the section "Background information of the Group" above, the Group has been increasing its presence as well as promoting the TCL brand in the overseas which has resulted the sales volume of LCD televisions in the overseas markets to increase by approximately 34.1% in the six months ended 30 June 2017 from the corresponding prior period. As the TCL brand has been gaining traction in the overseas market which will in turn result in an increase demand of the Group's products, it is reasonable to expect that there will higher demand for the Group's products in the coming years. Further, given that the terms for the sales of Goods to the relevant members of TCL Corporation Group shall be no less favourable than those to independent third parties and such sales of Goods would also enhance the profitability of the Group, therefore we concur with the Company that it is reasonable to set the annual caps for sales of Goods under the Master Sale and Purchase (2017) Agreement based on the projected sales of the relevant members of TCL Corporation Group. As such, we are of the view that (a) the

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increase of annual cap for sales of Goods under the Master Sale and Purchase (2017) Agreement to approximately HK\$5.7 billion, which represents an increase of approximately 90% from the estimated annualised amount of sales of Goods under the Master Supply (2014 Renewal) Agreement and the Master Electronic and Electrical Goods Sourcing (2014 Renewal) Agreement of HK\$3 billion for the year ending 31 December 2017; and (b) the amount of sales of Goods under the Master Sale and Purchase (2017) Agreement for the year ending 31 December 2019 and 2020 of approximately HK\$7.1 billion and HK\$7.8 billion respectively, which represent a year-on-year increase in the region of approximately 10% to 25% from the respective prior year, are reasonable in our view.

**(b) *Master After Sale Service (2017) Agreement***

For the year ended 31 December 2015 and 2016, the actual amount under the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement was approximately HK\$275 million and HK\$294 million respectively.

For the three years ending 31 December 2020, the proposed annual caps under the Master After Sale Service (2017) Agreement are approximately HK\$425 million, HK\$563 million and HK\$579 million respectively and were determined based on the following factors: (a) the historical growth of the Group's LCD television business as discussed in the determination of the annual caps for the Master Sale and Purchase (2017) Agreement above (i.e., the turnover of the Group has grown approximately 19.7% for the six months ended 30 June 2017); (b) the estimated gross domestic product growth in the PRC of 6.5% to 7% for 2017 according to The International Monetary Fund, which is expected to lead to an increase in the sales revenue of the TV Products and in turn the After Sale Service fees; and (c) the budgeted warranty cost incurred by the relevant service provider resulting from inflation and upward adjustment in service fees for After Sale Service in the comparable practice in the market; expected diversity and complexity of After Sale Service to meet consumers' expectations; and the expected increase in costs of After Sale Service including but not limited to hardware costs and human resources costs as a result of optimising product diversity, thus leading to an estimated increasing demand for the After Sale Service during the term of the Master After Sale Service (2017) Agreement. Taking into account of the factors discussed above, we are of the view that (a) the increase of annual cap under the Master After Sale Service (2017) Agreement for the year ending 31 December 2018 to approximately HK\$425 million, which represents an increase of approximately 45% from the actual amount under the Master After Sale Service (2014 Renewal) Agreement and the Master After Sale Service (TV Products) (2016 Renewal) Agreement of approximately HK\$294 million for the year ended 31 December 2016; and (b) the annual caps under the Master After Sale Service (2017) Agreement for the year ending 31 December 2019 and 2020 of approximately HK\$563 million and HK\$579 million, which represent a year-on-year increase of approximately 32% and 3% respectively as compared with the prior year, are reasonable in our view.

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*(c) Master TCL Trademark License (2017 Renewal) Agreement*

It is not expected that the performance of the Group will trigger the royalty payment obligations under the Master TCL Trademark License (2017 Renewal) Agreement as the estimated performance of the Group for the relevant period will not reach the threshold to trigger the royalty payment obligations.

The annual caps in respect of the aggregate branding fee reimbursement for the transaction under the Master TCL Trademark License (2017 Renewal) Agreement are estimated based on (a) the historical sales amount with an expected growth in the next three years with reference to the expected growth in market shares of the Group's Multimedia Products and certain market estimates of the expected growth in the sales of televisions, especially the substantial growth in LCD televisions market consumption, in the PRC and other regions around the world; and (b) the estimated advertising and promotion expenses of the promotion projects intended to be launched during the coming 3 years. More potential cooperation opportunities with (i) well-known television shows such as "Voice of China" and (ii) certain open world sports events such as the Wuhan Open are expected to be continued in the future.

For the year ended 31 December 2015 and 2016, the branding fee reimbursement paid to TCL Corporation was approximately HK\$432 million and HK\$315 million respectively and with utilisation rate of the then annual caps of approximately 77% and 48% respectively. Given the (i) Group's strategy is to continue to focus on the manufacture and sale of LCD televisions in the next three years; (ii) for the two years ended 31 December 2016, the branding fee reimbursement paid to TCL Corporation amounted to the region of 1% to 1.5% of the Group's total sales. Given the historical growth of the total sales volume of LCD televisions, the sales target of 22 million sets of television for the year ending 31 December 2017 and the Group will continue to enhance its product mix by steadily increasing proportion of high-end products (proportion of high-end products will be favourable to the Group in maintaining selling price) as set out in the discussion of the annual caps under the "Master Sale and Purchase (2017) Agreement" above and which is therefore expected to proportionally increase the amount the branding fee reimbursement paid to TCL Corporation in the next few years; (iii) the contribution to the branding activities will be vital component in achieving the growth of the Group's LCD television business as set out in the discussion of annual caps in the Master Sale and Purchase (2017) Agreement above including the Group's overseas expansion; and (iv) the promotion projects intended to be launched during the coming 3 years as mentioned above, we are of the view that the increase of annual cap for the Master TCL Trademark License (2017 Renewal) Agreement to approximately HK\$773 million for year ending 31 December 2018, which represents an increase of approximately 79% as compared with the highest branding fee reimbursement paid to TCL Corporation during the two years ended 31 December 2016. Given that amount incurred for branding activities by TCL Corporation Group in 2016 was lowest in the last three years and we understand that there will be various advertising and promotion projects in the coming years as described above, the highest branding fee reimbursement paid to TCL Corporation during the two years ended 31 December 2016 is used for comparison to illustrate the increase of the proposed annual caps when the amount incurred for branding activities by TCL Corporation Group was at the highest; and (b) the annuals caps under the Master TCL Trademark License (2017 Renewal) Agreement for the year ending 31 December 2019 and 2020 of approximately HK\$907 million and HK\$1,101 million respectively, which represent a year-on-year increase in the region of approximately 17% to 21% from the respective prior year, are reasonable in our view.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**(d) Master Logistics Service Supply (2017 Renewal) Agreement**

