
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 ELECTRONICS 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 ELECTRONICS HOLDINGS LIMITED****TCL 電子控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

CONTINUING CONNECTED TRANSACTIONS

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



PELICAN FINANCIAL LIMITED

A letter from the Board is set out on pages 7 to 38 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on page 39 of this circular. A letter from Pelican Financial Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders is set out on pages 40 to 77 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 8 July 2019, Monday at 3:00 p.m. is set out on pages 83 to 84 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.

19 June 2019

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DEFINITIONS

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

“2017 Renewal Agreements”	the Master Sale and Purchase (2017) Agreement, the Master After Sale Service (2017) Agreement, the Master TCL Trademark License (2017 Renewal) Agreement, the Master Logistics Service Supply (2017 Renewal) Agreement, the Master Sourcing (2017 Renewal) Agreement, the Master Qianhai Sailing Cooperation (2017 Renewal) Agreement, the Master Strategic Cooperation (2017 Renewal) Agreement, the Master Subcontracting (2017 Renewal) Agreement, and the Master Service (2017 Renewal) Agreement entered into by the Company with TCL Corporation and/or its then associates on 29 September 2017, and each a “2017 Renewal Agreement” separately;
“2018 Master Services Agreement”	the 2018 master services agreement dated 31 October 2018 entered into between the Company and TCL Corporation;
“2019 April Announcement”	the announcement of the Company dated 10 April 2019;
“2019 June Announcement”	the announcement of the Company dated 14 June 2019;
“Agreements”	the agreements for the Non-exempt Transactions, namely the Master Sale and Purchase (2019–2021) Agreement, the Master Services (2019–2021) Agreement and the Master Brand Promotion (2019–2021) Agreement and each an “Agreement” separately;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“CI Tech”	TCL Commercial Information Technology (Huizhou) Limited (TCL商用信息科技(惠州)有限公司), a company with limited liability established under the laws of the PRC and a wholly-owned subsidiary of the Company;
“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;
“Company”	TCL Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01070);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, approve the Non-exempt Transactions;
“Electronics Products”	(i) any electronic consumer products including but not limited to TVs, audio-visual products and commercial use display products manufactured, produced or otherwise sold or distributed by the Group; (ii) any articles, things, components or raw materials required for the manufacture or production of TCL Associates Products; and (iii) any waste products arising from manufacturing or production of electronic consumer goods by the Group;
“Electronics Services”	services which may be provided by the Group, including but not limited to Platform Services for consumer and electronic products (including but not limited to those manufactured and sold by the Group), subcontracting services, after sale services, logistics services, human resources services and IT and Other Services;
“Former Agreements”	collectively the 2017 Renewal Agreements, the Master Financial Services (2017 Renewal) Agreement and the 2018 Master Services Agreement;
“Goods”	the Electronics Products or the TCL Associates Products (as the case may be);
“Group”	the Company and its Subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board established for the purpose of reviewing the terms of and the proposed annual caps for the Non-exempt Transactions;
“Independent Financial Adviser” or “Pelican Financial Limited”	Pelican Financial Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong), being the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Shareholders in respect of the terms 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 directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its Subsidiaries and their respective associates;

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“IT”	information technology;
“IT and Other Services”	services on sourcing of IT assets, investment and development of IT projects, IT procurement services, investment and development of smart production projects (including but not limited to IT investment and investment in optimizing smart production of the above items) for consumer and electronic products (excluding TVs) and such other relating services;
“Latest Practicable Date”	14 June 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“LCD”	liquid crystal display;
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange;
“Master After Sale Service (2017) Agreement”	the master after sale service (2017) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Master Brand Promotion (2019–2021) Agreement”	the Master Brand Promotion (2019–2021) Agreement dated 14 June 2019 entered into between the Company and TCL Holdings;
“Master Financial Services (2017 Renewal) Agreement”	the master financial services (2017 renewal) agreement dated 21 March 2017 entered into among the Company, TCL Corporation, TCL Finance (Hong Kong) Co., Limited and TCL Finance Co., Ltd.;
“Master Logistics Service Supply (2017 Renewal) Agreement”	the master logistics service supply (2017 renewal) agreement dated 29 September 2017 entered into between the Company and Speedex Logistics Co. Ltd.;
“Master Qianhai Sailing Cooperation (2017 Renewal) Agreement”	the master Qianhai sailing cooperation (2017 Renewal) agreement dated 29 September 2017 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);
“Master Sale and Purchase (2017) Agreement”	the master sale and purchase (2017) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Master Sale and Purchase (2019) Agreement”	the master sale and purchase (2019) agreement dated 10 April 2019 entered into among the Company, TCL Industries and various other TCL Associates;
“Master Sale and Purchase (2019–2021) Agreement”	the master sale and purchase (2019–2021) agreement dated 14 June 2019 entered into between the Company and TCL Holdings;

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“Master Service (2017 Renewal) Agreement”	the master service (2017 renewal) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Master Services (2019) Agreement”	the master services (2019) agreement dated 10 April 2019 entered into among the Company, TCL Industries and various other TCL Associates;
“Master Services (2019–2021) Agreement”	the master services (2019–2021) agreement dated 14 June 2019 entered into between the Company and TCL Holdings;
“Master Sourcing (2017 Renewal) Agreement”	the master sourcing (2017 renewal) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Master Strategic Cooperation (2017 Renewal) Agreement”	the master strategic cooperation (2017 renewal) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Master Subcontracting (2017 Renewal) Agreement”	the master subcontracting (2017 renewal) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Master TCL Trademark License (2017 Renewal) Agreement”	the master TCL trademark license (2017 renewal) agreement dated 29 September 2017 entered into between the Company and TCL Corporation;
“Non-exempt Transactions”	the transactions under the Master Sale and Purchase (2019–2021) Agreement, Master Services (2019–2021) Agreement and Master Brand Promotion (2019–2021) Agreement, together with their respective proposed annual caps;
“ODM”	original design manufacturing;
“OEM”	original equipment manufacturing;
“Platform Services”	services for optimization of operation, sales and marketing of goods or products and/or other relevant supporting services;
“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;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale of Electronics Products”	the sale of the Electronics Products by the Group to TCL Associates pursuant to the Master Sale and Purchase (2019–2021) Agreement;
“Services”	the Electronics Services or the TCL Associates Services, as the case may be;

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“Service Fees”	the fees to be paid by relevant member(s) of the Group or TCL Associates for the provision of the relevant Services pursuant to the Master Services (2019–2021) Agreement;
“Shareholder(s)”	holder(s) of share(s) of the Company;
“Shareholders’ Approval Date”	the date on which the Shareholders of the Company approve the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps;
“Sourcing of TCL Associates Products”	the purchase by the Group from the relevant TCL Associates of the TCL Associates Products pursuant to the Master Sale and Purchase (2019–2021) Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly;
“TCL Associates”	the associate(s) of TCL Holdings;
“TCL Associates Products”	(i) any goods or appliances including but not limited to electronic, telecommunications, IT 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 Associates pursuant to the Master Sale and Purchase (2019–2021) Agreement; (ii) any articles, things, components or raw materials required for manufacturing or production of any Electronics Products; and (iii) any waste products arising from manufacturing or production of any goods or appliances by TCL Associates;
“TCL Associates Services”	certain operational services which may be provided by TCL Associates, including but not limited to Platform Services for consumer and electronic products, IT services and internet TV services;
“TCL Brand Management Centre”	a department specialised in maintaining, promoting and upholding the image of “TCL” brand;
“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 shares of which are listed on Shenzhen Stock Exchange (stock code: 000100);

DEFINITIONS

“TCL Corporation Group”	TCL Corporation and its Subsidiaries and any entity that may become Subsidiary of TCL Corporation from time to time;
“TCL Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), formerly known as TCL Industries Holdings (Guangdong) Inc.* (TCL實業控股(廣東)股份有限公司), a company established under the laws of the PRC with limited liability;
“TCL Holdings Group”	TCL Holdings and its Subsidiaries and any entity that may become Subsidiary of TCL Holdings from time to time, and for the purpose of this circular excludes the Group and for the purpose of the Agreements and the transactions contemplated thereunder include TCL Associates;
“TCL Industries”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong; an immediate controlling shareholder of the Company; and a wholly-owned Subsidiary of TCL Holdings;
“Temporary Agreements”	collectively the Master Sale and Purchase (2019) Agreement and the Master Services (2019) Agreement, and each a “Temporary Agreement”;
“TV(s)”	television(s); and
“%”	per cent.

The English translation of Chinese names or words in this circular, 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.*

LETTER FROM THE BOARD



TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

Executive Directors:

LI Dongsheng (*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

YANG Anming

LI Yuhao

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

19 June 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the 2019 June Announcement.

As disclosed in the 2019 June Announcement, on 14 June 2019 (after trading hours), the Company entered into various agreements with TCL Holdings and the transactions contemplated thereunder constitute continuing connected transactions, including the following three agreements:

1. Master Sale and Purchase (2019–2021) Agreement;
2. Master Services (2019–2021) Agreement; and
3. Master Brand Promotion (2019–2021) Agreement.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the respective annual caps of the above three agreements (i.e. agreements for the Non-exempt Transactions) exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, Shareholders' approval and annual review requirements under Chapter 14A 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 annual caps; (ii) to set out the recommendation of the Independent Board Committee to the Shareholders and the advice of the Independent Financial Adviser to the Independent Board Committee and the Shareholders in relation to the Non-exempt Transactions; and (iii) to give the Shareholders the notice of the EGM and other information in accordance with the requirements of the Listing Rules.

BACKGROUND

Prior to April 2019, the Group had from time to time been conducting continuing connected transactions with various entities which by that time were associates of TCL Corporation, the then controlling shareholder of the Company (through TCL Industries) and the Company had entered into various continuing connected transactions agreements with TCL Corporation to govern such transactions. In particular, the Company entered into the following Former Agreements with TCL Corporation which remain in effect as at the Latest Practicable Date:

- (A) On 21 March 2017, the Company entered into the Master Financial Services (2017 Renewal) Agreement with TCL Corporation, TCL Finance (Hong Kong) Co., Limited and TCL Finance Co., Ltd. for a duration covering the three financial years ending 31 December 2017, 2018 and 2019. For details of the Master Financial Services (2017 Renewal) Agreement, please refer to the announcement of the Company dated 21 March 2017 and circular of the Company dated 19 April 2017;
- (B) On 29 September 2017, the Company entered into the 2017 Renewal Agreements with TCL Corporation and/or its then associates with a duration covering the three financial years ending 31 December 2018, 2019 and 2020. For details of each of the 2017 Renewal Agreements, please refer to the announcement of the Company dated 29 September 2017 and the announcement and the circular of the Company dated 27 November 2017; and
- (C) Further, on 31 October 2018, the Company entered into the 2018 Master Services Agreement with TCL Corporation for a duration of three financial years ending 31 December 2018, 2019 and 2020. For details of the 2018 Master Services Agreement, please refer to the announcements of the Company dated 31 October 2018 and 6 November 2018.

In the first quarter of 2019, a restructuring (the "Restructuring") involving certain then subsidiaries and associates of TCL Corporation occurred, whereby TCL Corporation spun off, among others, all its equity interests in TCL Industries, together with its equity interests in various of its associates (including those with which the Group had been conducting continuing connected transactions) to TCL Holdings.

LETTER FROM THE BOARD

As the spin-off by TCL Corporation of all its ownership interest in, among others, TCL Industries to TCL Holdings had been completed by 31 March 2019, TCL Corporation ceased to be a connected person of the Company since then. Accordingly, the transactions between the Group and TCL Corporation Group ceased to be continuing connected transactions since then.

As disclosed in the 2019 April Announcement, in view of a change in certain connected persons (due to the Restructuring), as a short-term arrangement, the Company entered into the Temporary Agreements with various TCL Associates so as to meet the Company's business needs in its daily operation. As all of the applicable percentage ratios (other than the profits ratio) with reference to the respective annual caps of each of the Temporary Agreements were less than 5%, the continuing connected transactions contemplated thereunder were exempted from the Shareholders' approval requirement pursuant to Rule 14A.76(2)(a) of the Listing Rules. For details of the Temporary Agreements, please refer to the 2019 April Announcement.

Following the completion of the Restructuring and the entering into of the Temporary Agreements and as at the Latest Practicable Date:

- (i) no transaction with members of TCL Holdings Group had been or would be carried under the Former Agreements entered into between the Company and TCL Corporation regarding the then continuing connected transactions between the Group and the TCL Corporation Group;
- (ii) the Former Agreements have neither been terminated nor replaced by the Temporary Agreements but would remain in force, yet the transactions contemplated thereunder would cease to be connected transactions; and
- (iii) no allocation would be made to the annual caps of the Former Agreements to cover transactions carried out between the Group and TCL Holdings Group as no transactions would be conducted between the Group and the TCL Holdings Group pursuant to the Former Agreements.

Whilst the Temporary Agreements are going to expire on 30 September 2019, on 14 June 2019, the Company entered into the Agreements with TCL Holdings and the transactions contemplated thereunder constitute continuing connected transactions.

The Master Brand Promotion (2019–2021) Agreement is not in the form of renewal of existing agreements, but the terms of the Master Sale and Purchase (2019–2021) Agreement and the Master Services (2019–2021) Agreement are in substance incorporated from or similar to that of the respective Temporary Agreements, which are in turn substantially similar to the Master Sale and Purchase (2017) Agreement and the 2018 Master Services Agreement.

The major differences between the Agreements and the Former Agreements are as follows:

- (i) the Agreements were entered into directly between the Company and TCL Holdings, instead of with TCL Corporation, as in the continuing connected transactions under the Former Agreements;

LETTER FROM THE BOARD

- (ii) in respect of the Master Sale and Purchase (2019–2021) Agreement, the Goods to be sourced by the Group from TCL Associates include Goods which are manufactured both inside and outside of the PRC, as compared to under the Master Sale and Purchase (2017) Agreement, where the Group would only source the Goods manufactured in the PRC from the TCL Corporation Group;
- (iii) the Master Services (2019–2021) Agreement consolidates and integrates the scope of services under the previous Master After Sale Service (2017) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement, Master Subcontracting (2017 Renewal) Agreement and 2018 Master Services Agreement.

The following entities were previously counterparties to the transactions contemplated under the relevant Former Agreements, and following the spin-off by TCL Corporation of all its ownership interest in, among others, TCL Industries to TCL Holdings and the entering into of the Agreements, such transactions have ceased to be covered by the Former Agreements but would be covered by the Agreements instead:

Master Sale and Purchase (2019–2021) Agreement

1. TCL Industries
2. Huizhou TCL Home Appliance Group Co. Ltd.* (惠州TCL家電集團有限公司)
3. TCL Home Appliance (Hefei) Co., Ltd* (TCL家電電器(合肥)有限公司)
4. Huizhou Kuyu Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司)
5. TCL Intelligence Industry (Huizhou) Co. Ltd.* (TCL智慧工業(惠州)有限公司)
6. Other subsidiaries and associates of TCL Holdings from time to time

Master Services (2019–2021) Agreement

1. TCL Industries
2. Huizhou TCL Home Appliance Group Co. Ltd.* (惠州TCL家電集團有限公司)
3. TCL Home Appliance (Hefei) Co., Ltd* (TCL家電電器(合肥)有限公司)
4. Huizhou Kuyu Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司)
5. TCL Intelligence Industry (Huizhou) Co. Ltd.* (TCL智慧工業(惠州)有限公司)
6. Huizhou Keyin Business Service Co., Ltd.* (惠州客音商務服務有限公司)
7. Gechuang Dongzhi Technology Co., Ltd.* (格創東智科技有限公司)
8. Other subsidiaries and associates of TCL Holdings from time to time

LETTER FROM THE BOARD

The entities which were counterparties to the transactions contemplated under the relevant Former Agreements but not to that under the Agreements are summarised as follows:

Master Sale and Purchase (2017) Agreement

1. TCL Corporation
2. CI Tech
3. CSOT
4. Huizhou TCL Environmental Resources Co., Ltd.* (惠州TCL環保資源有限公司)
5. Huizhou TCL Lighting Appliances Co., Ltd* (惠州TCL照明電器有限公司)
6. Shenzhen Qianhai Sailing Supply Chain Management Co., Ltd.* (深圳前海啓航供應鏈管理有限公司)
7. TCL Financial Holdings Group (Guangzhou) Co., Ltd.* (TCL金融控股集團(廣州)有限公司)

Master After Sale Service (2017) Agreement

1. CSOT

Master Subcontracting (2017 Renewal) Agreement

1. CSOT

2018 Master Services Agreement

1. TCL Technology Industrial Park (Huizhou) Co. Ltd* (TCL科技產業園(惠州)有限公司)

Note: As a large number of entities are involved in each of the Former Agreements and the Agreements, the list of parties listed above are major entities (including their subsidiaries and associates) of the TCL Corporation Group and TCL Associates for the purpose of this summary. Accordingly, reference to an entity identified above shall be construed as a reference to itself and/or its subsidiaries.

No comparison between the Master TCL Trademark License (2017 Renewal) Agreement and the Master Brand Promotion (2019–2021) Agreement is included in this circular due to the difference in nature of the two agreements.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

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

1. Master Sale and Purchase (2019–2021) Agreement

On 10 April 2019, the Company entered into the Master Sale and Purchase (2019) Agreement which, being a short-term temporary arrangement, will expire on 30 September 2019. As the Company wishes to continue and consolidate continuing connected transactions contemplated thereunder, the Company entered into the Master Sale and Purchase (2019–2021) Agreement.

