
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, 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.

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

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

(1) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS
(2) MAJOR TRANSACTION – ADVANCES TO AN ENTITY AND
PROVISION OF FINANCIAL ASSISTANCE UNDER
MASTER FINANCIAL (2022-2024) AGREEMENT
AND
(3) ELECTION OF DIRECTORS

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



PELICAN FINANCIAL LIMITED

A letter from the Board is set out on pages 10 to 58 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on page 59 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 60 to 102 of this circular.

A notice convening the EGM to be held at 8/F., Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 10 December 2021, Friday at 2:30 p.m. is set out on pages 116 to 119 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 and transfer office of the Company, Tricor Tengis Limited, at Level 54, 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.

CONTENTS

	<i>Page</i>
CONTENTS	i
DEFINITIONS	1
LETTER FROM THE BOARD	10
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	59
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	60
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	103
APPENDIX II - GENERAL INFORMATION	107
APPENDIX III – DETAILS OF DIRECTORS STANDING FOR ELECTION	113
NOTICE OF EGM	116

DEFINITIONS

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

“ABH”	Affonso Brandão Hennel, a Brazilian citizen, the sole shareholder of STA;
“Agreements”	collectively, the agreements for the Non-exempt Transactions, namely the Master Sale and Purchase (2022-2024) Agreement, the Master Services (2022-2024) Agreement, the Master Financial (2022-2024) Agreement and the Master Brand Promotion (2022-2024) Agreement and each an “Agreement”;
“Announcement”	the announcement of the Company dated 11 November 2021 in respect of, among others, the entering into of the Agreements;
“April 2020 Circular”	the circular of the Company dated 1 April 2020;
“Articles”	the articles of association of the Company as amended from time to time;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“August 2020 Announcement”	the announcement of the Company dated 31 August 2020;
“August 2021 Announcement”	the announcement of the Company dated 9 August 2021 in respect of, among others, the change in directorate of the Company;
“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;
“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;
“Credit Services”	advance of loan(s) by member(s) of the Group to member(s) of Qualified Holdings Group pursuant to the Master Financial (2022-2024) Agreement;

DEFINITIONS

“Deed of Non-Competition (1999)”	the deed executed by TCL Technology, TCL Electronics Corporation (deregistered on 29 January 2002) and T.C.L. Industries (H.K.) on 15 November 1999 in favour of the Company whereby each of TCL Technology, TCL Electronics Corporation and T.C.L. Industries (H.K.) has undertaken not to, directly or indirectly, carry on or be engaged or interested in certain restricted activities, which were disclosed in the Company’s prospectus dated 17 November 1999;
“Deposit Services”	deposit of money by the TCL Electronics Qualified Members with Finance Company (HK) and/or TCL Holdings Financial Services Associates pursuant to the Master Financial (2022-2024) Agreement;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, approve (i) the Non-exempt Transactions; and (ii) the election of Ms. DU Juan as an executive Director and the election of Mr. WANG Cheng as a non-executive Director;
“Electronics Products”	(i) products (including but not limited to TVs, telecommunication, mobile and connective devices, smart home products, IT products and commercial use display products) manufactured, produced or otherwise sold or distributed by the Group; (ii) the article, things, components or materials required for manufacturing or production of any TCL Associates Products; and (iii) waste products arising from manufacturing or production process of the Group;
“Existing Agreements”	collectively the Master Sale and Purchase (2019-2021) Agreement, Master Services (2019-2021) Agreement, Master Financial Agreement (TCL Holdings) (2020-2022), Master Financing Services (2021-2022) Agreement and Master Brand Promotion (2019-2021) Agreement;
“Falcon Network Technology”	Shenzhen Falcon Network Technology Co., Ltd.* (formerly literally translated and known as Shenzhen Thunderbird Network Technology Company Limited) (深圳市雷鳥網絡科技有限公司), a limited liability company established and subsisting under the laws of the PRC, a subsidiary of the Company;
“Finance Company (HK)”	TCL Finance (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and a direct subsidiary of T.C.L. Industries (H.K.);

DEFINITIONS

“Financing Services”	the financing services to be provided by TCL Holdings Financial Services Associates from time to time in accordance with the Master Financial (2022-2024) Agreement, which include but are not limited to guarantees (such as shipping guarantees), receivables factoring (recourse and without-recourse), bill discounting, inbound guarantee (offshore guarantees for onshore loans) and outbound guarantee (onshore guarantee for offshore loans);
“Foreign Exchange Transactions”	Spot Contracts and/or Forward Contracts and/or Swap Contracts (as the case may be);
“Forward Contract(s)”	the forward contract(s) entered or to be entered into between members of the Group and Finance Company (HK) and/or other TCL Holdings Financial Services Associates in relation to the purchase of one currency with another currency between members of the Group and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates to be completed at a designated future date on terms (such as currency type, principal amount, exchange rate, etc.) agreed in advance, for the purpose of hedging the exposure of the relevant member of the Group to currency exchange risks in connection with the business of the relevant member of the Group, pursuant and subject to the terms and conditions of the Master Financing (2022-2024) Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Holdings Qualified Member(s)”	all companies to which TCL Holdings Financial Services Associates will be allowed to provide relevant financial services, which shall only include TCL Holdings and its subsidiaries;
“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 Non-exempt Transactions comprising all independent non-executive Directors;
“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 SFO, being the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Shareholders in respect of the Non-exempt Transactions;