For the year ended 31 December 2015 and 2016, the actual amount under the Master Logistics Service Supply (2014 Renewal) Agreement was approximately HK\$265 million and HK\$347 million, which represents a year-on-year increase of approximately 31%.

For the six months ended 30 June 2017, the actual amount under the Master Logistics Service Supply (2014 Renewal) Agreement was approximately HK\$184 million. If such amount is annualised, the amount under the Master Logistics Service Supply (2014 Renewal) Agreement for the year ending 31 December 2017 is estimated to be in the region of approximately HK\$368 million.

For the three years ending 31 December 2020, the proposed annual caps under the Master Logistics Service Supply (2017 Renewal) Agreement are approximately HK\$514 million, HK\$612 million and HK\$703 million respectively. Given (a) the Group is targeting to record a gradual increase in market share for the three years ending 31 December 2020; (b) the historical growth of the Group's LCD television business as discussed in the determination of the annual caps for the Master Sale and Purchase (2017) Agreement above (i.e., the turnover of the Group has grown approximately 19.7% for the six months ended 30 June 2017); (c) the estimated gross domestic product growth in the PRC of 6.5% to 7% for 2017 according to The International Monetary Fund, which is expected to lead to an increase in the sales revenue of the TV Products and in turn the usage of logistic related services; and (d) the increase in the actual amount under the Master Logistics Service Supply (2014 Renewal) Agreement, we are of the view that (a) the increase of annual cap under the Master Logistics Service Supply (2017 Renewal) Agreement for the year ending 31 December 2018 to approximately HK\$514 million, which represents an increase of approximately 40% from the annualised estimated amount under the Master Logistics Service Supply (2014 Renewal) Agreement for the year ending 31 December 2017; and (b) the annual caps under the Master Logistics Service Supply (2017 Renewal) Agreement for the year ending 31 December 2019 and 2020 of approximately HK\$612 million and HK\$703 million respectively, which represent a year-on-year increase in the region of approximately 15% to 19% as compared with the respective prior year, are reasonable in our view.

**(e) Master Sourcing (2017 Renewal) Agreement**

For the year ended 31 December 2015 and 2016, the actual amount under the Master Sourcing (2014 Renewal) Agreement for purchase of Overseas Materials by TCL Corporation Group from the Group was approximately HK\$836 million and HK\$756 million respectively.

For the year ended 31 December 2015 and 2016, the actual amount under the Master Sourcing (2014 Renewal) Agreement for sale of Overseas Materials by TCL Corporation Group to the Group was approximately HK\$825 million and HK\$802 million respectively.



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For the three years ending 31 December 2020, the proposed annual caps under the Master Sourcing (2017 Renewal) Agreement for purchase of Overseas Materials by TCL Corporation Group from the Group are approximately HK\$1,055 million, HK\$1,215 million and HK\$1,400 million respectively. For the three years ending 31 December 2020, the proposed annual caps under the Master Sourcing (2017 Renewal) Agreement for sale of Overseas Materials by TCL Corporation Group to the Group are approximately HK\$879 million, HK\$1,012 million and HK\$1,166 million respectively. Given (a) the Group is targeting to record a gradual increase in market share in the three years ending 31 December 2020; (b) the overseas expansion of the Group, in particular, the sales volume of LCD televisions in the overseas markets increased by approximately 34.1% for the six months ended 30 June 2017 as well as the Group's aim to continue its internationalization as discussed in the section "Background information of the Group" above; and (c) the historical growth of the Group's LCD television business as discussed in the determination of the annual caps for the Master Sale and Purchase (2017) Agreement above (i.e., the turnover of the Group has grown approximately 19.7% for the six months ended 30 June 2017), we are of the view that (a) the increase of annual cap under the Master Sourcing (2017 Renewal) Agreement for purchase of Overseas Materials by TCL Corporation Group from the Group for the year ending 31 December 2018 to HK\$1,055 million, which represents an increase of approximately 26% as compared with the maximum actual amount under the Master Sourcing (2014 Renewal) Agreement for purchase of Overseas Materials by TCL Corporation Group from the Group during the two years ended 31 December 2016; (b) the annual caps under the Master Sourcing (2017 Renewal) Agreement for purchase of Overseas Materials by TCL Corporation Group from the Group for the year ending 31 December 2019 and 2020 of approximately HK\$1,215 million and HK\$1,400 million respectively, which represent a year-on-year increase in the region of approximately 15% as compared with the respective prior year; (c) the increase of annual cap under the Master Sourcing (2017 Renewal) Agreement for sale of Overseas Materials by TCL Corporation Group to the Group for the year ending 31 December 2018 of HK\$879 million, which represents an increase of approximately 7% as compared with the maximum actual amount under the Master Sourcing (2014 Renewal) Agreement for sale of Overseas Materials by TCL Corporation Group to the Group during the two years ended 31 December 2016; and (d) the annual caps under the Master Sourcing (2017 Renewal) Agreement for sale of Overseas Materials by TCL Corporation Group to the Group for the year ending 31 December 2019 and 2020 of approximately HK\$1,012 million and HK\$1,055 million respectively, which represent an increase of approximately 15% and 4% respectively as compared with the respective prior year, are reasonable in our view.