The terms of the Master Sale and Purchase (2019–2021) Agreement are substantially incorporated from the Master Sale and Purchase (2019) Agreement, save for (i) the change of counterparty from TCL Industries and various other TCL Associates to TCL Holdings (for itself and on behalf of its associates); and (ii) the change of the duration of the agreement.

The Company has entered into a termination agreement with TCL Industries and all other counterparties to the Master Sale and Purchase (2019) Agreement, pursuant to which the Master Sale and Purchase (2019) Agreement shall be automatically terminated upon the coming into effect of the Master Sale and Purchase (2019–2021) Agreement.

Set out below are the major terms of the Master Sale and Purchase (2019–2021) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions thereunder:

Date:	14 June 2019
Parties:	(i) the Company (for itself and on behalf of its Subsidiaries) (ii) TCL Holdings (for itself and on behalf of its Associates)
Duration:	From the Shareholders' Approval Date to 31 December 2021 (both dates inclusive)
Major terms:	The relevant TCL Associates may from time to time sell and the Company may from time to time purchase and procure members of the Group to purchase the TCL Associates Products. The relevant TCL Associates may from time to time purchase and the Company may from time to time sell and procure members of the Group to sell the Electronics Products.

LETTER FROM THE BOARD

Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of TCL Associates 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 (2019–2021) Agreement.

Sourcing of TCL Associates Products

The Company may purchase part of the Group’s required TCL Associates Products from the relevant TCL Associates 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.

The relevant TCL Associates shall sell to the relevant members of the Group the requested TCL Associates Products.

Sale of Electronics Products

If the relevant TCL Associates requests or makes a written offer to any member of the Group to purchase from the Group any Electronics Products for its business including distribution, resale or otherwise, the member of the Group is entitled to offer to supply to or accept such offer to purchase made by relevant TCL Associates provided that the terms (including price and payment terms) of the offer by the relevant TCL Associates 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 the Electronics Products and TCL Associates Products (as the case may be) offered in the market as at the time when the relevant sale and purchase are performed.

LETTER FROM THE BOARD

2. The prices charged for the Electronics Products and the TCL Associates Products (as the case may be) are under regular review and may be adjusted from time to time on mutual agreement. In determining if the prices charged by TCL Associates and the fees received by the Group are on no less favourable than normal commercial terms, the Group shall obtain quotations from the relevant TCL Associates and Independent Third Parties of the Company 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 (2019–2021) Agreement, the relevant TCL Associate provides the TCL Associates Products to other Independent Third Parties at more favourable terms, the relevant TCL Associate shall immediately offer to provide the TCL Associates Products 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 of the Company for provision of products similar to the Electronics Products and the TCL Associates Products (as the case may be) and the terms (including price and payment terms) shall be no less favourable than those available to or from the Independent Third Parties of the Company for provision of products similar to the Electronics Products and the TCL Associates Products (as the case may be).
5. The relevant member of the Group has the absolute discretion to decide whether to accept an offer from the relevant TCL Associate.
6. The relevant member of the Group has the right to sell or resell the TCL Associates Products which it has acquired from the relevant TCL Associate at such price as it may in its absolute discretion determine.

LETTER FROM THE BOARD

7. The relevant member of the Group may demand the relevant TCL Associate to purchase back the TCL Associates Products at the original selling price offered to the Group if they remain unsold to third parties for six months.

Details of the payment terms of transactions contemplated under the Master Sale and Purchase (2019–2021) Agreement are set out below:

1. The payment terms of each and every transaction contemplated under the Master Sale and Purchase (2019–2021) Agreement shall be separately determined on an order-by-order basis by the parties thereto based on normal commercial terms after arm's length negotiations and with reference to general market practice for sale and purchase of comparable goods.
2. The common payment terms of historical transactions contemplated under the Master Sale and Purchase (2019) Agreement include a credit period ranging from 0 to 90 days, depending on the nature and quality of the goods concerned.

2. Master Services (2019–2021) Agreement

On 10 April 2019, the Company has entered into the Master Services (2019) Agreement which, being a short-term temporary arrangement, will expire on 30 September 2019. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Services (2019–2021) Agreement.

The terms of the Master Services (2019–2021) Agreement are substantially incorporated from the Master Services (2019) Agreement, save for (i) the change of counterparty from TCL Industries and various other TCL Associates to TCL Holdings (for itself and on behalf of its Associates); and (ii) the change of the duration of the agreement.

The Company has entered into a termination agreement with TCL Industries and all other counterparties to the Master Services (2019) Agreement, pursuant to which the Master Services (2019) Agreement shall be automatically terminated upon the coming into effect of the Master Services (2019–2021) Agreement.

Set out below are the major terms of the Master Services (2019–2021) Agreement and the pricing policy and price determination thereunder or otherwise adopted by the Group in respect of the transactions contemplated thereunder:

- | | |
|----------|--|
| Date: | 14 June 2019 |
| Parties: | (i) the Company (for itself and on behalf of its Subsidiaries) |
| | (ii) TCL Holdings (for itself and on behalf of its Associates) |

LETTER FROM THE BOARD

Duration: From the Shareholders' Approval Date to 31 December 2021 (both dates inclusive)

Major terms: Relevant member(s) of the TCL Associates may from time to time engage relevant member(s) of the Group for the provision of Electronics Services according to its business needs.

Relevant member(s) of the Group may from time to time engage TCL Associates for the provision of TCL Associates Services according to its business needs.

The terms of such engagement would be based on the Master Services (2019–2021) Agreement and subject to the individual agreement(s) to be entered into by the relevant parties.

Price determination: In respect of TCL Associates Services provided by TCL Associates to the Group, the Services Fees together with the payment terms under any individual agreement must be determined with reference to the prevailing market rate and in any event be no less favourable than those market rates offered to the Group by Independent Third Parties of the Company for the provision of similar Services.

In respect of Electronics Services provided by the Group to TCL Associates, the relevant Services Fees together with the payment terms under any individual agreement must be determined with reference to the prevailing market rate and in any event be not less than the rate that may be charged by the Group to Independent Third Parties of the Company for the provision of similar services.

The relevant Services Fees may be adjusted from time to time by agreement of the relevant parties in writing subject to compliance with the Listing Rules.

Details of the payment terms of transactions contemplated under the Master Services (2019–2021) Agreement are set out below:

1. The payment terms of each and every transaction contemplated under the Master Services (2019–2021) Agreement shall be separately determined on an order-by-order basis by the parties thereto based on normal commercial terms after arm's length negotiations and with reference to general market practice for provision of similar services.
2. The payment of service fees for historical transactions contemplated under the Master Service (2019) Agreement was usually made once per month.

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Whilst the Platform Services to be provided by the Group and TCL Holdings Group are of a similar nature, the Platform Services offered by the Group and TCL Holdings Group differ in terms of geographical locations and sales channels, and hence complement each other's edge in sales and marketing network in separate geographical location and sales channels.

Similar to other electronic products manufacturers and sellers in the market, the Group distributes its products globally via its own sales and marketing network as well as sales and distribution channels provided by Independent Third Party service providers. When TCL Holdings Group plans to launch products in areas or through channels where it does not have its own sales and marketing network, it will be more cost effective to make use of the Platform Services provided by competent service providers, particularly when the sales volume in such areas is insufficient to justify establishment of its own sales and marketing network. Engaging Platform Services provided by others enables TCL Holdings Group to on one hand make use of the sales and marketing support from the service provider who has the relevant expertise and local connections, and on the other hand save resources on setting up and managing its own business in such region and hence eliminate business risks associated therewith, thereby it could concentrate its resources on developing its own key business regions.

Reciprocally, the Group also provides Platform Services to parties requiring such services which can generate revenue and better utilise the business capacity of the Group. TCL Holdings Group has well-established sales network and expertise in different parts of the world. With the Master Services (2019–2021) Agreement, the Group could engage the Platform Services offered by TCL Holdings Group in areas or channels where the Group has yet to establish its own sales and marketing network, if the terms offered by TCL Holdings Group are no less favourable than terms available from Independent Third Parties. Similarly, the Group could provide the Platform Services to TCL Holdings Group if it requires provided that the terms offered by TCL Holdings Group are no less favourable than terms available from Independent Third Parties.

3. Master Brand Promotion (2019–2021) Agreement

As part of the Restructuring of the TCL Corporation Group, TCL Corporation and TCL Holdings have entered into a material assets restructuring agreement (“**Restructuring Agreement**”), pursuant to which, among others, TCL Holdings and its subsidiaries from time to time (therefore including the Company as of the date hereof) would be entitled to share the rights of use of certain of TCL Corporation's registered trademarks including the “TCL” trademark with TCL Corporation, provided that TCL Holdings shall have the duty to maintain and promote the brand image of the “TCL” trademark used by members of TCL Holdings Group (for this purpose includes the Company and its Subsidiaries). The Group's right to use TCL Corporation's registered trademarks including the “TCL” trademark is therefore derived from the Restructuring Agreement. As the Restructuring Agreement already covers the use of TCL registered trademarks by the Group, it is not necessary for any separate agreement to be entered into between TCL Corporation and the Company for such use, nor any sublicensing agreement be entered into between TCL Holdings and the Company for such use, and no royalty fee is payable by the Company to TCL Holdings for the use of TCL Corporation's registered trademarks but the Company will pay the brand promotion fee pursuant to the Master Brand Promotion (2019–2021) Agreement for advertisement, promotion and maintenance of the “TCL” trademark as discussed below.

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On 14 June 2019, the Company entered into the Master Brand Promotion (2019–2021) Agreement with TCL Holdings, pursuant to which the Company shall pay a brand promotion fee to TCL Holdings periodically, and that TCL Holdings, being a promoter of the “TCL” trademark, will use the brand promotion fee for advertisement, promotion and maintenance of the “TCL” trademark so as to satisfy the obligation of the Company, being a user of “TCL” trademark, towards TCL Corporation, being the owner of the “TCL” trademark, under the said Restructuring Agreement.

As a result of the above agreements, the Group would be entitled to use certain TCL Corporation’s registered trademarks by paying the brand promotion fee to TCL Holdings pursuant to the Master Brand Promotion (2019–2021) Agreement, and that the Company need not pay any license fee to TCL Corporation or TCL Holdings for the Group’s rights of use of the said trademarks.

Set out below are major terms of the Master Brand Promotion (2019–2021) Agreement and the price determination thereunder:

Date:	14 June 2019
Parties:	(i) TCL Holdings (for itself and on behalf of its Associates) (ii) the Company (for itself and on behalf of certain of its Subsidiaries)
Duration:	From the Shareholders’ Approval Date to 31 December 2021 (both days inclusive)
Major terms:	<p>The Company shall pay a brand promotion fee to TCL Holdings on a monthly basis during the term of the Master Brand Promotion (2019–2021) Agreement, which shall be determined with reference to the price determination as stated below, and that TCL Holdings shall use the brand promotion fee to set up a promotion fund for advertisement, promotion and maintenance of the “TCL” trademark.</p> <p>The promotion fund solely belongs to TCL Holdings and TCL Brand Management Centre is authorised to conduct planning, implementation and consulting work in relation to the collection of brand promotion fees, the use of the fund and promotion activities.</p>

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Details of the pricing mechanism of the Master Brand Promotion (2019–2021) Agreement are as follows:

Price determination: Under the Master Brand Promotion (2019–2021) Agreement, the annual amount of the brand promotion fee payable by the Group to TCL Holdings during each financial year shall range from 0.25% to 2.25% of the projected annual sales revenue of the Group for that financial year depending on the types of products as set out below:

Type of products	Brand promotion fee payable (% of projected annual revenue of the Group in respect of the particular type of products)
TCL branded products within the PRC (including sub-brand)	2.25%
TCL branded products outside of the PRC (including sub-brand)	0.75%
ODM and OEM products	0.25%

The said projected sales revenue of each financial year shall be determined by the Company prior to the commencement of that financial year.

In case there is any brand promotion fee received by TCL Holdings that remains unused during any financial year, such amount of brand promotion fee paid will be carried forward to the next financial year during the term of the Master Brand Promotion (2019–2021) Agreement. The usage of the brand promotion fee in the financial year shall be reviewed by the Company and TCL Holdings mutually within the last month of each financial year and that the price determination for the brand promotion fee (i.e. the respective % of projected annual revenue of the Group from each particular type of products) in the next financial year shall be adjusted accordingly with reference to the usage of the brand promotion fee within the financial year and the amount of brand promotion fee paid to be carried forward to the upcoming financial year, if any. The aforesaid adjustment has to be mutually agreed by both the Company and TCL Holdings and hence should any proposed adjustment have an effect that would render the promotion fee payable exceeding the proposed annual caps, the Company has the right to reject such proposed adjustment. In case the Company agrees to any proposed adjustment that would render the brand promotion fee payable exceeding the proposed annual caps, the Company would comply with all necessary requirements under the Listing Rules for the revision of annual caps.

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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 (2019–2021) Agreement

Sourcing of TCL Associates Products

- (1) Depending on the nature of TCL Associates Products to be purchased by the Group, the selling price of the TCL Associates Products offered by the relevant TCL Associate to the Group is generally determined with reference to the market price of relevant TCL Associates Products. For TCL Associates Products with comparable products 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 the relevant TCL Associate represents the market price.
- (2) The procurement department of the Group will also from time to time obtain a quote for the relevant TCL Associates Products from at least two Independent Third Party suppliers and enter such market information in its internal database. Before each purchase of TCL Associates Products is to be made with the relevant TCL Associate, the Group will obtain quotation from the relevant TCL Associate and compare the price offered by the relevant TCL Associate for the relevant TCL Associates Products with the its internal database for such market data to ensure the price charged by TCL Associates 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 Electronics Products

- (1) Under the Company's pricing model, the per unit price of the Electronics 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 to 15%, the quotations needs approval

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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 TCL Associates is based on cost plus a percentage of profit margin, which is in the range of 5 to 10% (which is not lower than the profit margin of those sold by the Group to Independent Third Parties).

- (3) This pricing policy, including the percentage of profit margin as mentioned in the paragraph above is applicable to all sales of Electronics 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 (2019–2021) 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.

As mentioned above, the price determination mechanism involves personnel from different teams and/or departments of the Company going through steps for making comparison between the price concerned and that of comparable goods sold or purchased by independent third parties. All such personnel are independent of TCL Holdings and its associates.

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

2. Master Services (2019–2021) Agreement

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

3. Master Brand Promotion (2019–2021) Agreement

Before the entering of the Master Brand Promotion (2019–2021) Agreement, the internal control department of the Group has assessed the rate of brand promotion fee based on a basket of factors, including:

- (i) the proportion of the revenue of the Group to that of TCL Holdings from the sales of products covered by the Master Brand Promotion (2019–2021) Agreement;
- (ii) the anticipated amount of branding expenses to be incurred by TCL Holdings; and
- (iii) the expected growth in sales of the Group derived from the brand promotion activities carried out by TCL Holdings Group.

In respect of the above considerations, the Group would assess the proportion of the revenue of the Group to that of TCL Holdings Group from the sales of products covered by the Master Brand Promotion (2019–2021) Agreement and determine the rate of brand promotion fee with reference to the said proportion. The Group would also assess the anticipated amount of brand promotion expenses to be incurred by the TCL Holdings Group for the Group and the expected growth in sales of the Group derived from the brand promotion activities carried out by the TCL

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Holdings Group to determine whether the rate of brand promotion fee is reasonable (i) as a reimbursement of the brand promotion expenses of TCL Holdings Group and (ii) as an investments of the Group with reference to the value and benefits brought by such promotion activities.

The rate of brand promotion fee was determined with reference to the significance of the “TCL” brand to the particular type of products, together with the difference in terms of promotion scale within and outside the PRC.

The Directors considered that the rate of brand promotion fee is determined after arms’ length negotiation and is fair and reasonable.

