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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

MASTER RENTAL (2020-2021) AGREEMENT

INTRODUCTION

The Board is pleased to announce that on 25 August 2020 (Hong Kong time after trading hours), the Company entered into the Master Rental (2020-2021) Agreement with TCL Holdings and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, 1,260,358,288 shares of the Company, representing approximately 52.13% of the total number of issued Shares, were held by T.C.L. Industries (H.K.), which in turn was held as to 100% by TCL Holdings. As such, TCL Holdings is a substantial Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Master Rental (2020-2021) Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the annual caps of the Master Rental (2020-2021) Agreement exceed 0.1% but all are less than 5%, the continuing connected transactions contemplated thereunder are exempted from the Shareholders' approval requirement under Rule 14A.76(2)(a) but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 14 June 2019. On 14 June 2019, the Company entered into the Master Rental (2019-2021) Agreement with TCL Holdings. As the parties wish to expand the scope of the subject matters under the Master Rental (2019-2021) Agreement, the Company had on 25 August 2020 entered into the Master Rental (2020-2021) Agreement with TCL Holdings, which is on similar terms as the Master Rental (2019-2021) Agreement save for expanded scope of subject matters covering the remaining period of the Master Rental (2019-2021) Agreement. The major differences between the Master Rental (2020-2021) Agreement on the one hand and the Master Rental (2019-2021) Agreement on the other hand are: (i) under the Master Rental (2020-2021) Agreement, in addition to landed properties and vehicles, the scope of the subject matter is amended to cover also mobility devices and Equipment; and (ii) the duration of the agreement.

Further, pursuant to the Master Rental (2020-2021) Agreement, the Master Rental (2019-2021) Agreement shall be automatically terminated upon the coming into effect of the Master Rental (2020-2021) Agreement.

MASTER RENTAL (2020-2021) AGREEMENT

The principal terms of the Master Rental (2020-2021) Agreement are summarised below:

- Date:** 25 August 2020
- Parties:**
- (i) the Company (for itself and on behalf of its subsidiaries); and
 - (ii) TCL Holdings (for itself and on behalf of its associates).
- Duration:** From 1 September 2020 to 31 December 2021 (both dates inclusive)
- Major terms:** Each member of the Group (as lessor/licensor) may from time to time rent, lease and/or license (including share and/or make available the use thereof) certain Assets to member(s) of TCL Holdings Associates (as lessee/licensee) at certain fee (including but not limited to rental fee, licence fee, management fee, electricity fee, water fee and/or repair fee as agreed by the parties) to be paid monthly and subject to the terms of the individual agreement(s) to be entered into between the parties in conformity with the Master Rental (2020-2021) Agreement.

Each member of TCL Holdings Associates (as lessor/licensor) may from time to time rent, lease and/or license (including share and/or make available the use thereof) certain Assets to member(s) of the Group (as lessee/licensee) at certain fee (including but not limited to rental fee, licence fee, management fee, electricity fee, water fee and/or repair fee as agreed by the parties) to be paid monthly and subject to the terms of the individual agreement(s) to be entered into between the parties in conformity with the Master Rental (2020-2021) Agreement.

In the event the relevant lessor/licensor desires to sell the Assets and/or relevant land use rights under the Master Rental (2020-2021) Agreement, the relevant lessee/licensee shall have the right of first refusal to purchase such Assets and/or relevant land use rights.

Pricing policy and price determination:

In respect of such fees to be paid or received by members of the Group under the Master Rental (2020-2021) Agreement:

- (i) the fees to be paid shall be determined with reference to the prevailing market rate which (i) in the case where members of the Group are the lessors/licensors, shall be no less than the fees payable by an Independent Third Party of the Company to the Group for comparable tenancies/licences, and (ii) in the case where members of the Group are the lessees/licensees, shall be no higher than the fees charged on the Group by an Independent Third Party of the Company for comparable tenancies/licences; and
- (ii) to ensure the fees receivables/payable are on normal commercial terms, the relevant lessor/licensor shall compare the market data for fees receivables/payable from/to Independent Third Parties of the Company for comparable tenancies/licences.

INTERNAL CONTROL PROCEDURES

Before conducting any transactions contemplated under the Master Rental (2020-2021) Agreement or entering into any individual agreement pursuant thereto, the internal control department, legal department and finance department of the Group would review the terms of the proposed transactions and the draft individual agreements to ensure that the transactions would be conducted in accordance with the terms of the Master Rental (2020-2021) Agreement and the individual agreements and in accordance with the Company's pricing policy.

The business department(s) will consider the overall terms (including but not limited to the location, size and scale of the subject matter and payment terms) from comprehensive perspectives and endeavour to obtain quotations of rental/license and relevant fees payable/receivable to/from Independent Third Parties for comparable tenancies/licences and make comparisons (if applicable). If there are no comparable terms offered to the Group by other Independent Third Parties for comparable tenancies/licences, the overall terms of the individual agreements shall then be determined after negotiations at arms' length between the parties and shall be on normal commercial terms. The transactions could only be carried out after the relevant departments of the Group have separately given their approval therefor.