***(f) Master Qianhai Sailing Cooperation (2017 Renewal) Agreement***

For the year ended 31 December 2015 and 2016, the actual amount for under the Master Qianhai Sailing Cooperation (2014 Renewal) Agreement was approximately HK\$342 million and HK\$563 million, which represents a year-on-year increase of approximately 65%.

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For the three years ending 31 December 2020, the proposed annual caps under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement are approximately HK\$553 million, HK\$797 million and HK\$818 million respectively. Given (a) the Group is targeting to record a gradual increase in market share in the three years ending 31 December 2020; (b) the historical growth of the Group's LCD television business as discussed in the determination of the annual caps for the Master Sale and Purchase (2017) Agreement above (i.e., the turnover of the Group has grown approximately 19.7% for the six months ended 30 June 2017); (c) the estimated gross domestic product growth in the PRC of 6.5% to 7% for 2017 according to The International Monetary Fund, which is expected to lead to an increase in the sales revenue of the TV Products and in turn the sourcing of Qianhai Goods; and (d) the increase in the actual amount under the Master Qianhai Sailing Cooperation (2014 Renewal) Agreement, we are of the view that (a) the annual cap under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement for the year ending 31 December 2018 of HK\$552 million, which is less than the actual amount under the Master Qianhai Sailing Cooperation (2014 Renewal) Agreement for the year ended 31 December 2016; and (b) the annual caps under the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement for the year ending 31 December 2019 and 2020 of approximately HK\$797 million and HK\$740 million respectively, which represent an increase of approximately 44% and a decrease of approximately 7% respectively as compared with the prior year, are reasonable in our view.

### **Overall view on the proposed annual caps of the Non-exempt Transactions**

Taken into account of the factors as set out above, we are of the view that the annual caps of the Non-exempt Transactions are reasonably estimated and therefore we are of the view that the annual caps for the Non-exempt Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

We noted that the aggregate amount of sales from the proposed annual caps under from the Group's connected persons under the Master Sale and Purchase (2017) Agreement and the Master Sourcing (2017 Renewal) Agreement for the three years ending 31 December 2020 are approximately HK\$6.8 billion, HK\$8.4 billion and HK\$9.2 billion, representing approximately 20%, 25% and 28% to the Group's total revenue of approximately HK\$33.4 billion for the year ended 31 December 2016 respectively. Also, the aggregate amount of purchases from the proposed annual caps under from the Group's connected persons under the Master Sale and Purchase (2017) Agreement, the Master Sourcing (2017 Renewal) Agreement and the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement for the three years ending 31 December 2020 are approximately HK\$14.6 billion, HK\$16.8 billion and HK\$17 billion, representing approximately 53%, 61% and 62% to the Group's cost of sales of approximately HK\$27.5 billion for the year ended 31 December 2016 respectively. However, we are of the view that there is no excessive reliance on the Group's connected persons (i.e., TCL Corporation Group and Qianhai Sailing Group) on its sales and/or purchases for the following reasons:

- As set out above, the total sales volume of televisions in 2016 was approximately 19.96 million sets, representing a year-on-year increase of approximately 15.1%. In 2017, the Group is expecting higher sales volume of its television and has set a target of 22 million television sets to be sold during the year 2017. Given the increasing sales volume of the Group as well as the expected corresponding increase in the requirements for raw materials, semi-finished materials etc., it is estimated that the Group's sales and cost of sales will increase in the coming years and therefore the sales to and/or purchase from its connected

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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parties in terms of the Group's then total sales and cost of sales in each of the financial years for the three years ending 31 December 2020 shall be less than those percentages as set out in the preceding paragraph above.

- The Group has been operating and will continue to operate independently from its connected persons and will negotiate transactions directly with them for any goods required by the Group or by the connected persons of the Group.
- The Group's purchases from its connected parties is overall conducted in view to receive a stable and reliable source of supply of the materials for the goods to be produced by the Group whilst the Group's sales to its connected parties is overall conducted in view to allow the Group to widen its revenue base and to contribute to the business of the Group.
- To avoid excessive reliance for the purchases of Goods, Overseas Materials and Qianhai Goods, the Group has also entered into the Supplemental Agreement to ensure such purchases in aggregate shall not exceed 50% of the Group's then total cost of sales in each of the financial years during the term of the Purchase Agreements. We note that similar arrangement to the Purchase Limited is also implemented by other listed companies in Hong Kong such as Sany Heavy Equipment International Holdings Company Limited (stock code: 631) and China Display Optoelectronics Technology Holdings Limited (stock code: 334). We also note that these listed companies have relied on their connected parties to purchase materials and/or sell goods.

### RECOMMENDATION

Having considered the principal factors and reasons set out above, we consider that the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps are in the ordinary and usual course of business and on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions approving the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps at the EGM. We also recommend the Independent Shareholders to vote in favour of the resolution relating to the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps at the EGM.