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

INTERNAL CONTROL PROCEDURES

In respect of all continuing connected transactions of the Group, the Group has adopted the following internal control procedures:

- (1) Before conducting any transactions contemplated under, or enter into any sub-contract pursuant to, an agreement for continuing connected transactions, the internal control department, legal department and finance department of the Group would review the terms of the proposed transactions and the draft sub-contract to ensure that the transactions would be conducted in accordance with the terms of the agreement and in accordance with the Company’s pricing policy;
- (2) Before conducting any transactions with connected persons, the finance department would confirm that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. The internal control department would on a monthly basis review the continuing connected transactions carried out in the month under review to assess, and compile a monthly report, on (i) whether the continuing connected transactions of the Group have been carried out in accordance with the terms of the relevant agreement and the Company’s pricing policy, (ii) whether the transactions have been conducted on normal commercial terms and on terms no less favourable than those on which the Company conducted with Independent Third Parties and (iii) the transactions amount during the month under review, the aggregate amount of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded. In the report, the forecasted transactions amount for the next three months would also be set out. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, it would 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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1. Master Sale and Purchase (2019–2021) Agreement

Sourcing of TCL Associates Products

- (1) The Group will set up periodic targets for purchase of TCL Associates Products which 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 Associates, which will be subject to review from time to time by its internal control department depending on the surrounding circumstances such as the Group's performance and overall market conditions. The purchase unit will from time to time compare the actual figures against the purchase targets and will make necessary adjustment for the purchase from TCL Associates for the remaining periodic period. For example, the Group will source less TCL Associates Products from TCL Associates during off-season where there will be fewer orders from customers, or delay the purchases from TCL Associates until peak-season where the Group would have undertaken a lot of orders from customers and thus have generated a greater overall revenue to ensure that the said 50% of the total purchase target 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 price offered for the TCL Associates Products 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 TCL Associates Products, past history of dealing with the such suppliers (if any), payment terms, and price of the TCL Associates Products, to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2019–2021) 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) Whilst there are Independent Third Parties which provide products similar to TCL Associates Products such that quotation from Independent Third Party suppliers for comparable goods are generally available, however, products supplied by different suppliers may vary in terms of price, quality, specifications, and a wide range of factors as aforementioned. The Group would only engage TCL Associates for provision of the TCL Associates Products when, in accordance to the results of the overall assessment, TCL Associates 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 department will monitor the aggregate amount of purchase made from TCL Associates from time to time to ensure that the relevant annual cap for the corresponding financial year is not exceeded. The Group's internal control department 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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- (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 TCL Associates Products under the Master Sale and Purchase (2019–2021) Agreement to monitor the aggregate amount of purchase made from TCL Associates from time to time. 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 Electronics Products

- (1) The Group will set up periodic targets for sales of the Electronics Products, from which it could project the approximate amount of sales to TCL Associates, which will be subject to review from time to time by its finance director depending on the surrounding circumstances such as the 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 Associates for the remaining period.
- (2) Before selling any Electronics Products to TCL Associates, 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 sales of the Electronics Products and submit it to the internal control department and legal department of the Group for review and approval. The internal control department 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 department and the legal department have separately given their approval therefor.
- (3) The Group's internal control department will monitor the aggregate amount of sales to TCL Associates from time to time to ensure that the relevant annual cap for the corresponding financial year is not exceeded. The Group's internal control department will prepare monthly report which will be submitted to finance director for review.

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2. Master Services (2019–2021) Agreement

In respect of the continuing connected transactions contemplated under the Master Services (2019–2021) Agreement, the Group adopts the following internal control procedures:

- (1) To ensure that the transactions under the Master Services (2019–2021) 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 Services, the operation unit of the relevant member of the Group will examine the draft contract for the Services for the engagement to confirm that the Services are capable to meet the needs of the user.
- (2) The internal control department will then examine the terms of the draft contract for the Services to make sure that the terms are in compliance with the Master Services (2019–2021) 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 contract for Services with the relevant TCL Associates after receiving the approval by the internal control department 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 contract for Services, the internal control department will compare it with all quotations obtained from Independent Third Parties for the same or equivalent services at comparable quality and/or historical transactions with other Independent Third Parties of similar nature and determine whether on an overall evaluation of the Service Fees to be paid or received, the payment terms as stated in the draft contract for Services and the expected quality of the Services to be received against the quotations obtained from Independent Third Parties, are the most favourable to the Group.
- (3) In order to maintain a fair assessment of the overall terms, the Group will obtain quotations from at least two Independent Third Parties (who, as the Group considers, are able to provide the required Services of satisfactory quality and at satisfactory standard) in respect of each type of Services periodically to make sure that the Service Fees to be paid under the contract for Services are not higher than those offered to the Group by Independent Third Parties under prevailing local market conditions; and that the Service Fees to be received under the contract for Services are not lower than those received 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 Services from them upon identification and repeated periodically.

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- (4) The internal control department of the Group will conduct a periodic review on whether the Group still has sufficient unused annual caps for carrying out the continuing connected transactions during the term of the Master Services (2019–2021) Agreement. 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 term of the Master Services (2019–2021) Agreement, 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.

3. Master Brand Promotion (2019–2021) Agreement

The annual amount of the brand promotion fees payable by the Group to TCL Holdings is determined with reference to the projected sales of the Group for the relevant fiscal year depending on the types of products. The internal control department of the Group will closely monitor the projected and actual sales of the Group. Once there is a likelihood that the amount payable for the financial year will exceed the relevant annual cap, the internal control department 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.

Any variation of the brand promotion fee percentage must be approved by the internal control department and the management, which would consider its effect based on the projected financial performance of the Group and the proposed annual 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 department 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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HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

The following table sets out the respective historical figures of the continuing connected transactions as described above for the two years ended 31 December 2018 and the three months ended 31 March 2019, and the respective proposed annual caps for the three years ending 31 December 2021:

	For the year ended 31 December 2017 (audited) (for actual amount only) <i>HK\$'000</i> <i>(Note 2)</i>	For the year ended 31 December 2018 (audited) (for actual amount only) <i>HK\$'000</i>	For the 3 months ended 31 March 2019 (unaudited) (for actual amount only)/ For the year ended 31 December 2019 (for original annual cap only) <i>HK\$'000</i> <i>(Note 3)</i>	For the year ending 31 December 2019 <i>HK\$'000</i> <i>(Note 2)</i>	For the year ending 31 December 2020 <i>HK\$'000</i>	For the year ending 31 December 2021 <i>HK\$'000</i>
Continuing Connected Transactions (Note 1)						
<i>Master Sale and Purchase (2019-2021) Agreement</i>						
Sourcing of Goods						
- Actual	12,497,141	12,892,395	2,344,476			
- TCL Holdings Group % (Note 4)	0.8%	5.0%	2.5%			
- Original annual cap	25,714,019	13,153,107	15,021,622			
Sale of Goods						
- Actual	4,501,508	5,566,381	1,075,998			
- TCL Holdings Group % (Note 4)	87.6%	99.4%	99.3%			
- Original annual cap	18,201,831	5,739,212	7,148,383			
Proposed annual caps						
- Sourcing of TCL Associates Products				5,795,689	12,216,442	13,130,786
- Sale of Electronics Products				10,251,464	11,404,054	12,542,273

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	For the year ended 31 December 2017 (audited) (for actual amount only) HK\$'000 (Note 2)	For the year ended 31 December 2018 (audited) (for actual amount only) HK\$'000	For the 3 months ended 31 March 2019 (unaudited) (for actual amount only)/ For the year ended 31 December 2019 (for original annual cap only) HK\$'000 (Note 3)	For the year ending 31 December 2019 HK\$'000 (Note 2)	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Continuing Connected Transactions (Note 1)						
<i>Master Services (2019–2021) Agreement</i>						
<i>Master After Sale Service (2017) Agreement</i>						
– Actual	298,550	311,034	86,394			
– TCL Holdings Group % (Note 4)	98.1%	82.5%	85.5%			
– Original annual cap	499,622	425,035	563,141			
<i>Master Subcontracting (2017 Renewal) Agreement</i>						
Subcontracting by the TCL Corporation Group						
– Actual	4,960	–	–			
– TCL Holdings Group % (Note 4)	0.0%	0.0%	0.0%			
– Original annual cap	27,390	95,829	94,809			
Subcontracting by the Group						
– Actual	651	3,874	6			
– TCL Holdings Group % (Note 4)	100.0%	41.9%	100.0%			
– Original annual cap	2,933	6,895 (Note 5)	7,661 (Note 5)			
<i>Master Logistics Service Supply (2017 Renewal) Agreement</i>						
– Actual	352,789	404,708	130,119			
– TCL Holdings Group % (Note 4)	100.0%	100.0%	100.0%			
– Original annual cap	733,229	514,484	611,722			

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	For the year ended 31 December 2017 (audited) (for actual amount only) HK\$'000 (Note 2)	For the year ended 31 December 2018 (audited) (for actual amount only) HK\$'000	For the 3 months ended 31 March 2019 (unaudited) (for actual amount only)/ For the year ending 31 December 2019 (for original annual cap only) HK\$'000 (Note 3)	For the year ending 31 December 2019 HK\$'000 (Note 2)	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Continuing Connected Transactions (Note 1)						
<i>2018 Master Services Agreement</i>						
Services fee to be paid by the Group						
Platform services						
– Actual	N/A	5,358	336			
– TCL Holdings Group % (Note 4)	N/A	100.0%	100.0%			
– Original annual cap	N/A	11,237	16,559			
IT and other services						
– Actual	N/A	2,430	6,809			
– TCL Holdings Group % (Note 4)	N/A	100.0%	100.0%			
– Original annual cap	N/A	11,363	270,377			
Services fee to be paid by the TCL Corporation Group						
Platform services						
– Actual	N/A	8,047	1,824			
– TCL Holdings Group % (Note 4)	N/A	100.0%	100.0%			
– Original annual cap	N/A	12,500	18,750			
Other services						
– Actual	N/A	28,050	15,919			
– TCL Holdings Group % (Note 4)	N/A	0.0%	0.0%			
– Original annual cap	N/A	119,572	179,843			
Proposed annual caps						
– Service fees to be paid by the Group				1,726,012	1,944,358	2,139,688
– Service fees to be received by the Group				260,586	360,637	475,473

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	For the year ended 31 December 2017 (audited) (for actual amount only)	For the year ended 31 December 2018 (audited) (for actual amount only)	For the year ending 31 December 2019 (for original annual cap only)	For the year ending 31 December 2019 HK\$'000 (Note 2)	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Continuing Connected Transactions (Note 1)						
	HK\$'000 (Note 2)	HK\$'000	HK\$'000 (Note 3)	HK\$'000 (Note 2)	HK\$'000	HK\$'000

Master Brand Promotion (2019–2021)

Agreement (Note 6)

Brand Promotion Fee

– Proposed annual caps	637,014	930,074	992,555
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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: Certain historical figures for the year ended 31 December 2017 were from the corresponding predecessor agreements or the aggregation of the relevant predecessor annual caps of the same agreement.

Note 3: The respective proposed annual caps for the year ending 31 December 2019 in relation to the Master Sale and Purchase (2019–2021) Agreement and the Master Services (2019–2021) Agreement represent the aggregate of (i) the actual transaction amounts under the respective Temporary Agreements from 10 April 2019 to the termination of the respective Temporary Agreements upon the Master Sale and Purchase (2019–2021) Agreement and the Master Services (2019–2021) Agreement taking effect and (ii) the proposed annual caps for the year ending 31 December 2019 under the Master Sale and Purchase (2019–2021) Agreement and the Master Services (2019–2021) Agreement.

Note 4: The “TCL Holdings Group %” denotes the approximate % of historical transaction amount which arose from the Group’s transactions with those entities which were previously members of the TCL Corporation Group but have become members of the TCL Holdings Group following the spin-off by TCL Corporation of all its ownership interest in, among others, TCL Industries to TCL Holdings. For the avoidance of doubt, the Group’s transactions with those entities which had been connected persons of the Company by reason of being members of the TCL Corporation Group at any point of time from 2017 to March 2019 yet had ceased to be so prior to March 2019 for reasons other than the aforesaid spin-off by TCL Corporation were not counted towards the “TCL Holdings Group %”.

Note 5: The original annual cap for the year ended 31 December 2018 for subcontracting fee received from the TCL Corporation Group under the Master Subcontracting (2017 Renewal) Agreement was HK\$0, while the Company subsequently on 31 January 2018 revised such annual cap to HK\$6,895,000 for the year ended 31 December 2018 and HK\$7,661,000 for the year ending 31 December 2019. Under the Listing Rules, the Company has to re-apply with all the relevant disclosure requirements in relation to such revised annual cap, however, since all the applicable percentage ratios of such revised annual cap is less than 0.1%, the transaction contemplated under Master Subcontracting (2017 Renewal) Agreement remains fully exempt after revision of annual cap pursuant to Rule 14A.76(1)(a) of the Listing Rules.

LETTER FROM THE BOARD

Note 6: There is no historical transaction figures for the Master Brand Promotion (2019–2021) Agreement since it is not a renewal of existing agreement and hence there is no predecessor agreements. In particular, the nature of the Master Brand Promotion (2019–2021) Agreement is different from that of Master TCL Trademark License (2017 Renewal) Agreement since the former agreement concerns provision of promotion service, while the latter concerns licensing of trademarks. As such, no "TCL Holdings Group %" is available.

BASIS FOR DETERMINATION OF 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 (2019–2021) Agreement

The annual caps for the aggregated transactions under the Master Sale and Purchase (2019–2021) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2017) Agreement; (*Note 1*)
- (ii) in respect of Sourcing of TCL Associates Products, 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), together with the prevailing market rate for similar raw materials, semi-finished materials and finished goods; and
- (iii) in respect of Sale of Electronics Products, the relevant TCL Associates' projected requirement of raw materials, semi-finished materials and finished goods for its operations, which is expected to increase substantially, together with the prevailing market rate for similar raw materials, semi-finished materials and finished goods.

2. Proposed annual caps for the Master Services (2019–2021) Agreement

The annual caps for the aggregated transactions under the Master Services (2019–2021) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master After Sale Service (2017) Agreement, the Master Subcontracting (2017 Renewal) Agreement, the Master Logistics Service Supply (2017 Renewal) Agreement and the 2018 Master Services Agreement; (*Note 1*)
- (ii) in terms of TCL Associates Services to be provided to the Group, the Group's plan on current and future information transformation and capacity enhancement, which specifically, includes the projected number of relevant projects (including but not limited to IT projects) in the upcoming 3 years;
- (iii) in terms of Electronics Services to be provided by the Group, the projection of the number and scale of relevant projects which TCL Associates may require Electronics Services to be provided by the Group in the upcoming 3 years, with reference to the Group's projected capability in providing the relevant Electronics Services;

LETTER FROM THE BOARD

- (iv) where applicable, the tender price offered by members of the Group in bidding projects for Services of similar nature to TCL Associates in previous years; and
- (v) the prevailing market rate of relevant Services of similar nature.

3. Proposed annual caps for the Master Brand Promotion (2019–2021) Agreement

The annual caps in respect of the aggregate brand promotion fee reimbursement for the transaction under the Master Brand Promotion (2019–2021) 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 Electronic Products and certain market estimates of the expected growth in the sales of TVs, especially the substantial growth in LCD TVs market consumption, in the PRC and other regions around the world; 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 relating to certain open world sports events such as the 2019 FIBA Basketball World Cup are expected to be continued in the future.

Note 1: Whilst the counterparties covered by the Master Sale and Purchase (2019-2021) Agreement and the Master Services (2019-2021) Agreement and those by the corresponding Former Agreement may not be identical, historical figures of Former Agreements are still of reference value in determining the proposed annual caps as the Company could make reference to the historical figures as a starting point and then make necessary adjustments by taking into account of the entities which do not fall within the scope of the Master Sale and Purchase (2019-2021) Agreement and the Master Services (2019-2021) Agreement, together with other factors as mentioned above

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors (other than the independent non-executive Directors whose view will be set out in the 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 (2019–2021) Agreement

The market of electronic consumer products is dynamic and ever-changing. A holistic customer experience is of growing importance and that there is an increasing number of customers who may look for multiple types of electronic products at the same time. Meanwhile, the products produced or manufactured by the Group and TCL Holdings Group are of different types (with the former focusing on TVs while the latter focusing on home appliances). Thus, in order to swiftly cope with market changes, to strengthen the synergy within TCL Holdings Group and the operating capability of the Group both in terms of overseas and PRC products, and to share the operation and sales channels within TCL Holdings Group, the Group has together with certain TCL Associates established a PRC sales centre and an overseas sales centre so that customers may be able to purchase products produced or manufactured by the Group and TCL Holdings Group at the same time. As a result, the products of TCL Holdings and its associates would first be sold to the Group, and subsequently the Group would re-sell such products to third party customers, while at the same time the Group would first sell its products to members of the TCL Holdings Group for them to re-sell such products to third party customers. Such arrangement under

LETTER FROM THE BOARD

the Master Sale and Purchase (2019–2021) Agreement would consolidate the whole product business of TCL Holdings Group, enhance customer experience, provide smart health related products and services to customers and thus enhance the overall profitability of the Group.

Following the change of Company name of the Company in May 2018, the Group has diversified its business. The Group has conducted R&D in smart home system with smart TV as the terminal to build an open smart platform. Recently, the Company has entered into memorandum of understanding with various PRC property developers to launch smart home business, including but not limited to having strategic cooperation with Sunshine 100 China Holdings Ltd to launch a leading smart apartment project in the PRC. In this regard, the Company would consolidate the products within the TCL Holdings Group and to realize all-round experience for customers through a combination of hardware and software.

2. Master Services (2019–2021) Agreement

After the change of the Company name, the Company has accelerated the implementation of a diversified development strategy. Apart from consolidating and enhancing its existing TV business, the Group also focuses on developing smart audio-visual, commercial displays and smart home businesses in order to lay down a strong foundation for the new image and new businesses of the Group.

In respect of Services to be provided by the Group to TCL Associates, following the acquisition of CI Tech which was completed on 31 July 2018, CI Tech became a wholly-owned subsidiary of the Company and thus the Group could share and integrate CI Tech's various achievements in, among others, intelligent commercial information technology and industry solutions. As disclosed in the Company's announcement dated 1 June 2018 and circular dated 25 June 2018, CI Tech is a leading provider of smart commercial information technology products and industry solutions in the PRC and its business includes provision of one-stop services covering software, content, integral solutions and intelligent products for public sector and commercial customers. In addition, some other Subsidiaries of the Group provide similar services on smart home and community system and/or software. In this regard, the Group is able to leverage on the installation expertise and the rich experience in providing one-stop services encompassing overall business solutions and smart products of CI Tech and the professional technology and business network of other Subsidiaries of the Company to the relevant TCL Associates. Services offered by CI Tech and/or other Subsidiaries of the Company engaging in the aforesaid intelligence solutions services are, by nature, mainly proceeded on a project basis via tender for hotels, offices, financial institutions, real estates, houses or apartments, etc.. Moreover, Shenzhen Falcon Network Technology Co., Ltd. which specializes in the Internet TV business would from time to time sell to certain TCL Associates membership cards (for paid content of Internet TV users) to promote its business to a larger customer base. The Group will benefit from the sale of certain TCL Associates membership cards as the enrichment of content arising thereof would enhance the overall competitiveness of the Group's Internet TV business in terms of content, number of active users and customer adhesiveness. Hence, the relevant transactions are beneficial to expanding the business scope of the Group, increasing sources of revenue and enhancing the competitiveness and profitability of the Group through providing tailor-made services to clients.