DEFINITIONS

“Independent Third Party(ies)”	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;
“IoT”	Internet of things;
“IT”	information technology;
“June 2019 Circular”	the circular of the Company dated 19 June 2019;
“June 2021 Announcement”	the announcement of the Company dated 9 June 2021;
“Latest Practicable Date”	16 November 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange;
“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 Brand Promotion (2022-2024) Agreement”	the master brand promotion (2022-2024) agreement dated 11 November 2021 entered into between the Company and TCL Holdings;
“Master Financial Agreement (TCL Holdings) (2020-2022)”	the master financial agreement (TCL Holdings) (2020-2022) dated 25 March 2020 entered into among the Company, TCL Holdings and Finance Company (HK);
“Master Financial (2022-2024) Agreement”	the master financial (2022-2024) agreement dated 11 November 2021 entered into among the Company, TCL Holdings and Finance Company (HK);
“Master Financing Services (2021-2022) Agreement”	the master financing services (2021-2022) agreement dated 9 June 2021 entered into between the Company and TCL Holdings;
“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;
“Master Sale and Purchase (2022-2024) Agreement”	the master sale and purchase (2022-2024) agreement dated 11 November 2021 entered into between the Company and TCL Holdings;

DEFINITIONS

“Master Services (2019-2021) Agreement”	the master services (2019-2021) agreement dated 14 June 2019 entered into between the Company and TCL Holdings;
“Master Services (2022-2024) Agreement”	the master services (2022-2024) agreement dated 11 November 2021 entered into between the Company and TCL Holdings;
“Moka International”	Moka International Limited, a company incorporated in the British Virgin Islands;
“Non-exempt Transactions”	the transactions contemplated under the Master Sale and Purchase (2022-2024) Agreement, Master Services (2022-2024) Agreement, Master Financial (2022-2024) Agreement and Master Brand Promotion (2022-2024) Agreement, together with their respective proposed annual caps;
“OCE”	TCL Overseas Consumer Electronics Limited, a company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company;
“ODM”	original design manufacturing;
“OEM”	original equipment manufacturing;
“PBOC”	the People’s Bank of China, the central bank of the PRC;
“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;
“Qualified Holdings Group”	TCL Holdings and its subsidiaries and any entity that may become subsidiary of TCL Holdings from time to time, and for the purposes of the Master Financial (2022-2024) Agreement and the transactions contemplated thereunder and this circular excludes the Group;
“Remuneration Committee”	the remuneration committee of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale of Electronics Products”	the sale of the Electronics Products by the Group to TCL Holdings Group pursuant to the Master Sale and Purchase (2022-2024) Agreement;
“SEMP TCL”	SEMP TCL Indústria e Comércio de Eletroeletrônicos S.A., a company incorporated under the laws of Brazil with limited liability;

DEFINITIONS

“Services”	services which may be provided by members of the Group to members of TCL Holdings Group, or by members of TCL Holdings Group to members of the Group, as the case may be, including but not limited to (i) business support services, being operational and management services relating to the ordinary and usual course of business and/or goods, including but not limited to logistics services, warehousing services, waste management services, processing services, planning and operation management services, sales optimisation services, after-sale and repair services, industry solution services and support services in relation to intelligent system and software provision services, etc.; (ii) operation support services, being services relating to the day-to-day operation, including but not limited to administrative services, financial management and supporting services, research and development services, natural resources management services, human resources services, business consultation and management services, market promotion services, IT and internet support services and other relevant IT-related services, etc.; and (iii) other services which the members of the Group or members of TCL Holdings Group (as the case may be) are capable of providing;
“Service Fees”	the fees to be paid by relevant member(s) of the Group or TCL Holdings Group for the provision of the relevant Services pursuant to the Master Services (2022-2024) Agreement;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of the Company;
“Shareholder(s)”	holder(s) of Share(s);
“Shareholders’ Approval Date”	the date on which the Shareholders approve each of the Non-exempt Transactions;
“smart screen(s)”	mainly refers to smart TV(s);
“Sourcing of TCL Associates Products”	the purchase of the TCL Associates Products by the Group from the relevant members of TCL Holdings Group pursuant to the Master Sale and Purchase (2022-2024) Agreement;