Yours faithfully,  
For and on behalf of  
**Beijing Securities Limited**  
**Charles Li\***  
*Director*

\* *Charles Li is a responsible person registered under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities for Beijing Securities Limited and has over 29 years of experience in the accounting and financial services industry.*

## 1. RESPONSIBILITY OF THE DIRECTORS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

## 2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions, by Directors of Listed Issuers contained in the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

### (a) Interest in the Company – Long Positions

Name of Directors	Number of ordinary Shares held		Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of the Company
	Personal interests	Other interests (Note 1)			
BO Lianming	1,018,994	831,989	6,001,268	7,852,251	0.45%
WANG Cheng	334,475	368,327	2,504,309	3,207,111	0.18%
YAN Xiaolin	37,700	68,508	1,282,153	1,388,361	0.08%
WANG Yi	1,032,025	611,327	3,273,582	4,916,934	0.28%
Albert Thomas DA ROSA, Junior	63,333	–	194,410	257,743	0.01%
HUANG Xubin	1,122,065	71,646	589,965	1,783,676	0.10%
LIU Hong	–	–	80,162	80,162	0.005%
Robert Maarten WESTERHOF	30,000	–	194,410	224,410	0.01%
WANG Yijiang	–	–	122,630	122,630	0.01%

**(b) Interest in Associated Corporation of the Company - Long Positions****(i) TCL Corporation (Note 3)**

Name of Directors	Number of ordinary shares held		Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Corporation (Note 4)
	Personal interests	Other interests			
BO Lianming	4,058,801	–	–	4,058,801	0.03%
YAN Xiaolin	599,500	–	–	599,500	0.005%
HUANG Xubin	3,383,380	–	–	3,383,380	0.03%

**(ii) Tonly Electronics Holdings Limited (“Tonly Electronics”) (Note 6)**

Name of Directors	Number of ordinary shares held		Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of Tonly Electronics (Note 4)
	Personal interests	Other interests (Note 7)			
WANG Cheng	4,153	6,047	33,463	43,663	0.016%
YAN Xiaolin		23,661	87,285	110,946	0.04%
HUANG Xubin	24,737	–	91,255	115,992	0.04%

**(iii) Shenzhen China Star Optoelectronics Technology Co. Ltd. (“CSOT”) (Note 8)**

Name of Directors	Number of ordinary shares held (Note 9)	Approximate percentage of issued share capital of CSOT

*Notes:*

- These interests are restricted shares that have been granted to the relevant directors under the Award Scheme of the Company and were not vested as at the Latest Practicable Date.
- The percentages are calculated based on the issued share capital of the Company as at the Latest Practicable Date, i.e. 1,746,677,211 Shares.
- TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

4. The percentages are calculated based on the issued share capital of the relevant associated corporations as at the Latest Practicable Date provided by the relevant associated corporations.
5. The percentages are calculated based on the number of issued shares as of 7 November 2017 disclosed by Tonly Electronics on the website of the Stock Exchange.
6. Tonly Electronics is a subsidiary of TCL Corporation.
7. These interests are restricted shares that have been granted to the relevant directors under the award scheme of Tonly Holdings and were not vested as at the Latest Practicable Date.
8. CSOT is a subsidiary of TCL Corporation.
9. CSOT is a PRC entity without share capital. As at the Latest Practicable Date, Mr. BO Lianming was deemed to be interested in CSOT since he owned Linzhou Star Ripple Venture Capital Partnership (Limited Partnership) 林周星澗創業投資管理合夥企業(有限公司) (formerly known as Tibet Shannan Star Ripple Venture Capital Partnership (Limited Partnership) (西藏山南星澗創業投資管理合夥企業(有限公司))) as to approximately 59.04%, which in turn was interested in CSOT.

Save as disclosed in this paragraph 2, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

#### (a) Long Positions in shares of the Company

Name of Shareholder	Capacity	No. of Shares held	Approximate percentage of issued share capital of the Company (Note 2)
TCL Corporation	Interest of controlled corporation	905,322,475 (Note 1)	51.83%
Jia Yueting 賈躍亭	Interest of controlled corporation	348,850,000	19.97%

Name of Shareholder	Capacity	No. of Shares held	Approximate percentage of issued share capital of the Company (Note 2)
Leshi Internet Information and Technology Corp., Beijing (樂視網信息技術(北京)股份有限公司)	Interest of controlled corporation	348,850,000	19.97%
Leshi Zhixin	Interest of controlled corporation	348,850,000	19.97%
Letv ZhiXin Investment (HK) Ltd. 樂視致新投資(香港)有限公司	Beneficial owner	348,850,000	19.97%
Sun Hongbin 孫宏斌	Interest of controlled corporation	348,850,000	19.97%
Sunac China Holdings Limited	Interest of controlled corporation	348,850,000	19.97%
Sunac International Investment Holdings Ltd	Interest of controlled corporation	348,850,000	19.97%
Tianjin Yingrui Huixin Corporate Management Co., Ltd. 天津盈瑞匯鑫企業管理有限公司	Interest of controlled corporation	348,850,000	19.97%
Wang Peng 王鵬	Interest of controlled corporation	348,850,000	19.97%
Zheng Fu 鄭甫	Interest of controlled corporation	348,850,000	19.97%

## Notes:

1. TCL Corporation was deemed to be interested in 905,322,475 Shares held by T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a direct wholly-owned subsidiary of TCL Corporation.
2. The percentages are calculated based on the issued share capital of the Company as at the Latest Practicable Date, i.e. 1,746,667,211 Shares.

3. The following directors are directors/employees of TCL Corporation who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:
- (a) Mr. WANG Cheng is the Vice President of TCL Corporation;
  - (b) Mr. BO Lianming is an executive director, a member of the executive committee and president of TCL Corporation;
  - (c) Mr. YAN Xiaolin is a member of the executive committee, a senior vice president and the chief technology officer, and the president of TCL Corporate Research of TCL Corporation; and
  - (d) Mr. HUANG Xubin is an executive director a member of the executive committee, and the chief financial officer of TCL Corporation.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the directors and chief executive of the Company whose interests are set out in the section “**Directors**’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

**(b) Interests in subsidiaries of the Company**

There is no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at the Latest Practicable Date, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a subsidiary of the Company.