On the other hand, in respect of Services to be provided by relevant TCL Associates to the Group, as relevant TCL Associates have experience in the provision of, among others, technology services covering computer hardware and software, cloud platform facility service and information technology consultancy services, and IT and platform services. In particular, TCL Associates would provide basic

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hardware and software and related support services, network and Internet services, IDC leasing and cloud services, construction of IT service rooms and maintenance services and IT consultation services to relevant member(s) of the Group and the Group can reduce costs and enhance efficiency in various business units through centralising IT platforms and application systems, professionalising basic services and smart management so that the Group can focus and centralise its resources in developing its own core business. In addition, the Group through the business network of the relevant TCL Associates can avoid the unnecessary risk and cost arising from the establishment of new sales network and also can develop new markets and make profit thereof.

3. Master Brand Promotion (2019–2021) Agreement

The Company has been using the “TCL” trademarks for the marketing and distribution of Electronics Products. The continuous development of the goodwill and brand image of such trademarks are considered to be important to the successful long-term operation of the business of the Group. The Master Brand Promotion (2019–2021) Agreement allows the Group to enjoy the benefits brought by the developing goodwill and brand image associated with the promotion of such trademarks at attractive rates.

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 the Non-exempt Transactions:
 - (a) have received the approval of the Board;
 - (b) have been, 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) have been entered into in accordance with the respective agreements; and
 - (d) have not exceeded the caps; and

LETTER FROM THE BOARD

3. the Directors shall state in the Company's annual report whether its auditors have confirmed the matters stated in Rule 14A.57 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

As at the Latest Practicable Date, 1,235,272,639 Shares of the Company, representing approximately 52.33% of the total number of issued Shares of the Company, are held by TCL Industries, which in turn is held as to 100% by TCL Holdings. As such, TCL Industries is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. As TCL Holdings is the holding company of TCL Industries, it is an associate of TCL Industries and therefore also a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under each of the Master Sale and Purchase (2019–2021) Agreement, the Master Services (2019–2021) Agreement and the Master Brand Promotion (2019–2021) Agreement therefore constitute continuing connected transactions of the Company.

In view of Mr. LI Dongsheng's indirect interests in TCL Holdings, he did not participate in nor vote in the board meeting during which the Board approved the Non-exempt Transactions to avoid any potential conflict of interests, and that he will abstain from voting in respect of the Non-exempt Transactions required to be put forward the EGM.

Out of the other Directors, Mr. WANG Cheng is also the chief executive officer of TCL Holdings, whereas Mr. WANG Yi is also a vice-president of TCL Holdings. Nevertheless, notwithstanding their offices held in TCL Associates, as their respective direct or indirect interests in TCL Holdings are insignificant and that none of the TCL Associates are associates of any of the Directors (other than Mr. LI Dongsheng), none of them or the other Directors are considered as having a material interest in the Non-exempt Transactions, therefore all the other Directors are entitled to vote on the relevant board resolution 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 Master Sale and Purchase (2019–2021) Agreement, Master Services (2019–2021) Agreement and Master Brand Promotion (2019–2021) Agreement (i.e. agreements for the Non-exempt Transactions) exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Shareholders on the terms and the proposed caps of the Non-exempt Transactions. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

LETTER FROM THE BOARD

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

As at the Latest Practicable Date, TCL Holdings is an associate of Mr. LI Dongsheng under Chapter 14A of the Listing Rules. Mr. LI Dongsheng has 33.3331% indirect equity interest in TCL Holdings held via:

- (a) Lida Tiancheng Investment Company Limited*(惠州礪達天成股權投資有限公司), which has a 3.1005% shareholding in TCL Holdings. Mr. LI Dongsheng owns more than 50% of equity interest in Lida Tiancheng Investment Company Limited* (惠州礪達天成股權投資有限公司); and
- (b) Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)), which has a 30.2326% shareholding in TCL Holdings. Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)) is a limited partnership and Mr. LI Dongsheng owns more than 50% economic interest in Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)) as a limited partner. The general partner of Lida Zhihui Corporation Management Limited Partnership*(寧波礪達致輝企業管理合伙企業(有限合夥)) is Lida Tiancheng Investment Company Limited* (惠州礪達天成股權投資有限公司), in which Mr. LI Dongsheng owns more than 50% equity interest as set out in (a) above.

Mr. LI Dongsheng will also abstain from voting in respect of the Non-exempt Transactions required to be put forward at the EGM.

As at the Latest Practicable Date: (i) 1,235,272,639 Shares are held by TCL Industries, which in turn is held as to 100% by TCL Holdings; (ii) a total of 58,075,494 Shares are held directly by Mr. LI Dongsheng and his spouse. Hence, as at the Latest Practicable Date, holders of a total number of 1,293,348,133 Shares, representing approximately 54.79% of the total number of issued Shares, will abstain from voting in respect of the Non-exempt Transactions 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.

GENERAL INFORMATION ON THE PARTIES

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

TCL Holdings is principally engaged in equity investment, real estate leasing, conference services, software development, developing, manufacturing and distributing home appliances including communication devices, audio/video products, LCD TVs, air-conditioners, washing machines, etc..

LETTER FROM THE BOARD

EGM

The Company will convene the EGM at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories Hong Kong on 8 July 2019, Monday at 3:00 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 83 and 84 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM or any adjournment thereof (as the case may be) 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

Record date (being the last date of registration of any transfer of Shares 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 2 July 2019, Tuesday. 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 2 July 2019, Tuesday.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 39 of this circular which contains the recommendation of the Independent Board Committee to the Shareholders regarding the resolutions to approve the Non-exempt Transactions and their respective proposed annual caps; (ii) the letter from Pelican Financial Limited, the Independent Financial Adviser, set out on pages 40 to 77 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 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.

LETTER FROM THE BOARD

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

The Board considers that the terms of the Non-exempt Transactions, the transactions contemplated thereunder, and the proposed annual caps thereof are entered in the ordinary and usual course of business, on normal commercial terms, and are 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 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
LI Dongsheng
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

19 June 2019

To: the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 19 June 2019 (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 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 Pelican Financial Limited set out on pages 7 to 38 and pages 40 to 77 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 Pelican Financial Limited, the Independent Financial Adviser, we consider that the Non-exempt Transactions are on normal commercial terms, entered 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 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



PELICAN FINANCIAL LIMITED

15/F, East Exchange Tower, 38–40 Leighton Road, Causeway Bay, Hong Kong

19 June 2019

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

Dear Sirs,

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 various agreements with TCL Holdings, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 19 June 2019 (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.

As disclosed in the announcement of the Company dated 10 April 2019 (“**2019 April Announcement**”) and 14 June 2019 (“**2019 June Announcement**”), among other things, on 14 June 2019 the Company entered into various agreements with TCL Holdings and the transactions contemplated thereunder constitute continuing connected transactions, including the following three agreements:

1. Master Sale and Purchase (2019–2021) Agreement;
2. Master Services (2019–2021) Agreement; and
3. Master Brand Promotion (2019–2021) Agreement.

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the respective annual caps of the above three Agreements (i.e. agreements for 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, three 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, Professor WANG Yijiang and Mr. LAU Siu Ki, has been established to advise the Independent Shareholders regarding the Agreements. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pelican Financial Limited (“**Pelican**”) is not connected with the Directors, chief executive or substantial shareholders of the Company or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interest between Pelican and the Company or any other parties that could be reasonably be regarded as a hindrance to Pelican’s independence as defined under Rule 13.80 of Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the various agreements with TCL Holdings. In the last two years, there was no engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as independent financial adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the terms of the various agreements with TCL Holdings and the transactions contemplated thereunder.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Non-exempt Transactions are in the ordinary and usual course of business and on normal commercial terms; (ii) whether the terms of the Non-exempt Transactions and their relevant proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Non-exempt Transactions and their relevant 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 performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Non-exempt Transactions (together with the 2019 April Announcement and 2019 June Announcement), and the respective existing continuing connected transaction agreements (together with the relevant announcement and circular of the Company dated 29 September 2017 and 27 November 2017 respectively), the annual report of the Company for the financial year ended 31 December 2018 (the “**Annual Report**”), and the Circular. We have 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 terms of the Non-exempt Transactions, we have considered the following principal factors and reasons.

1. Background of the Non-exempt Transactions

As disclosed in the 2019 April Announcement, in view of a change in certain connected persons due to the restructuring of TCL Corporation (hereinafter referred to as “**Restructuring**”), as a short-term arrangement, the Company entered into the Temporary Agreements with various TCL Associates so as to meet the Company’s business needs in its daily operation.

Following the completion of the Restructuring and the entering into of the Temporary Agreements:

- (i) No transaction with members of TCL Holdings Group had been or would be carried under the former agreements entered into between the Company and TCL Corporation regarding the then continuing connected transactions between the Group and the TCL Corporation Group (the “**Former Agreements**”);
- (ii) The Former Agreements have neither been terminated nor replaced by the Temporary Agreements but would remain in force, yet the transactions contemplated thereunder would cease to be connected transactions; and
- (iii) No allocation would be made to the annual caps of the Former Agreements to cover transactions carried out between the Group and TCL Holdings Group as no transactions would be conducted between the Group and the TCL Holdings Group pursuant to the Former Agreements.

Whilst the Temporary Agreements are going to expire on 30 September 2019, on 14 June 2019 the Company entered into the following three Non-exempt Transactions with TCL Holdings, which constitute continuing connected transactions and are subject to the reporting, announcement, Independent Shareholders’ approval and annual review requirements:

1. Master Sale and Purchase (2019–2021) Agreement;
2. Master Services (2019–2021) Agreement; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Master Brand Promotion (2019–2021) Agreement;

Whilst the Master Brand Promotion (2019–2021) Agreement is not in the form of renewal of existing agreements, the terms of the Master Sale and Purchase (2019–2021) Agreement and the Master Services (2019–2021) Agreement are in substance incorporated from or similar to that of the respective Temporary Agreement, which are in turn substantially similar to the Master Sale and Purchase (2017–2019) Agreement and the 2018 Master Services Agreement.

The major differences between the Agreements and the Former Agreements are as follows:

- (i) The Agreements were entered into directly between the Company and TCL Holdings, instead of with TCL Corporation, as in the continuing connected transactions under the Former Agreements;
- (ii) In respect of the Master Sale and Purchase (2019–2021) Agreement, the Goods to be sourced by the Group from TCL Associates include Goods which are manufactured both inside and outside of the PRC, as compared to under the Master Sale and Purchase (2017) Agreement, where the Group would only source Goods manufactured in the PRC from TCL Corporation Group;
- (iii) The Master Services (2019) Agreement consolidates and integrates the scope of services under the previous Master After Sale Service (2017) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement, Master Subcontracting (2017 Renewal) Agreement and 2018 Master Services Agreement respectively.

The following entities were previously counterparties to the transactions contemplated under the relevant Former Agreements, and following the Restructuring and the entering into of the Agreements, such transactions have ceased to be covered by the Former Agreements but would be covered by the Agreements instead.

Master Sale and Purchase (2019–2021) Agreement

- TCL Industries
- Huizhou TCL Home Appliance Group Co. Ltd.* (惠州TCL家電集團有限公司)
- TCL Home Appliance (Hefei) Co., Ltd* (TCL家電電器(合肥)有限公司)
- Huizhou Kuyu Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司)
- TCL Intelligence Industry (Huizhou) Co. Ltd.* (TCL智慧工業(惠州)有限公司)
- Other subsidiaries and associates of TCL Holdings from time to time

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Master Services (2019–2021) Agreement

- TCL Industries
- Huizhou TCL Home Appliance Group Co. Ltd.* (惠州TCL家電集團有限公司)
- TCL Home Appliance (Hefei) Co., Ltd.* (TCL家電電器(合肥)有限公司)
- Huizhou Kuyu Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司)
- TCL Intelligence Industry (Huizhou) Co. Ltd.* (TCL智慧工業(惠州)有限公司)
- Huizhou Keyin Business Service Co., Ltd.* (惠州客音商務服務有限公司)
- Gechuang Dongzhi Technology Co., Ltd.* (格創東智科技有限公司)
- Other subsidiaries and associates of TCL Holdings from time to time

The entities which were counterparties to the transactions contemplated under the relevant Former Agreements but not to that under the Agreements are summarised as follows.

Master Sale and Purchase (2017) Agreement

- TCL Corporation
- CI Tech
- Huizhou TCL Environmental Resources Co., Ltd.* (惠州TCL環保資源有限公司)
- Huizhou TCL Lightening Appliance Co., Ltd.* (惠州TCL照明電器有限公司)
- Shenzhen Qianhai Sailing Supply Chain Management Co., Ltd.* (深圳前海啟航供應鏈管理有限公司)
- TCL Financial Holdings Group (Guangzhou) Co., Ltd.* (TCL金融控股集團(廣州)有限公司)
- CSOT

Master After Sale Service (2017) Agreement

- CSOT

Master Subcontracting (2017 Renewal) Agreement

- CSOT

2018 Master Services Agreement

- TCL Technology Industrial Park (Huizhou) Co., Ltd.* (TCL科技產業園(惠州)有限公司)

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* *As a large number of entities are involved in each of the Former Agreements and the Agreements, the list of parties listed above are major entities (including their subsidiaries and associates) of the TCL Corporation Group and TCL Associates for the purpose of this summary. Accordingly, reference to an entity identified above shall be construed as a reference to itself and/or its subsidiaries.*

Meanwhile, set out below is a summary description of the Non-exempt Transactions.

(a) Master Sale and Purchase (2019–2021) Agreement

On 10 April 2019, the Company entered into the Master Sale and Purchase (2019) Agreement which, being a short-term temporary arrangement, will expire on 30 September 2019. As the Company wishes to continue and consolidate continuing connected transactions contemplated thereunder, the Company entered into the Master Sale and Purchase (2019–2021) Agreement on 14 June 2019.

The terms of the Master Sale and Purchase (2019–2021) Agreement are substantially incorporated from the Master Sale and Purchase (2019) Agreement, save for (i) the change of counterparty from TCL Industries and various other TCL Associates to TCL Holdings (for itself and on behalf of its associates); and (ii) the change of the duration of the agreement.

The Company has also entered into a termination agreement with TCL Industries and all other counterparties to the Master Sale and Purchase (2019) Agreement, pursuant to which the Master Sale and Purchase (2019) Agreement shall be automatically terminated upon the coming into effect of the Master Sale and Purchase (2019–2021) Agreement.

Pursuant to the Master Sale and Purchase (2019–2021) Agreement, (i) the relevant TCL Associates may from time to time sell and the Company may from time to time purchase and procure members of the Group to purchase the Goods (i.e., the Electronics Products or the TCL Associates Products, as the case may be), and (ii) the relevant TCL Associates may from time to time purchase and the Company may from time to time sell and procure members of the Group to sell the Goods (i.e., the Electronics Products or the TCL Associates Products, as the case may be). Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of TCL Associates 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 (2019–2021) Agreement.

(b) Master Services (2019–2021) Agreement

On 10 April 2019, the Company entered into the Master Services (2019) Agreement which, being a short-term temporary arrangement, will expire on 30 September 2019. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Services (2019–2021) Agreement on 14 June 2019.

The terms of the Master Services (2019–2021) Agreement are substantially incorporated from the Master Services (2019) Agreement, save for (i) the change of counterparty from TCL Industries and various other TCL Associates to TCL Holdings (for itself and on behalf of its Associates); and (ii) the change of the duration of the agreement.

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The Company has entered into a termination agreement with TCL Industries and all other counterparties to the Master Services (2019) Agreement, pursuant to which the Master Services (2019) Agreement shall be automatically terminated upon the coming into effect of the Master Services (2019–2021) Agreement.

Pursuant to the Master Services (2019–2021) Agreement, (i) the relevant member(s) of the TCL Associates may from time to time engage relevant member(s) of the Group for the provision of Services (i.e., the Electronics Services or the TCL Associates Services, as the case may be) according to its business needs, and (ii) the relevant member(s) of the Group may from time to time engage TCL Associates for the provision of Services (i.e., the Electronics Services or the TCL Associates Services, as the case may be) according to its business needs. The terms of such engagement would be based on the Master Services (2019–2021) Agreement and subject to the individual agreement(s) to be entered into by the relevant parties

(c) Master Brand Promotion (2019–2021) Agreement

As part the Restructuring of the TCL Corporation Group, TCL Corporation and TCL Holdings have entered into a material assets restructuring agreement, pursuant to which, among others, TCL Holdings and its subsidiaries from time to time (therefore including the Company as of the date hereof) would be entitled to share the right of use of certain of TCL Corporation’s registered trademarks including the “TCL” trademark with TCL Corporation, provided that TCL Holdings shall have the duty to maintain and promote the brand image of the “TCL” trademark used by members of TCL Holdings Group (for this purpose includes the Company and its Subsidiaries). The Group’s right to use TCL Corporation’s registered trademarks including the “TCL” trademark is therefore derived from the material assets restructuring agreement. As the aforesaid restructuring agreement already covers the use of TCL registered trademarks by the Group, it is not necessary for any separate agreement to be entered into between TCL Corporation and the Company for such use, nor any sublicensing agreement be entered into between TCL Holdings and the Company for such use, and no royalty fee is payable by the Company to TCL Holdings for the use of TCL Corporation’s registered trademarks, but the Company will pay the promotion fee pursuant to the Master Brand Promotion (2019–2021) Agreement for advertisement, promotion and maintenance of the “TCL” trademark.