The Company will closely monitor the transaction amounts pursuant to the Master Rental (2020-2021) Agreement by preparing management accounts for continuing connected transactions and designating specialists for management and maintenance, and consolidating and preparing statistics for the transaction amounts incurred in the continuing connected transactions on a monthly basis to ensure the transaction amounts would not exceed the proposed annual caps.

The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transaction amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that they are entered into on normal commercial terms, in the ordinary and usual course of business of the Group, and are carried out according to the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

Please also refer to the "pricing policy and price determination" section above.

HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

Continuing Connected Transactions	Master Rental (2019-2021) Agreement			Master Rental (2020-2021) Agreement	
	For the year ended 31 December 2019 (audited) (for actual amount only) HK\$'000	For the 6 months ended 30 June 2020 (unaudited) (for actual amount only)/For the year ending 31 December 2020 (for original annual cap only) HK\$'000	For the year ending 31 December 2021 HK\$'000	For the year ending 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Actual (Notes 1 & 2)	86,606	93,891	N/A	N/A	N/A
Original annual caps (Note 2)	228,926	174,869	346,523	N/A	N/A
Proposed annual caps (Note 3)	N/A	N/A	N/A	478,000	625,000

Note 1:

The historical actual figures for each year were the aggregate of (i) rental/license income received from TCL Holdings and its various associates; (ii) rental/license cost paid to TCL Holdings and its various associates; and (iii) the total annual maximum value of the right-of-use assets for TCL Holdings and its various associates to be leased by the Group under the Master Rental (2019-2021) Agreement.

Note 2:

Under the Master Rental (2019-2021) Agreement, the scope of the subject matters only covered landed properties and vehicles. Accordingly, the historical actual figures and the original annual caps only cover rental/license income/cost/right-of-use assets of landed properties and vehicles.

Note 3:

The proposed annual cap for each year is the aggregate of (i) rental/license income to be received from TCL Holdings and its various associates; (ii) rental/license cost to be paid to TCL Holdings and its various associates; and (iii) the total annual maximum value of the right-of-use assets for TCL Holdings and its various associates to be leased by the Group under the Master Rental (2020-2021) Agreement.

BASIS FOR DETERMINATION OF THE PROPOSED ANNUAL CAPS

The major basis and assumptions for determining the proposed annual caps for the Master Rental (2020-2021) Agreement are set out below:

Pursuant to HKFRS 16, subject to certain exceptions, leases with a term of more than 12 months will be recognised as right-of-use assets, and the transactions contemplated thereunder will be recognised as an acquisition of right-of-use assets. The right-of-use asset represents the right to use the underlying leased asset over the lease term and the lease liability represents the obligation to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the relevant agreement, using the incremental borrowing rate as the discount rate. Under HKFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the shorter of the useful life of the asset and the lease term, and (ii) interest expenses amortised from the lease liability over the lease term.

In addition to the effect of HKFRS 16, the proposed annual caps of the Master Rental (2020-2021) Agreement are also determined with reference to the following factors:

- (i) the historical amount of relevant transactions under the Master Rental (2019-2021) Agreement;
- (ii) the expansion of the scope of subject matters under the Master Rental (2020-2021) Agreement covering also mobility devices and Equipment in addition to landed properties and vehicles;
- (iii) following completion of the disposal of Moka International Limited and the acquisition of TCL Communication Technology Holdings Limited by the Group, some of the leasing/licensing transactions of the Group will become connected transactions. For details of the said disposal and acquisition, please refer to the announcement and circular of the Company dated 29 June 2020 and 30 June 2020 respectively;
- (iv) the demand of the Group for leasing/licensing of certain Assets from/to TCL Holdings Associates is expected to continue to increase in the future in light of the continuous expansion and organic growth of the business of the Group;
- (v) the rental/licence fee payable by the Group to TCL Holdings Associates and/or by TCL Holdings Associates to the Group (as the case may be) is expected to grow with the trend of market condition during the term of the Master Rental (2020-2021) Agreement;
- (vi) a buffer for the demand of the Group for new lease/license of Assets from/to TCL Holdings Associates for its business expansion; and
- (vii) the value of rental/licence fees and right-of-use assets calculated by discounting the estimated total annual rental using the incremental borrowing rate of the Group as the discount rate.

REASONS FOR AND BENEFITS OF THE MASTER RENTAL (2020-2021) AGREEMENT

The Group has been leasing/licensing certain vehicles and landed properties from the relevant TCL Holdings Associates as its offices, factory, warehouse and dormitory in respect of the Group's various business segments as well as renting/licensing out certain vehicles and premises to the relevant TCL Holdings Associates so as to better utilise its unused assets. Accordingly, substantial time and costs can be saved if the Group continues the existing lease/licence arrangement with TCL Holdings Associates instead of identifying and leasing/licensing other suitable and comparable vehicles and landed properties.