**4. MATERIAL ADVERSE CHANGES**

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since the date to which the latest published audited accounts for the financial year ended 31 December 2016 of the Group were made up.



**5. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**6. DIRECTORS' INTEREST IN THE GROUP'S ASSETS**

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which was subsisting and significant in relation to the business of the Group

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, the Directors were not aware that any of them had interests in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

**8. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

**9. EXPERT AND CONSENT**

The following is the qualifications of the expert who has given opinion or advice, which are contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Beijing Securities Limited	A licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO

Beijing Securities Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 27 November 2017 and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Beijing Securities Limited did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) any direct or indirect interest in any assets which have, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by, of leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

## 10. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into the ordinary course of business, were entered into by the Company or any of its Subsidiaries which are or may be material:

- (a) the Master TCL Trademark License (2017 Renewal) Agreement entered into between the Company and TCL Corporation on 29 September 2017, pursuant to which TCL Corporation Group has granted to the Group an exclusive (subject to certain limited exceptions which are related to some existing obligations or business of TCL Corporation), non-sub-licensable and non-transferable license to use certain of its registered trademarks for the manufacture, production, sale and distribution of Multimedia Products in the territories as specified in the Master TCL Trademark License (2017 Renewal) Agreement. The Group is also entitled (subject to certain exceptions) to use the trademark “TCL” as part of its business name and in all business applications in which a company’s name is commonly used;
- (b) the Master Qianhai Sailing Cooperation (2017) Agreement entered into between the Company and Shenzhen Qianhai Sailing Supply Chain Management Co. Ltd.\* (深圳前海啟航供應鏈管理有限公司) on 29 September 2017, pursuant to which Qianhai Sailing Group will source those articles, things, components or raw materials which are required for the manufacturing or production of the electronic products including televisions, audiovisual products and commercial use display products manufactured, produced or otherwise sold or distributed by the Group for the Group in accordance with the Group’s production need;
- (c) the Master Strategic Cooperation (2017 Renewal) Agreement entered into between the Company and TCL Corporation on 29 September 2017, pursuant to which comprehensive and extensive R&D Service will be provided by TCL Corporation Group to the Group;

- (d) the capital increase agreement the capital increase agreement entered into among the Company, FFalcon Technology Holding Limited (“**FFalcon**”), Shenzhen Zhida Tafang Technology Partnership (Limited Partnership)\* (深圳智達拓方科技合夥企業(有限合夥)), Shenzhen Lexiang Tengsheng Technology Partnership (Limited Partnership)\* (深圳樂享騰生科技合夥企業(有限合夥)), Shenzhen Qianhai Fende Investment Company Limited\* (深圳市前海芬德投資有限公司), Tencent Digital (Shenzhen) Company Limited\* (騰訊數碼(深圳)有限公司) (“**Tencent Digital**”) and Shenzhen Thunderbird Network Technology Company Limited\* (深圳市雷鳥網絡科技有限公司)(“**Thunderbird Technology**”) dated 2 July 2017, pursuant to which Tencent Digital and FFalcon agreed to make capital contribution of RMB450 million and RMB30 million, respectively, to Thunderbird Technology. The capital increase completed on 1 September 2017;
- (e) the master financial services agreement dated 21 March 2017 entered into among the Company, TCL Corporation, TCL Finance Co., Ltd.\* (TCL集團財務有限公司) and TCL Finance (Hong Kong) Co., Limited in respect of the provision of certain deposit services, financing services, other financial services and promotion services;
- (f) the factoring contract entered into between TCL Overseas Electronics (Huizhou) Limited\* (TCL海外電子(惠州)有限公司) (“**TCL Overseas Electronics**”) and Chongqing Leshi Commercial Factoring Company Limited\* (重慶樂視商業保理有限公司) (“**Chongqing Leshi**”) dated 8 February 2017, pursuant to which Chongqing Leshi had agreed to provide Factoring Services to TCL Overseas Electronics subject to the conditions and in accordance with the terms thereof;
- (g) the Jiangxi shareholders’ agreement entered into between Huihaitong Network and Technology Co. Ltd.\* (南昌滙海通網絡科技有限公司) and Jiangxi Province Broadcasting and Television Network Communication Co. Ltd.\* (江西省廣播電視網絡傳輸有限公司) dated 29 December 2016 in respect of the establishment of Jiangxi Broadcasting and Television Network Electronic Business Co. Ltd.\* (江西廣電網絡電子商務有限公司);
- (h) the seven factoring contracts, all containing the same major terms, entered into between the Company and Chongqing Leshi, and four of which were dated 1 November 2016 whilst three of which were dated 2 November 2016, pursuant to which Chongqing Leshi had agreed to provide Factoring Services to TCL Overseas subject to the conditions and in accordance with the terms thereof;
- (i) the Huihaitong shareholders’ agreement entered into among Shenzhen Huizhi Internet Technology Investment Co. Ltd.\* (深圳滙智互聯科技投資有限公司), Huizhou Kuyu Network and Technology Co. Ltd.\* (惠州酷友網絡科技有限公司) and Nanchang Changyu Intelligent Technology Co. Ltd.\* (南昌昌宇智能科技有限公司) on 23 March 2016, pursuant to which the parties agreed to, among others, invest in Nanchang Huihaitong Network and Technology Co. Ltd.\* (南昌滙海通網絡科技有限公司) with a total capital of RMB15 million in the proportion of 60%, 10% and 30%, respectively;