On 14 June 2019, the Company entered into the Master Brand Promotion (2019–2021) Agreement with TCL Holdings, pursuant to which the Company shall pay a promotion fee to TCL Holdings on a monthly basis, and that TCL Holdings, being a promoter of the “TCL” trademark, will use the promotion fee for advertisement, promotion and maintenance of the “TCL” trademark.

As a result of the above agreements, the Group would be entitled to use the various TCL Corporation’s registered trademarks by paying the promotion fee to TCL Holdings pursuant to the Master Brand Promotion (2019–2021) Agreement, and that the Company need not pay any license fee to TCL Corporation or TCL Holdings for the Group’s rights of use of the said trademarks.

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2. Principal terms of the Non-exempt Transactions and internal control measures

(a) Principal terms of the Non-exempt Transactions

In the Non-exempt Transactions, (i) the relevant TCL Associates and the Company (and/or members of the Group) may from time to time engage the other party for the sale to and/or purchase of the Goods as set out in Section 1(a) of this letter above; (ii) the relevant TCL Associates and the Company (and/or members of the Group) may from time to time engage the other party for the provision of Services to the other party according to its business needs as set out in Section 1(b) of this letter above; and (iii) the Company shall pay a brand promotion fee to TCL Holdings for its advertisement, promotion and maintenance of the “TCL” trademark as set out in Section 1(c) of this letter above.

The Non-exempt Transactions are conditional upon the Company having obtained the approval of the Independent Shareholders at the EGM of the Company.

In respect of each of the transactions under the Non-exempt Transactions, the Group will procure the connected persons to enter into sales/purchase orders and/or service contracts (refer to as “order” or “sales contract(s)” in general hereinafter, where appropriate). In general, the terms of the engagements and orders in respect of the Non-exempt Transactions must be fair and reasonable so far as the Group is concerned and each sales contract that the Group and the connected persons to be entered into must pass through the Group’s internal approval procedures (please refer to the sub-section “Internal Control Measures” below for more details on the Group’s internal approval procedures) in order to ensure that each of the engagements and orders in respect of each of the transactions will be conducted on normal commercial terms similar or better than those offered by Independent Third Parties so far as the Group is concerned.

(b) Internal Control Measures

To ensure that the terms of each of the Non-exempt Transactions (for both receivable and payable transactions) proposed to be entered into by the Group are fair and reasonable and are on normal commercial terms so far as the Group is concerned, the Group has adopted a set of comprehensive internal control procedures and corporate governance measures. Please refer to the section headed “Internal Control Procedures” of the Board Letter of this Circular for details on the respective internal control procedures adopted for transactions contemplated under the Master Sale and Purchase (2019–2021) Agreement, Master Services (2019–2021) Agreement and Master Brand Promotion (2019–2021) Agreement. The following is a summary of the salient features of their internal control procedures and corporate governance measures.

- (i) The relevant operational departments of the Group will, before the Group enters into any transactions contemplated under, or enter into any sub-contract pursuant to, an agreement for continuing connected transactions, first obtain relevant price quotations and other key terms for providing products and services of similar level and types from at least two Independent Third Parties for reference in relation to market prices and terms. The internal control department, legal department and finance department of the Group will then review the terms of the proposed transactions and the draft sub-contract to ensure that the transactions would be

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conducted in accordance with the terms of the agreement and in accordance with the Company's pricing policy. In relation to each of the agreements below, the Group has taken the following key internal control procedures;

Master Sale and Purchase (2019–2021) Agreement

- a) For sourcing of Goods, the procurement department of the Group will from time to time obtain a quote for the relevant Goods from at least two Independent Third Party suppliers and enter such market information into its internal database. Before each purchase of Goods is to be made with the relevant TCL Associates, the Group will obtain quotation from the relevant TCL Associates and compare such quotation with the its internal database for such market data to ensure the price charged by TCL Associates and the terms of supply are on normal commercial terms and more favourable to the Group than those offered by Independent Third Party suppliers. The procurement department of the Group will then make an overall assessment of the terms of supply by the relevant TCL Associates and Independent Third Parties, including the quality of the Goods, past history of dealing with the such suppliers (if any), payment terms, and price of the Goods, to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2019–2021) 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.

- b) For sale of Goods, the sales and marketing team will, upon receiving proposed orders and pricing from customers, review the orders and check 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 to 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 TCL Associates is based on cost plus a percentage of profit margin, which is in the range of 5 to 10%. Before selling any Goods to TCL Associates, the sales department of the Group will first prepare the relevant contract for the sale of the Goods and submit it to the internal control department and legal department of the Group for review and approval. The internal control department and the legal department of the Group will then 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 department and the legal department have separately given their approval therefor.

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Master Services (2019–2021) Agreement

- c) In respect of Services provided to/by the Group by/to TCL Associates, in order to maintain a fair assessment of the overall terms, the Group will obtain quotations from at least two Independent Third Parties (who, as the Group considers, are able to provide the required Services of satisfactory quality and at satisfactory standard) in respect of each type of Services periodically to make sure that the Service Fees to be paid under the contract for Services are not higher than those offered to the Group by Independent Third Parties under prevailing local market conditions; and that the Service Fees to be received under the contract for Services are not lower than those received from 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 Services from them upon identification and repeat periodically.

Master Brand Promotion (2019–2021) Agreement

- d) In respect of the brand promotion arrangement to be entered into between the Group and TCL Holdings, the annual amount of the brand promotion fee payable by the Group to TCL Holdings monthly shall range from 0.25% to 2.25% of the projected annual sales revenue of the Group for the current financial year depending on the types of products and the usage of the brand promotion fee, which shall be reviewed by the Company and TCL Holdings mutually within the last month of each financial year and that the price determination for the brand promotion fee in the next financial year shall be revised accordingly with reference to the actual usage of the brand promotion fee within the financial year. Since the annual amount of the brand promotion fees payable by the Group to TCL Holdings is determined with reference to the projected annual sales of the Group for the relevant fiscal year depending on the types of products, the internal control department of the Group will closely monitor the promotion fee paid and the actual cost incurred for brand promotion of the Group, and 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. Any variation of the branding promotion fee percentage must be approved by the internal control department and the management, which would consider its effect based on the projected financial performance 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 amount payable for the financial year and/or the variation will render the relevant annual cap being exceeded, the internal control department will report to the management immediately and appropriate actions in accordance with the relevant requirements of the Listing Rules will be taken.
- (ii) Before conducting any transactions with connected persons, the finance department would confirm that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. The internal control department would on a monthly basis review the continuing connected transactions carried out in the month under review to assess, and compile a monthly report, on (i) whether the continuing connected transactions of the

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Group have been carried out in accordance with the terms of the relevant agreement and the Company's pricing policy, (ii) whether the transactions have been conducted on normal commercial terms and on terms no less favourable than those on which the Company conducted with Independent Third Parties and (iii) the amount of the transactions amount during the month under review, the aggregate amount of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded. In the report, the forecasted amount of the transactions amount for the next three months would also be set out. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, it would 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;

- (iii) The auditors of the Group will conduct annual review on the pricing and the annual caps of the Non-exempt Transactions;
- (iv) The independent non-executive Directors will conduct an annual review of Non-exempt Transactions to ensure that the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In considering whether the internal control measures and procedures which the Group has been adopting as set out above are adequate and effective, we have performed walkthrough of the internal control systems on two of the Non-exempt Transactions which involve previous relevant transactions. In relation to the Master Sale and Purchase (2019–2021) Agreement, we have reviewed three transactions, selected at random, conducted under the Master Sale and Purchase (2017) Agreement, while in relation to the Master Services (2019–2021) Agreement, we have reviewed five transactions, selected at random, under the Master After Sale Service (2017) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement, Master Subcontracting (2017 Renewal) Agreement, 2018 Master Services Agreement and/or Master Services (2019) Agreement (please refer to the respective sub-sections in relation to our analysis of the pricing basis for each of the Non-exempt Transactions for details) and obtained relevant supporting documents including, amongst others, relevant quotations from Independent Third Parties, the approvals from the internal control department, legal department and/or finance department, and records of the actual transaction amounts incurred. We noted that the quotations are obtained from sizeable Independent Third Parties. Based on our review of the information and examination of the internal control system, we are satisfied that the internal control measures have been properly maintained by the Group and that the transactions were conducted on normal commercial terms with price and terms comparable to, or no less favorable than, the market rates.

Further, given that (i) each Non-exempt Transactions (for both payable and receivable transactions) with the connected persons will continue to be compared with the price and terms of similar products and services from/to Independent Third Parties to ensure that the engagements and orders in respect of each of the Non-exempt Transactions will be conducted on normal commercial terms; (ii) there is appropriate segregation of duties in the approval process in each of the engagements and orders; (iii) a monitoring system is in place with the finance department of the Group ensuring that the annual caps are not exceeded from time to time; (iv) a monthly report reviewing the continuing connected transactions will be compiled by the internal control department; and (v) the pricing and the annual caps of the Non-exempt Transactions will be annually reviewed by the auditors, the internal audit department and the

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independent non-executive Directors of the Group, we are satisfied that the internal control measures adopted by the Group will (i) ensure that the price and terms for the engagement with the connected persons will be entered on normal commercial terms and are comparable to, or no less favorable than, the market rates (ii) there is an effective operating system in place to monitor the annual caps.

In light of the above, we are of the view that the internal control measures and procedures are adequate and effective in ensuring that the Non-exempt Transactions have been and will be conducted on normal commercial terms and that the relevant annual caps will not be exceeded and also that the internal control measures adopted by the Group 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.

3. Background information of the Group and the connected persons and the reasons for, and benefits of, entering into the Non-exempt Transactions

(a) Background information of the Company

TCL Electronics Holdings Limited is listed on the Main Board of the Stock Exchange and is engaged in the research and development, manufacturing and sale of consumer electronic products. It is based in China and its products are sold globally. It is the second largest global television provider in terms of shipment.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2018 as extracted from the Annual Report.

	For the year ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Audited)	(Audited)
Revenue – Sales of Goods	45,581,970	40,822,357
(Cost of Sales)	<u>(38,629,813)</u>	<u>(34,521,113)</u>
Gross profit	<u>6,952,157</u>	<u>6,301,244</u>
Profit for the year	<u>934,850</u>	<u>796,861</u>

According to the Annual Report, the Group's principal business activities are the manufacturing and sales of color televisions. Revenue for the years ended 31 December 2017 and 2018 were approximately HK\$40.8 billion and HK\$45.5 billion respectively, representing an annual growth of 11.7%, which was mainly due to the increase in sales from overseas markets by 29.5% and the decrease in sales from the PRC market by 4.6%.

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Additionally, the cost of sales in 2018 amounted to HK\$38.6 billion, an increase of approximately 11.9% from HK\$34.5 billion in 2017, while gross profit increased by 10.3% from HK\$6.3 billion in 2017 to HK\$6.9 billion in 2018, as a result of the Group's increased cost control. Based on the Group's increased cost control measures, its expenses ratio decreased by 0.4% to 12.7% in 2018, which was the lowest level since 2003.

Looking forward, it is expected that the Group will seize the opportunity to develop smart Internet business while enhancing efficiency and maintaining continuous business growth by following the theme of "enhancing efficiency, breaking through bottleneck and upgrading innovation" and adopting the first-mover advantage of the globalization strategy. The Group will, therefore, consolidate its existing television business while at the same time actively developing diversified businesses – smart AV, commercial display and smart home – to strengthen its product technology, industry chain, brand promotion. To conduct its globalization strategy, the Group will utilize its comprehensive global network and channel to expand its local and international business segments. For example, increasing its market share and profitability in Europe and Southeast Asia and exploring emerging markets such as India and Russia to seek a new revenue drive. Considering the above, it is anticipated that the Group will establish new capability for its future development and capture more new profit growth opportunities, and ultimately, create a greater value for its shareholders.

(b) Background information of the connected persons

TCL Holdings is a company established under the laws of the PRC with limited liability, and is principally engaged in equity investment, real estate leasing, conference services, software development, developing manufacturing and distributing home appliances including communication devices, audio/video products, LCD Televisions, air-conditioners, washing machines, etc.

TCL Associates are the associate(s) of TCL Holdings.

(c) The reasons for, and benefits of, entering into the Non-exempt Transactions

As the Directors consider that the Non-exempt Transactions contemplated under the Master Sale and Purchase (2019) Agreement and Master Services (2019) Agreement have been satisfactory, and in order to allow the Company to continue such continuing connected transactions so as to meet the Company's business needs in its daily operation, the Directors intend to continue such continuing connected transactions under the Master Sale and Purchase (2019–2021) Agreement and Master Services (2019–2021) Agreement and strengthen the cooperation between the Group with TCL Holdings, the new counterparties to the relevant transactions after the restructuring TCL Corporation.

In relation to the Master Brand Promotion (2019–2021) Agreement, since the Company has been using the "TCL" trademarks for the marketing and distribution of Electronics Products, the Directors consider that the continuous development of the goodwill and brand image of such trademarks as important to the successful long-term operation of the business of the Group, and that the Master Brand Promotion (2019–2021) Agreement allows the Group to enjoy the benefits brought by the developing goodwill and brand image associated with the promotion of such trademarks at attractive rates.

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The Non-exempt Transactions are entered into between the Group and TCL Holdings to regulate the transactions contemplated thereunder which are recurrent, regular and continuing in similar nature between the Group and TCL Corporation. Having considered that (i) the established business relationship between the Group and TCL Corporation under the previous continuing connected transaction arrangements; (ii) the proven track records the above parties have in transacting with the Group; and (iii) the good payment records the above parties have maintained with the Group, we are of the view that the Non-exempt Transactions will provide an efficient and effective mean for the Group to carry out certain of its business activities and hence we are of view that the Non-exempt Transactions will be carried out in the ordinary and usual course of business 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.

4. Principal terms of the Non-exempt Transactions and basis for determining the respective annual caps

(a) Historical transaction amounts

The following table sets out the respective historical figures of the continuing connected transactions described above for the two years ended 31 December 2018 and the three months ended 31 March 2019.

	For the year ended 31 December 2017 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2018 (audited) (for actual amount only) HK\$'000	For the three months ended 31 March 2019 (unaudited) (for actual amount only)/ For the year ending 31 December 2019 (for original annual cap only) (Note 2) HK\$'000
Continuing Connected Transactions (Note 1)			
<i>Master Sale and Purchase (2019–2021) Agreement</i>			
Sourcing of Goods			
– Actual	12,497,141	12,892,395	2,344,476
– TCL Holdings Group % (Note 4)	0.8%	5.0%	2.5%
– Original annual cap	25,714,019	13,153,107	15,021,622
Sale of Goods			
– Actual	4,501,508	5,566,381	1,075,998
– TCL Holdings Group % (Note 4)	87.6%	99.4%	99.3%
– Original annual cap	18,201,831	5,739,212	7,148,383

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	For the year ended 31 December 2017 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2018 (audited) (for actual amount only) HK\$'000	For the three months ended 31 March 2019 (unaudited) (for actual amount only)/ For the year ending 31 December 2019 (for original annual cap only) (Note 2) HK\$'000
Continuing Connected Transactions (Note 1)			
<i>Master Services (2019–2021) Agreement</i>			
<i>Master After Sale Service (2017) Agreement</i>			
– Actual	298,550	311,034	86,394
– TCL Holdings Group % (Note 4)	98.1%	82.5%	85.5%
– Original annual cap	499,622	425,035	563,141
<i>Master Subcontracting (2017 Renewal) Agreement</i>			
Subcontracting by TCL Corporation Group			
– Actual	4,960	—	—
– TCL Holdings Group % (Note 4)	0.0%	0.0%	0.0%
– Original annual cap	27,390	95,829	94,809
Subcontracting by the Group			
– Actual	651	3,874	6
– TCL Holdings Group % (Note 4)	100.0%	41.9%	100.0%
– Original annual cap	2,933	6,895 (Note 3)	7,661 (Note 3)
<i>Master Logistics Service Supply (2017 Renewal) Agreement</i>			
– Actual	352,789	404,708	130,119
– TCL Holdings Group % (Note 4)	100.0%	100.0%	100.0%
– Original annual cap	733,229	514,484	611,722

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	For the year ended 31 December 2017 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2018 (audited) (for actual amount only) HK\$'000	For the three months ended 31 March 2019 (unaudited) (for actual amount only)/ For the year ending 31 December 2019 (for original annual cap only) (Note 2) HK\$'000
Continuing Connected Transactions (Note 1)			
<i>2018 Master Services Agreement</i>			
Service fees paid by the Group			
Platform services			
– Actual	N/A	5,358	336
– TCL Holdings Group % (Note 4)	N/A	100.0%	100.0%
– Original annual cap	N/A	11,237	16,559
IT and other services			
– Actual	N/A	2,430	6,809
– TCL Holdings Group % (Note 4)	N/A	100%	100%
– Original annual cap	N/A	11,363	270,377
Service fees paid by TCL Corporation Group			
Platform services			
– Actual	N/A	8,047	1,824
– TCL Holdings Group % (Note 4)	N/A	100%	100%
– Original annual cap	N/A	12,500	18,750
Other services			
– Actual	N/A	28,050	15,919
– TCL Holdings Group % (Note 4)	N/A	0%	0%
– Original annual cap	N/A	119,572	179,843

Note 1: For easy comparison of the historical figures, names of the new master agreements are used herein.