Further, in view of the Group's continuous expansion of business, the Company considers it is in the interests of the Company and the Shareholders as a whole to enter into the Master Rental (2020-2021) Agreement to expand the scope of the subject matters to be rented/licensed under the previous Master Rental (2019-2021) Agreement in order to meet the increasing demand and accommodate the business needs of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of the Master Rental (2020-2021) Agreement, the transactions contemplated thereunder and the proposed annual caps are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, 1,260,358,288 shares of the Company, representing approximately 52.13% of the total number of issued Shares, were held by T.C.L. Industries (H.K.), which in turn was held as to 100% by TCL Holdings. As such, TCL Holdings is a substantial Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Master Rental (2020-2021) Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the annual caps of the Master Rental (2020-2021) Agreement exceed 0.1% but all are less than 5%, the continuing connected transactions contemplated thereunder are exempted from the Shareholders' approval requirement under Rule 14A.76(2)(a) but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

In view of Mr. LI Dongsheng's indirect interests in TCL Holdings, he did not vote in the board meeting during which the Board approved the Master Rental (2020-2021) Agreement to avoid any potential conflict of interests. Out of the other Directors, Mr. WANG Cheng Kevin is also the chief executive officer of TCL Holdings, whereas Mr. HU Lihua is the financial controller of TCL Holdings and Mr. SUN Li is the chief technology officer of TCL Holdings. Nevertheless, notwithstanding their offices held in TCL Holdings, none of them or the other Directors are considered as having a material interest in the Master Rental (2020-2021) Agreement, therefore all the Directors other than Mr. LI Dongsheng are entitled to vote on the relevant board resolution pursuant to the Company's articles of association.

GENERAL INFORMATION OF THE PARTIES

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

TCL Holdings is an investment holding company with a diverse investment portfolio. Its investments are principally in the business of development, manufacturing and distribution of audio/video products, electronic products, communication equipment, home appliances, provision of cloud video conferencing services, intelligent manufacturing solutions, solid waste dismantling and disposal, development and leasing of building and industrial park, supply chain finance, etc. As at the date of this announcement, TCL Holdings, through its wholly-owned subsidiary T.C.L. Industries (H.K.), held approximately 52.13% of the issued Shares of the Company and is the ultimate controlling shareholder of the Company. As at the date of this announcement, the shareholding structure of TCL Holdings is as follows:

Shareholders	Shareholding (%)
Ningbo Lida Zhihui Enterprise Management Partnership (Limited Partnership)* (寧波礪達致輝企業管理合夥企業(有限合夥))	33.3330
Suning.com Co., Ltd.* (蘇寧易購集團股份有限公司)	23.2558
Pan Mao (Shanghai) Investment Center (L.P.)* (磐茂(上海)投資中心(有限合夥))	15.5039
Huizhou State-owned Asset Management Co., Ltd.* (惠州市國有資產管理有限公司)	9.3023
Xiaomi Technology Co., Ltd.* (小米科技有限責任公司)	9.3023
Beijing Xinrunheng Equity Investment Partnership (L.P.)* (北京信潤恒股權投資合夥企業(有限合夥))	7.7519
Shenzhen Qifu Guolong Small and Medium Micro-Enterprise Equity Investment Fund Partnership (L.P.)* (深圳市啓賦國隆中小微企業股權投資基金合夥企業(有限合夥))	1.5504
Mr. ZHONG Weijian (鍾偉堅先生)	0.0003
Total (Note)	100.0000

Note:

The figures shown in the above table were subject to rounding adjustment, accordingly the total figure may not be an arithmetic aggregation of the figures preceding it.

DEFINITIONS

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

“Asset(s)”	landed properties, vehicles, mobility devices and Equipment, as well as the auxiliary and/or subordinate facilities and intangible assets (such as software, skills, qualification, etc.) (if applicable) thereto, which the relevant lessee/licensee under the Master Rental (2020-2021) Agreement legally owns or has the right to rent, lease and/or license (including share and/or make available the use thereof)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the Board of Directors of the Company
“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
“Equipment”	machineries, equipment, tools and articles (including but not limited to machineries, equipment, tools and articles for the purposes of manufacturing, communication, research and development, testing, engineering and office use)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	the Hong Kong Financial Reporting Standard(s) issued by the Hong Kong Institute of Certified Public Accountants from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Third Party”	a party who is not a connected person of the Company and is independent of and not connected with the Company and its connected persons
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange
“Master Rental (2019-2021) Agreement”	the master rental (2019-2021) agreement dated 14 June 2019 entered into between the Company and TCL Holdings
“Master Rental (2020-2021) Agreement”	the master rental (2020-2021) agreement dated 25 August 2020 entered into between the Company and TCL Holdings
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purposes of this announcement
“Shareholder(s)”	holder(s) of share(s) of the Company
“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 Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), a joint stock company established under the laws of the PRC and the ultimate controlling shareholder of the Company
“TCL Holdings Associates”	TCL Holdings and its associates
“T.C.L. Industries (H.K.)”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the immediate controlling shareholder of the Company and a wholly-owned subsidiary of TCL Holdings
“%”	per cent

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 25 August 2020

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

As at the date of this announcement, the Board comprises Mr. LI Dongsheng, Mr. WANG Cheng Kevin, Mr. YAN Xiaolin and Mr. HU Lihua as executive Directors, Mr. Albert Thomas DA ROSA, Junior, Mr. SUN Li 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.