- (j) the subscription agreement entered into between the Company and Leshi Zhixin on 11 December 2015, pursuant to which, Leshi Zhixin or its wholly-owned subsidiary established in Hong Kong designated by it agreed to conditionally subscribe and pay for 348,850,000 fully paid subscription shares at the subscription price of HK\$6.50 per subscription share according to the terms and subject to the conditions thereof. The ordinary resolution in respect of the subscription agreement was approved at the general meeting on 14 January 2016 and the subscription was completed on 11 May 2016; and
- (k) the Supplemental Agreement entered into among the Company, Qianhai Sailing and TCL Corporation on 27 November 2017 in respect of the Master Sale And Purchase (2017) Agreement, the Master Sourcing (2017 Renewal) Agreement and the Master Qianhai Sailing Cooperation (2017) Renewal Agreement.

#### **11. MISCELLANEOUS**

- (a) The registered office of the Company is situated at P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business in Hong Kong at 7th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (b) The Company's Hong Kong branch share registrar and transfer office is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The secretary of the Company is Ms. Choy Fung Yee, a practising solicitor of Hong Kong.
- (d) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

#### **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 7th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, for a period of 14 days from the date of this circular:

- (a) the memorandum and articles of association and the bye-laws of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016 respectively;
- (c) Master Sale and Purchase (2017) Agreement;
- (d) Master After Sale Service (2017) Agreement;
- (e) Master TCL Trademark License (2017 Renewal) Agreement;

- (f) Master Logistics Service Supply (2017 Renewal) Agreement;
- (g) Master Sourcing (2017 Renewal) Agreement;
- (h) Master Qianhai Sailing Cooperation (2017 Renewal) Agreement;
- (i) Supplemental Agreement;
- (j) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (k) this circular;
- (l) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (m) the letter from Beijing Securities Limited, the text of which is set out in this circular;
- (n) the written consent from Beijing Securities Limited referred to in the section headed “EXPERT AND CONSENT” in this appendix; and
- (o) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company.

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## **APPENDIX II                      DETAILS OF DIRECTORS STANDING FOR ELECTION**

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Set out below are details of the Directors who are proposed to be elected at the EGM.

### **1.     MR. KEVIN WANG CHENG**

Mr. Kevin WANG Cheng, aged 43, a member of Management Team of the Company, joined the Company in July 1997, is currently holding the position of COO of the Company, General Manager of the China Division and General Manager of Supply Chain Management Center of the Company, and Vice President of TCL Corporation. During 1997 to 2006, he took roles of HR Department of China Sales Center and Europe Channel Customers Department of Strategic OEM Business Center of TTE. From 2007 to 2015, he successively worked as General Manager of TCL Vietnam Corporation Limited, General Manager of Overseas Business Center and Vice President of the Company. From June 2015 to July 2016, Mr. WANG was assigned as HR Director and General Manager of Human Resource Management Center of TCL Corporation. Starting from July 2016, he became a member of Management Team of the Company as well as General Manager of Supply Chain Management Center. Since January 2017, he has been 5 the COO of the Company and the General Manager of the China Division since February 2017. Mr. WANG graduated from Heilongjiang Commercial College in 1997 with a Bachelor Degree in Economics. In 2005, he acquired a Master Degree of Executive Business Administration from University of Texas at Arlington.

### **2.     MR. MICHAEL WANG YI**

Mr. Michael WANG Yi, aged 40, a member of Management Team of the Company, is currently holding the position of CFO of the Company. Since joining the Company in September 2013, he had held the positions of Vice President and Financial Controller of the Company. From 1999 to 2001, Mr. WANG worked successively as a Cost Accountant and Budget Supervisor in Financial Department in Compressor Business Unit of Midea Group. In 2002, he was transferred to work as a Planning and Investment Manager in Business Strategy and Investment Management Department of Midea Group. From 2003 to 2009, he was transferred to serve as Head of Business Management Department and Finance Department in the Microwave Electronics Business Unit of Midea Group. From 2009 to 2012, he worked as the First Vice President to oversee Finance, HR, IT and Legal affairs in Twins Group. Mr. WANG graduated from Jiangxi University of Finance and Economics in 1998 and holds a Bachelor Degree in Accounting. In 2008, he acquired a Master Degree of EMBA from China Europe International Business School.

Save as disclosed above, Mr. Kevin WANG Cheng and Mr. Michael WANG Yi do not at present, and did not in the past three years, hold any directorship in any other listed public companies or any other position with the Company or any other members of the Group.

As at the Latest Practicable Date, Mr. Kevin WANG Cheng and Mr. Michael WANG Yi were deemed to be interested respectively in the Company and its associated corporations as follows:

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## APPENDIX II                      DETAILS OF DIRECTORS STANDING FOR ELECTION

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1. Mr. Kevin WANG Cheng was deemed to be interested in:
  - (a) 334,475 shares of the Company (the “**Shares**”);
  - (b) share options entitling to subscribe 2,504,309 Shares;
  - (c) 368,327 unvested award shares of the Company;
  - (d) 4,153 shares of Tonly Electronics Holdings Limited (“**Tonly Electronics**”, an associated corporation of the Company under Part XV of the SFO);
  - (e) share options entitling to subscribe 33,463 shares of Tonly Electronics; and
  - (f) 6,047 unvested award shares of Tonly Electronics.
  
2. Mr. Michael WANG Yi was deemed to be interested in:
  - (a) 1,032,025 Shares of the Company;
  - (b) share options entitling to subscribe 3,273,582 Shares; and
  - (c) 611,327 unvested award shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, each of Mr. Kevin WANG Cheng and Mr. Michael WANG Yi has no interest in the shares of the Company and its associated corporations within the meaning of Part XV of the SFO and does not have any relationship with any other directors, senior management or any substantial or controlling Shareholders.