Note 2: The respective historical transaction figures in relation to the Master Sale and Purchase (2019–2021) Agreement and Master Services (2019–2021) Agreement for the three months ended 31 March 2019 represent the aggregate of the actual transaction amounts under the respective previous existing agreements from 1 January 2017 to 31 March 2019, while the original annual caps for the year ending 31 December 2019 represent that of the Former Agreements.

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Note 3: The original annual cap for the year ended 31 December 2018 for subcontracting fee received from TCL Corporation Group under the Master Subcontracting (2017 Renewal) Agreement was HK\$0, while the Company subsequently on 31 January 2018 revised such annual cap to HK\$6,895,000 for the year ended 31 December 2018 and HK\$7,661,000 for the year ending 31 December 2019. Under the Listing Rules, the Company has to re-comply with all the relevant disclosure requirements in relation to such revised annual cap, however, since all the applicable percentage ratios of such revised annual cap is less than 0.1%, the transaction contemplated under Master Subcontracting (2017 Renewal) Agreement remains fully exempt after revision of annual cap pursuant to Rule 14A.76(1)(a) of the Listing Rules.

Note 4: The actual transaction amounts represent the historical transactions conducted between the Group and certain previous members of the TCL Corporation Group, among which some have become members of the TCL Holdings Group following the Restructuring. The “TCL Holdings Group %” therefore refers to the approximate proportion of historical transaction amounts of the Group’s transactions with those entities which were previously members of the TCL Corporation Group but now members of the TCL Holdings Group following the Restructuring, to the actual historical transaction amounts. For the avoidance of doubt, the Group’s transactions with those entities which had been connected persons of the Company by being members of the TCL Corporation Group at any point of time from 2017 to March 2019 yet had ceased to be so prior to March 2019 for reasons other than the Restructuring were not counted towards the “TCL Holdings Group %”.

(b) Proposed annual caps of the Non-exempt Transactions

Set out below are the proposed annual caps of the Non-exempt Transactions for the three years ending 31 December 2021 and the relevant breakdowns:

	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Proposed annual caps			
<i>Master Sale and Purchase (2019–2021) Agreement</i>			
– Sourcing of Goods	5,795,689	12,216,442	13,130,786
– Sale of Goods	10,251,464	11,404,054	12,542,273
<i>Master Services (2019–2021) Agreement</i>			
– Services received by the Group	1,726,012	1,944,358	2,139,688
– Services provided by the Group	260,586	360,637	475,473
<i>Master Brand Promotion (2019–2021) Agreement (Note)</i>			
– Brand Promotion Fee	637,014	930,074	992,555

Note: There is no historical transaction figures for Master Brand Promotion (2019–2021) Agreement since it is not a renewal of any existing agreement and there are no predecessor agreements. In particular, the nature of Master Brand Promotion (2019–2021) Agreement is different from that of Master TCL Trademark License (2017 Renewal) Agreement since the former agreement concerns provision of promotion services, while the latter concerns licensing of trademarks.

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(c) *Principal terms of the Non-exempt Transactions and basis for determining their respective pricing, terms and proposed annual caps*

1. Master Sale and Purchase (2019–2021) Agreement

Pursuant to the Master Sale and Purchase (2019–2021) Agreement, (i) the relevant TCL Associates may from time to time sell and the Company may from time to time purchase and procure members of the Group to purchase the Goods, and (ii) the relevant TCL Associates may from time to time purchase and the Company may from time to time sell and procure members of the Group to sell the Goods. Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of TCL Associates 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 (2019–2021) Agreement.

Basis for determining price and other terms under the Master Sale and Purchase (2019–2021) Agreement

As set out in the Master Sale and Purchase (2019–2021) Agreement, the pricing policies of the Group are as follows:

Sourcing of Goods

- (1) Depending on the nature of Goods to be purchased by the Group, the selling price of the Goods offered by the relevant TCL Associates to the Group generally is determined either with reference to the market price of the relevant Goods. For Goods with comparable products 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 the relevant TCL Associates represents the market price.
- (2) The procurement department of the Group will also from time to time obtain a quote for the relevant Goods from at least two Independent Third Party suppliers and enter such market information in its internal database. Before each purchase of Goods is to be made with the relevant TCL Associates, the Group will obtain quotation from the relevant TCL Associates and compare the price offered by the relevant TCL Associates for the relevant Goods with the its internal database for such market data to ensure the price charged by TCL Associates 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 Goods 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.

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- (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 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 to 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 TCL Associates is based on cost plus a percentage of profit margin, which is in the range of 5–10% and is not lower than the profit margin of comparable goods sold by the Group to Independent Third Parties).
- (3) This pricing policy, including the percentage of profit margin as mentioned in the paragraph above is applicable to all sales of Goods 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 (2019–2021) 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.

As mentioned above, the price determination mechanism involves personnel from different teams and/or departments of the Company going through steps for making comparison between the price concerned and that of comparable goods sold or purchased by Independent Third Parties. All such personnel are independent of TCL Holdings and its associates.

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

Our analysis of the pricing basis of the Master Sale and Purchase (2019–2021) Agreement

We have reviewed the Master Sale and Purchase (2019–2021) 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 Services (2019–2021) Agreement, we note that the terms thereof are incorporated substantially from the Master Sale and Purchase (2019) Agreement, save for (i) the change of counterparty from TCL Industries and various other TCL Associates to TCL Holdings (for itself and on behalf of its Associates); and (ii) the change of the duration of the agreement. Further, the Group is not restricted from purchasing/selling any Goods from/to Independent Third Parties. If the relevant member of the Group decides to purchase/sell any Goods from/to the relevant TCL Associates, it shall be conducted based on normal commercial terms that are no less favourable than the terms offered by Independent Third Parties and which are in the interests of the Group.

The pricing basis of the Master Sale and Purchase (2019–2021) Agreement is determined by 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 the Goods offered to/by TCL Associates as at the time when the relevant sale and purchase are performed. In this regard, we have obtained, reviewed and

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examined (i) three samples of sale and purchase contracts/invoices and other documents and information (e.g. description of the items being sold and purchased) under the Master Sale and Purchase (2017) Agreement made between the Group and TCL Corporation, and compared them to the figures/information of similar products offered to/by Independent Third Parties and/or offered by TCL Corporation to other parties. In our review of the purchase and sale contracts/invoices, we have reviewed the items being purchased and sold and their respective 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 Independent Third Parties and/or offered by TCL Corporation 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 is in line with the market unit prices and that the pricing basis adopted in the Master Sale and Purchase (2019–2021) Agreement is fair and reasonable.

Furthermore, we note from the Annual Report that annual review of the continuing connected transactions contemplated under the Master Sale and Purchase (2017) Agreement (of which the terms are consistent with the Master Sale and Purchase (2019) Agreement and hence the Master Sale and Purchase (2019–2021) 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 Sale and Purchase (2017) 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 more or no less favourable to the Group than those available from/to Independent Third Parties. The Annual Report also confirms that the Company's auditors have 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 (2019) Agreement and Master Sale and Purchase (2019–2021) 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 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 (2019–2021) 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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Basis for determining and discussion of the annual caps under the Master Sale and Purchase (2019–2021) Agreement

Set out below are the proposed annual caps for the Master Sale and Purchase (2019–2021) Agreement for the three years ending 31 December 2021.

Proposed annual caps	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
– Sourcing of Goods	5,795,689	12,216,442	13,130,786
– Sale of Goods	10,251,464	11,404,054	12,542,273

In determining the annual caps for the Master Sale and Purchase (2019–2021) Agreement, the Group has taken into account, among other things,

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2017) Agreement (*Note*);
- (ii) in respect of sourcing of Goods, 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), together with the prevailing market rate for similar raw materials, semi-finished materials and finished goods; and
- (iii) in respect of sale of Goods, the relevant TCL Associates' projected requirement of raw materials, semi-finished materials and finished goods for its operations, which is expected to increase substantially, together with the prevailing market rate for similar raw materials, semi-finished materials and finished goods.

Note: Whilst the counterparties covered by the Master Sale and Purchase (2019–2021) Agreement and the Master Sale and Purchase (2017) Agreement may not be identical, historical figures of the Master Sale and Purchase (2017) Agreement are still of relevance in determining the proposed annual caps as they act as a starting point and reference for further adjustments when excluding the entities which are no longer covered in the Master Sale and Purchase (2019–2021) Agreement.

Our analysis of the proposed annual caps for the Master Sale and Purchase (2019–2021) Agreement

In determining the fairness and reasonableness of the proposed annual caps under the Master Sale and Purchase (2019–2021) Agreement, we have taken into consideration the following:

Sourcing of Goods

- (i) According to the Annual Report, the Group is ranked second in the global LCD television market with a market share of 11.6% in terms of shipment in 2018 according to the Sigmaintell data, and is also ranked third in the PRC LCD television market with a market

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share of 12.8% in terms of turnover in 2018 with reference to the CMM omni-channel data. As discussed with the Company and as set out in the section titled “Background information of the Group” above, while the Group aims to gradually increase its market share in the global LCD television market in the three years ending 31 December 2021, it is also actively diversifying its businesses – smart AV, commercial display and smart home – to strengthen its product technology, industry chain, and brand promotion.

- (ii) For the year ended 31 December 2018, the actual amounts of Goods sourced under the Master Sale and Purchase (2017) Agreement were approximately HK\$12.9 billion, representing an increase of approximately 3.3% from the actual amount of Goods sourced of approximately HK\$12.5 billion for the year ended 31 December 2017.
- (iii) For the three months ended 31 March 2019, the actual amount of Goods sourced under the Master Sale and Purchase (2017) Agreement was approximately HK\$2.3 billion. If such amount is annualised, the amount of Goods sourced under the Master Sale and Purchase (2017) Agreement for the year ending 31 December 2019 is estimated to be approximately HK\$9.4 billion, representing a drop of approximately 27.3% from the actual amount of Goods sourced for the year ended 31 December 2018.
- (iv) As discussed with the management, we note that the amount of Goods, in particularly raw materials, to be sourced for the year ending 31 December 2019 is expected to decrease substantially. This is because after the Restructuring, CSOT, the major supplier of the Group’s panel for its LCD television production and a subsidiary of TCL Corporation, has become independent of the Group and is no longer considered a connected person of the Group, as such, transactions conducted with CSOT thereafter are no longer counted in the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019–2021) Agreement. Despite CSOT has remained the major supplier of the Group’s panel and there has been no change in the Group’s business relationship with CSOT after the Restructuring, it is expected the annual cap amount of the existing Master Sale and Purchase (2017) Agreement of HK\$15.0 billion would be underutilized after excluding the transactions with CSOT and therefore, with due consideration, the proposed annual cap for the year ending 31 December 2019 under the Master Sale and Purchase (2019–2021) Agreement is revised to be substantially lower. Meanwhile, as confirmed by the management, the Group has also sourced goods comparable to those Goods provided by CSOT from other Independent Third Parties, as such these transactions are not covered under the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019–2021) Agreement. For the list of companies that were previously included in the Master Sales and Purchase (2017) Agreement but are now excluded in the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019–2021) Agreement, please refer to the section titled “Background of the Non-exempt Transactions” for details.
- (v) According to the management, the amount of the sourcing of Goods under the Master Sale and Purchase (2019–2021) Agreement for the two years ending 31 December 2020 and 2021 is expected to be substantially higher. This is because the Group is in the process of diversifying its businesses to develop smart AV, commercial display and smart home businesses, and it is expected that the sourcing of Goods, in particularly Goods in relation to smart home products such as air conditioners, fridges, air freshener and etc., will increase substantially for the two

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years ending 31 December 2021. According to the Annual Report, in 2018, the Group has established strategic cooperation with Sunshine 100 China Holdings Limited, a listed company on the Main Board of the Stock Exchange (stock code: 02608), to build shared smart apartments and further develop its smart home business. It is expected that the Group will continue to focus on developing its sales platforms for its smart home business in 2019, before increasing its investment in the sourcing of Goods in relation to smart home products for the two years ending 31 December 2021. In addition, the Group has just established a PRC sales center and an overseas sales center with certain TCL Associates to strengthen its overseas and PRC markets in early 2019, therefore the sourcing of Goods is expected to pick up as the sales centers establish their presence in the new markets in the coming two years. In this respect, we are of the view that (a) the amount of Goods to be sourced under the Master Sale and Purchase (2019–2021) Agreement for the year ending 31 December 2019 of approximately HK\$5.8 billion, which represents a drop of approximately 55.0% from the actual amount of Goods sourced under the Master Sale and Purchase (2017) Agreement of approximately HK\$12.9 billion for the year ended 31 December 2018, as a result of excluding the transactions with CSOT after the Restructuring; (b) the amount of Goods to be sourced under the Master Sale and Purchase (2019–2021) Agreement for the year ending 31 December 2020 of approximately HK\$12.2 billion, which is twice the estimated amount of Goods to be sourced in 2019 of HK\$5.8 billion, as a result of the projected increase in the Group's purchase of Goods from the relevant TCL Associates as the Group diversifies its businesses to include smart home business and develops its overseas and PRC markets; and (c) the amount of Goods to be sourced under the Master Sale and Purchase (2019–2021) Agreement for the year ending 31 December 2021 of approximately HK\$13.1 billion, which represents a year-on-year increase of approximately 7.5% respectively from 2020, are reasonable.

Sale of Goods

- (vi) The actual amount of Sale of Goods under the Master Sale and Purchase (2017) Agreement was approximately HK\$4.5 billion and HK\$5.6 billion respectively for the two years ended 31 December 2018, representing an increase of approximately 23.7%, as well as a utilization rate of 97.0% of the original annual cap of HK\$5.7 billion for the year ended 31 December 2018.
- (vii) For the three months ended 31 March 2019, the actual amount of Sale of Goods under the Master Sale and Purchase (2017) Agreement was approximately HK\$1.1 billion. As discussed with the management, for the three months ended 31 March 2018, the actual amount of sale of Goods was approximately HK\$1.3 billion, which accounted for approximately 22.6% of the actual amount of sale of Good of approximately HK\$5.6 billion for the year ended 31 December 2018 as disclosed in the section titled “Principal terms of the Non-exempt Transactions and basis for determining the respective annual caps”. In this regard, we are of the view that slight difference between the actual amount of the sale of Goods in the first quarter of 2018 and 2019 is reasonable and reflects the fact that in general the sale of Goods picks up the second half of the year as the sales season sets in.
- (viii) Meanwhile, as disclosed in the Annual Report, the Group has been having a stable growth in its revenue and recorded an annual growth of approximately 11.7% in 2018, and that the Group has been actively diversifying its businesses and has just developed its PRC and overseas sales centers. As such, it is expected that the sale of Goods, in particularly finished

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goods, will increase in the second half of the year in 2019 and for the two years ending 31 December 2021, as the sales season sets in and as the Group makes progress in its business diversification and expands its geographical markets.

- (ix) As discussed with the management, the Group will continue to consolidate and expand its existing TV business. According to the Annual Report, the sales volume of the Group's LCD televisions increased by 23.1% to approximately 28.61 million television sets for the year ended 31 December 2018 from approximately 23.23 million television sets for the year ended 31 December 2017. The following table sets out the growth of the sales volume of the Group's LCD televisions for the two years ended 31 December 2018 and for the first quarter of 2018 and 2019:

	For the three months ended			For the year ended		
	31 March			31 December		
	2018	2019	Year-on-year growth	2017	2018	Year-on-year growth
Total sales volume of LCD televisions (million sets)	6.37	8.44	32.5%	23.23	28.61	23.1%

The Group has also been implementing its globalization strategy by utilizing its comprehensive global network and channel to expand its local and international business segments, resulting in the sales volume in the overseas markets to increase by approximately 29.5% annually for the year ended 31 December 2018. According to the management, the "TCL" brand has been gaining traction in the overseas market with the North American market making significant breakthrough, and it is expected that there will be higher demand for the Group's products from the overseas markets in the coming years.

- (x) Given the growth in the business of the Group as a result of the increase in sales volume of LCD televisions and the diversification and expansion of its businesses as discussed above, it is expected that the relevant TCL Associates' requirement of raw materials, semi-finished materials and finished goods for its operations will increase substantially, together with the prevailing market rate for similar raw materials, semi-finished materials and finished goods.
- (xi) In addition, given that the terms for the sale of Goods to the relevant TCL Associates shall be no less favourable than those to Independent Third Parties and such sales of Goods would also enhance the profitability of the Group, we are of the view that it is reasonable to set the annual caps for the sale of Goods under the Master Sale and Purchase (2019–2021) Agreement based on the projected sales to the relevant TCL Associates. In this respect, we are of the view that (a) the increase of annual cap for sales of Goods for the year ending 31 December 2019 to approximately HK\$10.3 billion under the Master Sale and Purchase (2019–2021) Agreement, which represents an increase of approximately 43.4% from the original annual caps for the sales of Goods of HK\$7.1 billion for the year ending 31 December 2019 under the Master Sale and Purchase (2017) Agreement; and (b) the amount of sales of Goods under the Master Sale

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and Purchase (2019–2021) Agreement for the year ending 31 December 2020 and 2021 of approximately HK\$11.4 billion and HK\$12.5 billion respectively, which represents a year-on-year increase of approximately 11.1% and 10.0% respectively from the respective prior year, are reasonable.