A service contract has been entered into between each of Mr. Kevin WANG Cheng and Mr. Michael WANG Yi and the Company. Each of Mr. Kevin WANG Cheng and Mr. Michael WANG Yi is not entitled to any directors’ fee, subject to annual review by the remuneration committee, but he is entitled to receive discretionary bonus payment or other benefits as may be determined by the remuneration committee with reference to his duties and responsibilities in the Company and the market rate for the position.

The appointment of Mr. Kevin WANG Cheng and Mr. Michael WANG Yi shall be subject to the approval by the Shareholders at the EGM and retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company and the Listing Rules.

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## APPENDIX II                      DETAILS OF DIRECTORS STANDING FOR ELECTION

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Save as disclosed above, there is no other information which is discloseable nor is/was Mr. Kevin WANG Cheng and Mr. Michael WANG Yi involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(w) of the Listing Rules. The Board is not aware of any other matters which need to be brought to the attention of the Shareholders.

### 3.     **MR. ZHANG ZHIWEI**

Mr. ZHANG Zhiwei (“**Mr. ZHANG**”), aged 42, graduated from Fudan University. Mr. ZHANG has served various positions such as the Promotion Director (Northern Area) of the Air Conditioner Operation Department of Midea Group Company Limited (000333.SZ), a company listed on the Shenzhen Stock Exchange (the “SZSE”), General Manager of Order Center of Shanghai Xinhua Media Company Limited (600825.SH), a company listed on the Shanghai Stock Exchange, General Manager of E-Commerce Department of Hisense Kelon Electrical Holdings Company Limited, a company dually listed on the Stock Exchange and the SZSE (921.HK; 000921.SZ), General Manager of Brown Goods Operation Department of JD.com, Inc., a company listed on the NASDAQ in the United States of America (NASDAQ: JD). Mr. ZHANG joined Leshi Internet Information & Technology Corporation, Beijing (300104.SZ) (“Le.com”), a company listed on the SZSE, as Vice President of Sales of Leshi Zhixin, a subsidiary of Le.com, and was responsible for the sales of LeTV Super TV and Internet set-top box and then became the officer in charge of LeEco O2O and LePar. In November 2016, Mr. ZHANG became the President of Sales and Service Platform of LeEco O2O. Since September 2017, Mr. ZHANG has been the CEO of LeTV Zhixin and Senior Vice President of Le.com.

A letter of appointment will be entered into between Mr. ZHANG and the Company. Mr. ZHANG is entitled to a proportional director’s fee calculated on the basis of HK\$225,000 per annum plus discretionary bonus, which is determined by the Board based on the recommendation by the remuneration committee of the Company, with reference to his duties and responsibilities with the Company and the market rate for the position.

Mr. ZHANG is appointed for an initial term of three years commencing from 21 November 2017 and shall be subject to the approval by the shareholders of the Company at the EGM and retirement by rotation and re-election at general meetings of the Company in accordance with the articles of association of the Company and the Listing Rules of the Stock Exchange.

Save as disclosed herein, as at the Latest Practicable Date, (i) Mr. ZHANG does not hold any position in the Company or any subsidiary of the Company nor have any relationship with any director, senior management or substantial or controlling Shareholders (as defined in the Listing Rules) of the Company; (ii) Mr. ZHANG does not hold and has not held any directorship in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, or other major appointments; and (iii) Mr. ZHANG does not have, and is not deemed to have, any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which is required to be disclosed under Part XV of the SFC.



Save as disclosed herein, there is no information relating to Mr. ZHANG which is required to be disclosed pursuant to Rules 13.51(2)(h) to 2(v) of the Listing Rules of the Stock Exchange. The Board is not aware of any information relating to the appointment of Mr. ZHANG which needs to be brought to the attention of the shareholders of the Company.

#### **4.     MR. LAU SIU KI**

Mr. LAU Siu Ki (“**Mr. LAU**”), aged 59, graduated from Hong Kong Polytechnic in 1981. He is currently a financial advisory consultant of his management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. LAU worked at Ernst & Young for over 15 years. He has over 35 years of experience in corporate governance, corporate financing, financial advisory and management, accounting and audit. Mr. LAU is currently a fellow member of both of the Association of Chartered Certified Accountants (“ACCA”) and the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Mr. LAU was a member of the World Council of ACCA from 2002 to 2011 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA.

Currently, Mr. LAU also serves as an independent non-executive director of Binhai Investment Company Limited (2886.HK), China Medical & HealthCare Group Limited (383.HK) (formerly known as COL Capital Limited and renamed to its current name in February 2016), Comba Telecom Systems Holdings Limited (2342.HK), Embry Holdings Limited (1388.HK), Samson Holding Ltd. (531.HK) and FIH Mobile Limited (2038.HK), all being listed companies on the Stock Exchange. He is also the company secretary of Hung Fook Tong Group Holdings Limited (1446.HK), Yeebo (International Holdings) Limited (259.HK) and Expert Systems Holdings Limited (8319.HK), all being listed companies on the Stock Exchange. From March 2015 to March 2016 and from April 2004 to September 2016, Mr. LAU served as an independent non-executive director of UKF (Holdings) Limited (1468.HK) and TCL Communication Technology Holdings Limited respectively. TCL Communication Technology Holdings Limited, the shares of which were listed on the Stock Exchange from September 2004 to September 2016 and its former stock code was 2618.HK, is a subsidiary of TCL Corporation, the ultimate controlling company of the Company. From June 2014 to June 2017, Mr. LAU served as an independent supervisor of the sixth session of Beijing Capital International Airport Company Limited (694.HK).