With the above considerations, we have obtained and reviewed the relevant schedules and/or the relevant supporting documents for the composition of the relevant proposed annual caps and they were found to be proper.

Under the Master Sale and Purchase (2019) Agreement, the proposed annual caps for the sourcing of Goods and sale of Goods for the period from 10 April 2019 to 30 September 2019 are HK\$533.4 million and HK\$533.4 million respectively, if such amounts are annualised, the estimated proposed annual caps for the sourcing of Goods and sale of Goods for the year ending 31 December 2019 under the Master Sale and Purchase (2019) Agreement are approximately HK\$1.1 billion and HK\$1.1 billion respectively, which is about HK\$4.7 billion and HK\$9.2 billion lower than the proposed annual caps set for the sourcing of Goods and sales of Goods of HK\$5.8 billion and HK\$10.3 billion respectively for the year ending 31 December 2019 under the Master Sale and Purchase (2019–2021) Agreement. As disclosed in the 2019 April Announcement, the Master Sale and Purchase (2019) Agreement was entered into as a short-term temporary arrangement to allow the Company to continue such continuing connected transactions so as to meet the its business needs in its daily operation. As discussed with the management, the proposed annual caps under the Master Sale and Purchase (2019) Agreement were set at a lower level than its actual business needs and less than 5% under Rule 14A.76(2)(a) on the date of the agreement on 10 April 2019 (the day after the Company was notified of the Restructuring), as the Company requires time to prepare the relevant documentation for obtaining clearance from the Stock Exchange and approval from Independent Shareholders as required under Rule 14A.76(2)(a) but wished to continue such continuing connected transactions in its daily operation. As such, the estimated annualised proposed annual cap under the Master Sale and Purchase (2019) Agreement is not representative of the Company's actual business needs and is lower than the proposed annual cap under the Master Sale and Purchase (2019–2021) Agreement for the year ended 31 December 2019. To meet the business needs of the Company, the proposed annual caps under the Master Sale and Purchase (2019–2021) Agreement have been revised to reflect the actual demand of the Company for entering into the relevant transactions, and as mentioned in the previous paragraph, we have assessed and are satisfied with its fairness and reasonableness.

We also noted that under the Master Sale and Purchase (2019–2021) Agreement, the proposed annual caps for the Sale of Goods for the three years ending 31 December 2021 are approximately HK\$10.3 billion, HK\$11.4 billion and HK\$12.5 billion respectively, accounting for approximately 22.6%, 25.0% and 27.4% of the Group's total revenue of approximately HK\$45.6 billion for the year ended 31 December 2018, the reasons of such growth are stated in factors (viii) to (xi) in this section above. Meanwhile, the proposed annual caps for the sourcing of Goods from the relevant TCL Associates for the three years ending 31 December 2021 are approximately HK\$5.8 billion, HK\$12.2 billion and HK\$13.1 billion, accounting for approximately 15.0%, 31.6% and 33.9% of the Group's cost of sales of approximately HK\$38.6 billion for the year ended 31 December 2018, the reasons of such growth are stated in factors (iv) to (v) in this section above. In this respect, we are of the view that there is and would be no excessive reliance of the Group on the relevant TCL Associates for the sales and/or purchases of Goods for the following reasons.

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- (i) 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 also increase in the coming years and therefore the sales to and/or purchase from the relevant TCL Associates 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 2021 shall be less than those percentages as set out in the preceding paragraph above;
- (ii) The Group has been operating and will continue to operate independently from the relevant TCL Associates and will negotiate transactions directly with them for any Goods required by the Group or the relevant TCL Associates; and
- (iii) The Group's purchases of Goods from the relevant TCL Associates is conducted for the Group to receive a stable and reliable source of supply of the necessary materials for the Group's manufacture of the Electronics Products and the necessary finished goods for the Group's operations, whilst the Group's Sales of Goods to the relevant TCL Associates is conducted to 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 the relevant TCL Associates.

Also, as the Group and the relevant TCL Associates have already established business relationship under the aforementioned agreements and the Goods provided to/by the relevant TCL Associates have been satisfactory to both parties, the continuing appointment of the relevant TCL Associates to provide the Group with the required Goods would promote the business operation of the Group. As such, the Master Sale and Purchase (2019–2021) Agreement represents an opportunity to the Group to further enhance development of the Group.

In light of the above, we are of the view that the Master Sale and Purchase (2019–2021) Agreement and the terms thereto are on normal commercial terms and the prices of the Goods receivable and/or payable thereunder as well as the proposed annual caps for the Master Sale and Purchase (2019–2021) Agreement are properly estimated 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.

2. Master Services (2019–2021) Agreement

Pursuant to the Master Services (2019–2021) Agreement, (i) relevant member(s) of the TCL Associates may from time to time engage relevant member(s) of the Group for the provision of Services according to its business needs, (ii) relevant member(s) of the Group may from time to time engage TCL Associates for the provision of Services according to its business needs. The terms of such engagement would be based on the Master Services (2019–2021) Agreement and subject to the individual agreement(s) to be entered into by the relevant parties.

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Basis for determining price and other terms under the Master Services (2019–2021) Agreement

As set out in the Master Services (2019–2021) Agreement, the pricing policies of the Group are as follows:

- (i) In respect of Services provided by TCL Associates to the Group, the Service Fees together with the payment terms under any individual agreement must be determined with reference to the prevailing market rates and in any event be no less favourable than those market rates offered to the Group by Independent Third Parties of the Company for the provision of similar Services.
- (ii) In respect of Services provided by the Group to TCL Associates, the relevant Service Fees together with the payment terms under any individual agreement must be determined with reference to the prevailing market rates and in any event no less unfavourable than the rate that may be charged by the Group to Independent Third Parties of the Company for the provision of similar services.
- (iii) The relevant Service Fees may be adjusted from time to time by agreement of the relevant parties in writing subject to compliance with the Listing Rules.

Our analysis of the pricing basis of the Master Services (2019–2021) Agreement

We have reviewed the Master Services (2019–2021) 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 Services (2019–2021) Agreement, we note that the terms thereof are incorporated substantially from the Master Services (2019) Agreement. Further, the Group is not obliged to provide the relevant Services or engage the relevant TCL Associates for the provision of the relevant Services. If the relevant member of the Group decides to provide or engage the relevant TCL Associates for the provision of the relevant Services, it shall be conducted based on normal commercial terms that are more or no less favourable than the terms offered by/to Independent Third Parties and which are in the interests of the Group.

The pricing basis of the Master Services (2019–2021) Agreement is determined by the parties with reference to the prevailing market rates comparable to Services offered in the market as at the time when the relevant provision of Services is performed. In determining whether the pricing basis adopted in the Master Services (2019–2021) Agreement is fair and reasonable, in respect of the Services to be provided to/by the Group, we have obtained, reviewed and examined (i) five samples of service contracts and other documents and information (i.e. description of the Services) under the Master After Sale Service (2017) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement, Master Subcontracting (2017 Renewal) Agreement, 2018 Master Services Agreement and/or Master Services (2019) Agreement made between the Group and TCL Corporation as well as the relevant TCL Associates, and compared them to the figures/information of similar services provided by/to Independent Third Parties. In our review of the service contracts, we have reviewed the services rendered and the service fees paid by/to the Group. The figures/information is a list containing different relevant services (including services similar to those provided in the service contracts reviewed) with the relevant market service fee chargeable by/to

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Independent Third Parties and/or offered by TCL Corporation and the relevant TCL Associates to other parties as recorded by the Group. The comparison shows that the service fees paid by/to the Group to/by TCL Corporation and the relevant TCL Associates is in line with the market service fees.

Based on our review of the documents, we noted that in respect of the service fees paid or to be paid by the Group to TCL Corporation and/or the relevant TCL Associates, such service fees are in line with the market service fees offered by Independent Third Parties and were or would be comparable to, or no less favorable than, such market prices, while in respect of the service fees received or to be received by the Group from TCL Corporation and/or the relevant TCL Associates, such service fees are in line with the market service fees offered to Independent Third Parties and were or would be comparable to, or no less unfavorable than, such market prices. As such, we are of the view that the pricing basis adopted in the Master Services (2019–2021) Agreement is fair and reasonable.

Furthermore, we note from the Annual Report that annual review of the continuing connected transactions contemplated under the Master After Sale Service (2017) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement, Master Subcontracting (2017 Renewal) Agreement and 2018 Master Services 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 aforementioned agreements 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 more or no less favourable to the Group than those available from/ provide to Independent Third Parties. As discussed with the management, there have been sufficient comparable transactions in relation to the said continuing connected transactions for the independent non-executive Directors to judge whether the transactions were on normal commercial terms, as the Services rendered were in the ordinary and usual course of business and often common in the marketplace. The Annual Report also confirmed that the Company's auditors have 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 Services (2019–2021) 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 the light of the above, we are of the view that the terms and the price determination of the Master Services (2019–2021) 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis for determining and discussion of the annual caps under the Master Services (2019–2021) Agreement

Set out below are the proposed annual caps for the Master Services (2019–2021) Agreement for the three years ending 31 December 2021:

Proposed annual caps	For the year ending 31 December 2019 HK\$'000	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Services received by the Group	1,726,012	1,944,358	2,139,688
Services provided by the Group	260,586	360,637	475,473

In determining the annual caps for the Master Services (2019–2021) Agreement, the Group has taken into account, among other things,

- (i) the historical amounts of the relevant transactions under the Master After Sale Service (2017) Agreement, Master Subcontracting (2017 Renewal) Agreement, Master Logistics Service Supply (2017 Renewal) Agreement and 2018 Master Services Agreement (*Note*);
- (ii) in terms of Services to be provided to the Group, the Group's plan on current and future information transformation and capacity enhancement, which specifically, includes the projected number of relevant projects (including but not limited to IT projects) in the upcoming three years;
- (iii) in terms of Services to be provided by the Group, the projection of the number and scale of relevant projects which TCL Associates may require Services to be provided by the Group in the upcoming three years, with reference to the Group's projected capability in providing the relevant Services;
- (iv) where applicable, the tender price offered by members of the Group in bidding projects for Services of similar nature to TCL Associates in previous years; and
- (v) the prevailing market rates of relevant Services of similar nature.

Note: Whilst the counterparties covered by the Master Services (2019–2021) Agreement and the Master Services (2017) Agreement may not be identical, historical figures of the Master Services (2017) Agreement are still of relevance in determining the proposed annual caps as they act as a starting point and reference for further adjustments when excluding the entities which are no longer covered in the Master Services (2019–2021) Agreement.

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Our analysis of the proposed annual caps for the Master Services (2019–2021) Agreement

In determining the fairness and reasonableness of the proposed annual caps under the Master Services (2019–2021) Agreement, we have taken into consideration the following:

After sale services

The actual amount of after sale services rendered under the Master After Sale Service (2017) Agreement was approximately HK\$311.0 million for the year ended 31 December 2018, representing an increase of approximately 4.1% from the prior year. For the three months ended 31 March 2019, the actual amount of after sale services rendered was approximately HK\$86.4 million under the Master After Sale Service (2017) Agreement. If such amount is annualised, the estimated amount of after sale services rendered under the Master After Sale Service (2017) Agreement for the year ending 31 December 2019 is estimated to be approximately HK\$345.6 million, representing an increase of approximately 11.1% from the actual amount of after sale services rendered for the year ended 31 December 2018.

Logistics services

For the year ended 31 December 2018, the actual amount of logistics services rendered under the Master Logistics Service Supply (2017 Renewal) Agreement was approximately HK\$404.7 million, representing a year-on-year increase of approximately 14.7% compared to the prior year. Meanwhile, for the three months ended 31 March 2019, the actual amount of logistics services rendered under the Master Logistics Service Supply (2017 Renewal) Agreement was approximately HK\$130.1 million. If such amount is annualised, the amount of logistics services rendered under the Master Logistics Service Supply (2017 Renewal) Agreement for the year ending 31 December 2019 is estimated to be approximately HK\$520.5 million, representing an increase of approximately 28.6% from the actual amount of logistics services rendered for the year ended 31 December 2018.

Operations & sales enhancement services

For the three months ended 31 March 2019, the actual amount of subcontracting, platform, IT and other services rendered under the Master Subcontracting (2017 Renewal) Agreement was approximately HK\$24.9 million. If such amount is annualized, the amount of subcontracting, platform, IT and other services rendered is estimated to be approximately HK\$99.6 million, which is about 1.08 times the actual amount of the same services rendered in 2018.

For the three years ending 31 December 2021, the proposed annual caps for the Services (including but not limited to platform services, IT and other related services, after sale services, logistics services, human resources services, planning and operational services, marketing services, financial platform services and subcontracting services) under the Master Services (2019–2021) Agreement are approximately HK\$1.7 billion, HK\$1.9 billion and HK\$2.1 billion 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 Services (2019–2021) Agreement above (i.e. the turnover of the Group has grown by approximately 11.7% for the year ended 31 December 2018); (b) the estimated gross domestic product growth in the PRC of 6.3% for 2019 according to The Asian Development Bank, which is expected to lead to an increase in the sales revenue of television(s) and in turn the demand for the Services; (c) the increase in the actual amount of Services rendered under the

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previous master agreements; and (d) the estimated increase in the Services Fees during the term of the Master Services (2019–2021) Agreement, as a result of (i) the expected increase in warranty costs incurred by the relevant TCL Associates resulting from inflation and upward adjustment in Service Fees in the market, (ii) the expected increase in diversity and complexity of the Services to meet consumers' expectations, and (iii) the expected increase in the costs of the Services including but are not limited to hardware costs and human resources costs as a result of product diversification.

With the above considerations, we have obtained and reviewed the relevant schedules and/or the relevant supporting documents for the composition of the relevant proposed annual caps and they were found to be proper.

Under the Master Services (2019) Agreement, the proposed annual cap for the aggregate amount of Service to be rendered for the period from 10 April 2019 to 30 September 2019 is HK\$510.1 million, if such amount is annualised, the estimated proposed annual cap for the year ending 31 December 2019 is approximately HK\$1.0 billion, which is about HK\$3.2 billion lower than the proposed annual cap of HK\$3.7 billion for the year ending 31 December 2019 under the Master Services (2019–2021) Agreement. As disclosed in the 2019 April Announcement, the Master Services (2019) Agreement was entered into as a short-term temporary arrangement to allow the Company to continue such continuing connected transactions so as to meet the its business needs in its daily operation. As discussed with the management, the proposed annual cap under the Master Services (2019) Agreement was set at a lower level than its actual business needs and less than 5% under Rule 14A.76(2)(a) on the date of the agreement on 10 April 2019 (the day after the Company was notified of the Restructuring), as the Company requires time to prepare the relevant documentation for obtaining clearance from the Stock Exchange and approval from Independent Shareholders as required under Rule 14A.76(2)(a) but wished to continue such continuing connected transactions in its daily operation. As such, the estimated annualised proposed annual cap under the Master Services (2019) Agreement is not representative of the Company's actual business needs and is lower than the proposed annual cap under the Master Sale and Purchase (2019–2021) Agreement for the year ended 31 December 2019. To meet the business needs of the Company, the proposed annual caps under the Master Sale and Purchase (2019–2021) Agreement have been revised to reflect the actual demand of the Company for entering into the relevant transactions, and as mentioned in the previous paragraph, we have assessed and are satisfied with its fairness and reasonableness.

We also noted that under the Master Services (2019–2021) Agreement, the proposed annual caps for the aggregate amount of Service Fees to be paid by the Group to the relevant TCL Associates for the three years ending 31 December 2021 of approximately HK\$1.7 billion, HK\$1.9 billion and HK\$2.1 billion respectively, account for approximately 4.4%, 4.9% and 5.4% of the Group's cost of sales of approximately HK\$38.6 billion for the year ended 31 December 2018, while the proposed annual caps for the aggregate amount of Service Fees to be received by the Group from the relevant TCL Associates for the three years ending 31 December 2021 of approximately HK\$260.6 million, HK\$360.6 million and HK\$475.5 million respectively, account for approximately 0.6%, 0.8% and 1.0% of the Group's total revenue of approximately HK\$45.6 billion for the year ended 31 December 2018. In this respect, we are of the view that there is and would be no excessive reliance of the Group on the relevant TCL Associates for the provision of Services to/by the Group for the following reasons.

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- (i) The proposed annual caps for the aggregate amount of each of the Services account for at most 5.4% of the Group's total revenue and cost of sales for the year ended 31 December 2018, and that the Group's total revenue and cost of sales are expected to continue to increase in parallel in the coming years;
- (ii) The Group has been operating and will continue to operate independently from the relevant TCL Associates and will negotiate transactions directly with them for any Services required by the Group or the relevant TCL Associates; and
- (iii) The Group's provision of Services to the relevant TCL Associates is conducted for the Group to expand its business scope, increase its sources of revenue and enhance its competitiveness and profitability through providing tailor-made services to the relevant TCL Associates, whilst the relevant TCL Associate's provision of Services to the Group is conducted to reduce the costs of the Group and enhance its efficiency in various business units through centralising IT platforms and application systems, professionalising basic services and smart management so that the Group can focus and centralise its resources in developing its own core business.