A letter of appointment will be entered into between Mr. LAU and the Company. Mr. LAU is entitled to a proportional director’s fee calculated on the basis of HK\$300,000 per annum plus discretionary bonus, which is determined by the Board based on the recommendation by the remuneration committee of the Company, with reference to his duties and responsibilities with the Company and the market rate for the position.

Mr. LAU is appointed for an initial term of three years commencing from 3 November 2017 and shall be subject to the approval by the Shareholders at the next EGM and retirement by rotation and re-election at general meetings of the Company in accordance with the articles of association of the Company and the Listing Rules.

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**APPENDIX II                      DETAILS OF DIRECTORS STANDING FOR ELECTION**

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Save as disclosed herein, as at the Latest Practicable Date, (i) Mr. LAU does not hold any position in the Company or any subsidiary of the Company nor have any relationship with any director, senior management or substantial or controlling shareholders of the Company (as defined in the Listing Rules) of the Company; (ii) Mr. LAU does not hold and has not held any directorship in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, or other major appointments; and (iii) Mr. LAU does not have, and is not deemed to have, any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which is required to be disclosed under Part XV of the SFO.

Save as disclosed herein, there is no information relating to Mr. LAU which is required to be disclosed pursuant to Rules 13.51(2)(h) to 2(v) of the Listing Rules. The Board is not aware of any information relating to the appointment of Mr. LAU which needs to be brought to the attention of the Shareholders.

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## NOTICE OF EGM

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The logo for TCL, consisting of the letters "TCL" in white, bold, sans-serif font, centered within a red square.

### TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

TCL 多媒體科技控股有限公司

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

(Stock Code: 01070)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of TCL Multimedia Technology Holdings Limited (the “Company”) will be held at 8/F., Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, on 22 December 2017, Friday, at 2:30 p.m., to consider and, if thought fit, pass the following ordinary resolutions (with or without modifications):

#### ORDINARY RESOLUTIONS

1. **“THAT**

- (a) the Master Sale and Purchase (2017) Agreement (as defined in the circular of the Company dated 27 November 2017 (the “**Circular**”)), the terms and the transactions thereunder (a copy of the Master Sale and Purchase (2017) Agreement and a copy of the Supplemental Agreement have been produced to the meeting and marked “A” and “G” respectively and initialed by the chairman of the meeting for the purposes of identification), together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2020 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Master Sale and Purchase (2017) Agreement or the transactions contemplated thereby.”

2. **“THAT**

- (c) the Master After Sale Service (2017) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of the agreement has been produced to the meeting and marked “B” and initialed by the chairman of the meeting for the purposes of identification), together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2020 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (d) any director of the Company be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Master After Sale Service (2017) Agreement or the transactions contemplated thereby.”

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## NOTICE OF EGM

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3. **“THAT**

- (a) the Master TCL Trademark License (2017 Renewal) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of the agreement has been produced to the meeting and marked “C” and initialed by the Chairman of the meeting for the purpose of identification) together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2020 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Master TCL Trademark License (2017 Renewal) Agreement or the transactions contemplated thereby.”

4. **“THAT**

- (a) the Master Logistics Service Supply (2017 Renewal) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of the agreement has been produced to the meeting and marked “D” and initialed by the chairman of the meeting for the purposes of identification), together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2020 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Master Logistics Service Supply (2017 Renewal) Agreement or the transactions contemplated thereby.”

5. **“THAT**

- (a) the Master Sourcing (2017 Renewal) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of the Master Sourcing (2017 Renewal) Agreement and a copy of the Supplemental Agreement have been produced to the meeting and marked “E” and “G” respectively and initialed by the chairman of the meeting for the purposes of identification), together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2020 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Master Sourcing (2017 Renewal) Agreement or the transactions contemplated thereby.”

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## NOTICE OF EGM

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6. **“THAT**
- (a) the Master Qianhai Sailing Cooperation (2017) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of the Master Qianhai Sailing Cooperation (2017) Agreement and a copy of the Supplemental Agreement have been produced to the meeting and marked “F” and “G” respectively and initialed by the chairman of the meeting for the purposes of identification), together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2020 as set out in the Circular be and are hereby approved, confirmed and ratified; and
  - (b) any director of the Company be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Master Qianhai Sailing Cooperation (2017) Agreement or the transactions contemplated thereby.”
7. To elect Mr. Kevin WANG Cheng as an executive Director.
8. To elect Mr. Michael WANG Yi as an executive Director.
9. To elect Mr. ZHANG Zhiwei as a non-executive Director to hold office until the conclusion of the annual general meeting of 2020.
10. To elect Mr. LAU Siu Ki as an independent non-executive Director to hold office until the conclusion of the annual general meeting of 2020.
11. To authorise the Board to fix the Directors’ remuneration.

One behalf of the Board  
**BO Lianming**  
*Chairman*

Hong Kong, 27 November 2017

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## NOTICE OF EGM

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*Notes:*

1. A member of the Company who is holder of two or more shares, and who is entitled to attend and vote at the meeting, is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. A form of proxy for the EGM is enclosed to the notice of the EGM. In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged at the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
3. Record date (being the last date of registration of any transfer of Share given there will be no closure of register of members) for the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM will be on 15 December 2017, Friday. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 14 December 2017, Thursday.

*As at the date of this circular, the Board comprises Mr. BO Lianming, Mr. WANG Cheng Kevin, Mr. YAN Xiaolin and Mr. WANG Yi Michael as executive directors, Mr. Albert Thomas DA ROSA, Junior, Mr. HUANG Xubin, Mr. ZHANG Zhiwei and Mr. LIU Hong 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.*