Also, as the Group and the relevant TCL Associates have already established business relationship under the aforementioned agreements and the Services provided to/by the relevant TCL Associates have been satisfactory to both parties, the continuing appointment of the relevant TCL Associates to provide the Group with the required Services would promote the business operation of the Group. As such, the Master Services (2019–2021) Agreement represents an opportunity to further enhance business development of the Group.

In light of the above, we are of the view that the Master Services (2019–2021) Agreement and the terms thereto are on normal commercial terms and the prices of the Services receivable and/or payable thereunder as well as the proposed annual caps for the Master Services (2019–2021) Agreement are properly estimated 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.

3. Master Brand Promotion (2019–2021) Agreement

Pursuant to the Master Brand Promotion (2019–2021) Agreement, the Company shall pay a brand promotion fee to TCL Holdings each month during the term of the Master Brand Promotion (2019–2021) Agreement, which shall be determined with reference to the price determination as stated below, and that TCL Holdings shall use the brand promotion fee (together with the brand promotion fee received by it from other grantee and/or user of the “TCL” trademark) for advertisement, promotion and maintenance of the “TCL” trademark.

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Basis for determining price and other terms under the Master Brand Promotion (2019–2021) Agreement

As set out in the Master Brand Promotion (2019–2021) Agreement, the pricing policies of the Group are as follows:

Before the entering of the Master Brand Promotion (2019–2021) Agreement, the internal control department of the Group has assessed the rate of branding promotion fee based on a basket of factors, including:

- (i) the proportion of the revenue of the Group to that of TCL Holdings from the sales of products covered by the Master Brand Promotion (2019–2021) Agreement;
- (ii) the anticipated amount of branding expenses to be incurred by TCL Holdings for the Group; and
- (iii) the expected growth in sales of the Group derived from the brand promotion activities carried out by the TCL Holdings Group.

In respect of the above considerations, we note that the Group would assess the proportion of the revenue of the Group to that of TCL Holdings Group from the sales of comparable products covered by the Master Brand Promotion (2019–2021) Agreement, and determine the rate of branding promotion fee with reference to the said proportion. The Group would also assess the anticipated amount of branding expenses to be incurred by TCL Holdings Group for the Group in the PRC and overseas markets and the expected growth in sales of the Group derived from the branding promotion activities carried out by the TCL Holdings Group, to determine whether the rate of branding promotion fee is reasonable in reimbursing the branding expenses of TCL Holdings Group and being a valuable investments of the Group.

Under the Master Brand Promotion (2019–2021) Agreement, the annual amount of the brand promotion fee payable by the Group to TCL Holdings during each financial year shall range from 0.25% to 2.25% of the projected annual sales revenue of the Group for that financial year depending on the types of products. For products which are manufactured by the Group as an original design manufacturer (“ODM”) and/or original equipment manufacturer (“OEM”), a branding promotion fee of 0.25% shall apply, while for the Group’s products (including sub-brand) to be sold in the overseas and PRC markets, a branding promotion fee of 0.75% and 2.25% shall apply respectively.

The aforementioned projected sales revenue of each financial year shall be estimated by the Company prior to the commencement of that financial year and the usage of the brand promotion fee in the financial year shall be reviewed by the Company and TCL Holdings mutually within the last month of each financial year. In case there is any brand promotion fee received by TCL Holdings that remains unused during any financial year, such amount of brand promotion fee paid will be carried forward to the next financial year during the term of the Master Brand Promotion (2019-2021) Agreement.

Meanwhile, the price determination for the brand promotion fee (i.e. the respective % of projected annual revenue of the Group from each type of products) for the next financial year shall be adjusted accordingly with reference to the utilization of the proposed annual cap for the last financial year and the amount of brand promotion fee paid to be carried forward to the upcoming financial year, if any. Such adjustment has to be mutually agreed by both the Company and TCL Holdings and hence if any proposed

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adjustment has an effect that would render the promotion fee payable exceeding the proposed annual caps, the Company will have the right to reject such proposed adjustment. In case the Company agrees to any proposed adjustment that would render the promotion fee payable exceeding the proposed annual caps, the Company would comply with all necessary requirements under the Listing Rules for the revision of annual caps.

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

Our analysis of the pricing basis of the Master Brand Promotion (2019–2021) Agreement

The pricing basis of the Master Brand Promotion (2019–2021) Agreement is determined by the parties based on normal commercial terms after arm's length negotiations and shall range from 0.25% to 2.25% of the projected annual sales revenue of the Group for that financial year depending on the types of products.

To assess the fairness and reasonableness of the pricing basis of the Master Brand Promotion (2019–2021) Agreement, we have obtained, reviewed and examined the projected sales of the relevant products of the Group for the year ended 31 December 2019 and compared the projected brand promotion fee payable by the Group with similar arrangement and fee range in the market. Although no royalty fee is payable by the Group to TCL Holdings for the use of TCL Corporation's registered trademarks pursuant to the Master Brand Promotion (2019–2021) Agreement as the aforesaid restructuring agreement already covers the use of TCL registered trademarks by the Group, we understand that similar to most treatments of royalty payments in the market, sales is the main basis of determining the brand promotion fee, as such, we have identified eight companies ("**Market Comparables**") listed on the Stock Exchange which had entered into similar trademark licence/brand promotion agreements during the past two years immediately preceding and up to the Latest Practicable Date. To the best of our knowledge, such list is exhaustive as far as we are aware. Independent Shareholders should note that the businesses, operations and prospects of the Group may not be the same as the Market Comparables. However, we consider that the trademark licence/brand promotion agreements of the Market Comparables were determined under similar market conditions and sentiment and hence reflect the general market trend of provision of trademark licence/brand promotion arrangements in the open market, and therefore we are of the view that the Market Comparables provide a general reference in assessing the fairness and reasonableness of the pricing basis adopted in the Master Brand Promotion (2019–2021) Agreement. Accordingly, we have reviewed the royalty/brand promotion rates (calculated based on sales revenue) charged by the Market Comparables, which had an average rate of around 2.5% and a median of around 2.0%, and compared them to the projected brand promotion fee payable by the Group at 0.25% to 2.25% of the projected annual sales revenue of the Group and made reference to the terms under similar trademark licence/brand promotion agreements. Based on our review, we noted that the maximum percentage of the brand promotion fee at 2.25% is in line with and more favorable than the market level of fee under similar trademark licence/brand promotion agreements. Therefore, we are of the view that the fees to be paid by the Group to TCL Holdings would be comparable to, or no less favorable than, such market prices and that the pricing basis adopted in the Master Brand Promotion (2019–2021) Agreement is fair and reasonable.

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Stock code	Company	Principal business	Date of announcement	Royalty/Brand promotion rate (%)	Royalty/Brand promotion basis
0753	Air China Limited	Provision of air passenger transportation, freight transportation, postal transportation and maintenance services in Mainland China, Hong Kong, Macau and foreign regions	30-Aug-17	0	Royalty-free
6898	China Aluminum Cans Holdings Limited	Manufacture and sale of aluminum aerosol cans and content filling of aerosol cans and the production and sale of aerosol products and non-aerosol products	3-Oct-17	2.5	Net sales price
0084	Stelus Holdings International Limited	Trading of watches and glasses	26-Jan-18	10	Net invoice value
6088	FIT Hon Teng Limited	Manufacture, sales and service of telecommunication equipment	7-Feb-18	1.5	Net selling price
0772	China Literature Limited	Operation of online literature platform	28-Sep-18	2.0	Usage-based royalty
0984	AEON Stores (Hong Kong) Co., Limited	Operation of department stores and retail stores	24-Dec-18	(i) 0.2; and (ii) 0.05	(i) Audited total of revenue; and (ii) Audited total of revenue in respect of the Business

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Stock code	Company	Principal business	Date of announcement	Royalty/Brand promotion rate (%)	Royalty/Brand promotion basis
0859	Zhongchang International Holdings Group Limited	Investment, development and leasing of properties	8-Mar-19	3.0	Cash proceeds received for the pre-sale/sale of units
0157	Natural Beauty Bio-Technology Limited	Beauty-related businesses	17-May-19	3.0	Net proceeds from the sale of mutually agreed products
			Max.	10.0	
			Min.	0.0	
			Average	2.5	
			Median	2.0	
1070	The Company	Manufacture and sales of television sets	14-Jun-19	0.25% to 2.25%	Projected annual sales revenue <i>(Note)</i>

Note: Subject to adjustments made with reference to the utilization of the proposed annual cap for the last financial year and the amount of brand promotion fee paid to be carried forward to the upcoming financial year, if any.

Source: website of Stock Exchange

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Basis for determining and discussion of the annual caps under the Master Brand Promotion (2019–2021) Agreement

Set out below are the proposed annual caps for the Master Brand Promotion (2019–2021) Agreement for the three years ended 31 December 2021:

Proposed annual caps	For the year ending 31 December 2019 <i>HK\$'000</i>	For the year ending 31 December 2020 <i>HK\$'000</i>	For the year ending 31 December 2021 <i>HK\$'000</i>
Brand promotion services	637,014	930,074	992,555

In determining the annual caps for the Master Brand Promotion (2019–2021) Agreement, the Group has taken into account, among other things,

- (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 Electronic 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;
- (ii) the estimated advertising and promotion expenses of the promotion projects intended to be launched during the coming three years; and
- (iii) more potential cooperation opportunities relating to certain open world sports events such as the 2019 FIBA Basketball World Cup are expected to be continued in the future.

Our analysis of the proposed annual caps for the Master Brand Promotion (2019–2021) Agreement

In determining the fairness and reasonableness of the proposed annual caps for the Master Brand Promotion (2019–2021) Agreement, we have taken into consideration the following:

- (i) the historical growth of the total sales volume of LCD televisions and that the Group will continue to develop its diversified businesses – smart AV, commercial display and smart home – to strengthen its product technology, industry chain, brand promotion by steadily increasing proportion of smart television products (proportion of smart television products will be favourable to the Group in maintaining its competitiveness) as set out in the discussion of the annual caps under the “Master Sale and Purchase (2019–2021) Agreement” above and which is therefore expected to proportionally increase the amount the branding promotion fee paid to TCL Holdings in the next few years;
- (ii) the contribution to the branding activities which will be a 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 (2019–2021) Agreement above including the Group's overseas expansion; and the promotion projects intended to be launched during the coming three years.

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With the above considerations, we have also obtained and reviewed the relevant schedules and/or the relevant supporting documents for the composition of the relevant proposed annual caps and they were found to be proper. We have also discussed with the management in respect of brand promotion arrangement and found it to be in line with the projected sales of the relevant products of the Group for the year ended 31 December 2019.

In addition, we noted that under the Master Brand Promotion (2019–2021) Agreement, the proposed annual caps for the aggregate amount of brand promotion fees to be paid by the Group to the relevant TCL Associates for the three years ending 31 December 2021 are approximately HK\$0.6 billion, HK\$0.9 billion and HK\$1.0 billion respectively, accounting for approximately 1.7%, 2.4% and 2.6% of the Group's cost of sales of approximately HK\$38.6 billion for the year ended 31 December 2018, which is not excessive and reasonable in our view.

In light of the above, we are of the view that the Master Brand Promotion (2019–2021) Agreement and the terms thereto are on normal commercial terms and the brand promotion fee to be paid thereunder as well as the proposed annual caps for the Master Brand Promotion (2019–2021) Agreement are properly estimated 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.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps are in the ordinary and usual course of business of the Group, 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. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution(s) 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(s) in relation to the Non-exempt Transactions, the transactions contemplated thereunder and the proposed annual caps at the EGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited
Charles LI*
Director

* *Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 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' AND CHIEF EXECUTIVES' 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 (Note 2)
	Personal interests	Spouse Interests	Other interests (Note 1)	Personal interests	Spouse interests		
LI Dongsheng (Note 3)	55,670,036	2,405,458	1,048,120	7,312,235	504,895	66,940,744	2.84%
WANG Cheng (Note 4)	862,695	–	1,378,385	7,262,284	–	9,503,364	0.40%
YAN Xiaolin	154,990	–	140,523	1,970,324	–	2,265,837	0.10%
WANG Yi (Note 5)	2,058,728	–	689,192	5,509,395	–	8,257,315	0.35%
YANG Anming	28,904	–	36,176	270,922	–	336,002	0.01%
Albert Thomas DA ROSA, Junior	70,796	–	37,315	315,907	–	424,018	0.02%
LI Yuhao	24,000	–	–	–	–	24,000	0.001%
Robert Maarten WESTERHOF	7,463	–	37,315	315,907	–	360,685	0.02%
WANG Yijiang	7,230	–	37,315	242,260	–	286,805	0.01%
LAU Siu Ki	7,463	–	37,315	236,301	–	281,079	0.01%

(b) Interest in Associated Corporation of the Company – Long Positions*(i) Tonly Electronics Holdings Limited (“Tonly Electronics”) (Note 7)*

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 6)
	Personal interests	Spouse interests	Other interests	Personal interests	Spouse interests		
	(Note 8)						
LI Dongsheng	649,513	30,135	82,100	1,214,852	178,868	2,155,468	0.80%
WANG Cheng	9,684	-	-	33,463	-	43,147	0.02%
YAN Xiaolin	27,511	-	23,607	226,098	-	277,216	0.10%
YANG Anming	8,385	-	8,269	68,323	-	84,977	0.03%

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. 2,360,553,810 Shares.
- Mr. LI Dongsheng is also a director of TCL Industries and TCL Holdings. As at the Latest Practicable Date, Mr. LI Dongsheng has 33.3331% indirect equity interest in TCL Holdings held via:
 - Lida Tiancheng Investment Company Limited* (惠州礪達天成股權投資有限公司), which has a 3.1005% shareholding in TCL Holdings. Li Dongsheng owns more than 50% of equity interest in Lida Tiancheng Investment Company Limited* (惠州礪達天成股權投資有限公司); and
 - Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)), which has a 30.2326% shareholding in TCL Holdings. Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)) is a limited partnership and Mr. LI Dongsheng owns more than 50% economic interest in Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)) as a limited partner. The general partner of Lida Zhihui Corporation Management Limited Partnership* (寧波礪達致輝企業管理合伙企業(有限合夥)) is Lida Tiancheng Investment Company Limited* (惠州礪達天成股權投資有限公司), in which Mr. LI Dongsheng owns more than 50% equity interest as set out in (a) above.

As per the disclosure of interest notice filed by TCL Industries on 8 April 2019, a renewal of undertaking was confirmed by other directors of TCL Industries, whereby the other directors of TCL Industries undertake that they shall act in concert with Mr. LI Dongsheng.

- Mr. WANG Cheng is also the chief executive officer of TCL Holdings.
- Mr. WANG Yi is also a vice-president of TCL Holdings.
- 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.
- Tonly Electronics is a subsidiary of TCL Holdings.

8. These interests are restricted shares that have been granted to the relevant directors under the award scheme of Tonly Electronics and were not vested as at the Latest Practicable Date.

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. 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 2018 of the Group were made up.

4. 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).

5. 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 2018 (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 referred to in Paragraph 40 of the Appendix 1B of the Listing Rules.

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

6. 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.

7. 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.

8. 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:

Name	Qualification
Pelican Financial Limited	A licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO

Pelican Financial Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 19 June 2019 and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Pelican Financial 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 2018 (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.

9. MISCELLANEOUS

- (a) The registered office of the Company is situated at P.O. Box 309, Ugland 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.

10. 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 of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018 respectively;

- (c) Master Sale and Purchase (2019–2021) Agreement;
- (d) Master Services (2019–2021) Agreement;
- (e) Master Brand Promotion (2019–2021) Agreement;
- (f) 2018 Master Services Agreement;
- (g) Master After Sale Service (2017) Agreement;
- (h) Master Logistics Service Supply (2017 Renewal) Agreement;
- (i) Master Sale and Purchase (2017) Agreement;
- (j) Master Sale and Purchase (2019) Agreement;
- (k) Master Services (2019) Agreement;
- (l) Master Subcontracting (2017 Renewal) Agreement;
- (m) Master TCL Trademark License (2017 Renewal) Agreement;
- (n) this Circular;
- (o) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (p) the letter from Pelican Financial Limited, the text of which is set out in this circular; and
- (q) the written consent from Pelican Financial Limited referred to in the section headed “**EXPERT AND CONSENT**“ in this appendix.

NOTICE OF EGM



TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of TCL Electronics 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 8 July 2019, Monday, at 3:00 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 (2019–2021) Agreement (as defined in the circular of the Company date 19 June 2019 (the “Circular”)), the terms and the transactions thereunder (a copy of the agreement has been produced to the meeting and marked “A” 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 2021 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 (2019–2021) Agreement or the transactions contemplated thereby.”

2. “**THAT**

- (c) the Master Services (2019–2021) 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 2021 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 Services (2019–2021) Agreement or the transactions contemplated thereby.”

NOTICE OF EGM

3. **“THAT**

- (a) the Master Brand Promotion (2019–2021) 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 2021 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 Brand Promotion (2019–2021) Agreement or the transactions contemplated thereby.”

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 19 June 2019

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 Shares 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 2 July 2019, Tuesday. 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 2 July 2019, Tuesday.*

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