DEFINITIONS

“Spot Contract(s)”	the spot contract(s) entered or to be entered into between members of the Group and Finance Company (HK) and/or other TCL Holdings Financial Services Associates in relation to the purchase of one currency with another currency between members of the Group and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates at spot rate pursuant to and subject to the terms and conditions of the Master Financial (2022-2024) Agreement;
“STA”	SEMP Amazonas S.A., a company incorporated under the laws of Brazil with limited liability;
“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;
“Swap Contract(s)”	the swap contract(s) entered or to be entered into between members of the Group and Finance Company (HK) and/or other TCL Holdings Financial Services Associates, which combines (i) a spot contract or a forward contract; and (ii) another forward contract, in relation to the exchange of a certain amount of currency on a date at spot or an agreed exchange rate, and exchange back the same amount of currency at an agreed exchange rate (i.e. forward exchange rate) on a future date between relevant members of the Group and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates, for the purpose of hedging the exposure of the relevant members of the Group to currency exchange risks in connection with the business of the relevant members of the Group, pursuant to and subject to the terms and conditions of the Master Financial (2022-2024) Agreement;
“TCL Associates”	the associate(s) of TCL Holdings;
“TCL Associates Products”	(i) any goods or appliances (including but not limited to electronic, IT or electrical goods (such as but not limited to refrigerators, washing machines, dishwashers, air conditioners, other household appliances, electrical accessories and their components)) designed, developed, manufactured, produced or otherwise sold, marketed or supplied by any member of TCL Holdings Group; (ii) the article, things, components or materials required for manufacturing or production of any Electronics Products; and (iii) waste products arising from manufacturing or production process of TCL Holdings Group;

DEFINITIONS

“TCL Brand”	“TCL” trademarks and tradenames owned by TCL Technology and its subsidiaries (including but not limited to major trademarks and famous trademarks owned by TCL Technology);
“TCL Brand Management Centre”	a department specialised in maintaining, promoting and upholding the image of “TCL” brand;
“TCL Communication”	TCL Communication Technology Holdings Limited, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company;
“TCL Communication Group”	TCL Communication and its subsidiaries;
“TCL Electronics Qualified Member(s)”	such member(s) of the Group which is/are Holdings Qualified Member(s);
“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 joint stock limited company established under the laws of the PRC;
“TCL Holdings Brand”	brands, trademarks, tradenames, copyrights and other intellectual property rights owned by TCL Holdings Group (for the avoidance of doubt, excluding TCL Brand);
“TCL Holdings Financial Services Associates”	the existing TCL Associates and any entity that may become TCL Associates from time to time during the term of the Master Financial (2022-2024) Agreement which carry on businesses in deposit, clearing, factoring finance, financial leasing and guarantees, foreign exchange transactions and other financial services, including but not limited to Finance Company (HK) but excluding the Group;
“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, the Agreements and the transactions contemplated thereunder includes TCL Associates but, unless otherwise specified, excludes the Group;
“T.C.L. Industries (H.K.)”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, an immediate controlling Shareholder, and a wholly-owned subsidiary of TCL Holdings;

DEFINITIONS

“TCL NL”	TCL Netherlands B.V., a company established under the laws of the Netherlands with limited liability and an indirect wholly-owned subsidiary of the Company;
“TCL Technology” or “TCL Corporation”	TCL Technology Group Corporation (formerly known as TCL Corporation), a joint stock limited company established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000100.SZ);
“TV(s)”	television(s);
“USD”	United States dollars, the lawful currency of the United States of America;
“Zhengjia Investment”	Zhengjia Investment Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of T.C.L. Industries (H.K.); and
“%”	per cent.

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

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:

DU Juan (*Chairperson*)

YAN Xiaolin

HU Dien Chien

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

Non-executive Directors:

WANG Cheng

Albert Thomas DA ROSA, Junior

SUN Li

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

22 November 2021

To the Shareholders

Dear Sir or Madam,

**(1) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS
(2) MAJOR TRANSACTION – ADVANCES TO AN ENTITY AND
PROVISION OF FINANCIAL ASSISTANCE UNDER
MASTER FINANCIAL (2022-2024) AGREEMENT
AND
(3) ELECTION OF DIRECTORS**

INTRODUCTION

Reference is made to the Announcement. As disclosed in the Announcement, on 11 November 2021 (after trading hours), the Company entered into various agreements with TCL Holdings and/or Finance Company (HK) and the transactions contemplated thereunder constitute continuing connected transactions, including the following Agreements:

LETTER FROM THE BOARD

- (i) Master Sale and Purchase (2022-2024) Agreement;
- (ii) Master Services (2022-2024) Agreement;
- (iii) Master Financial (2022-2024) Agreement; and
- (iv) Master Brand Promotion (2022-2024) Agreement.

The Agreements are in substance renewal of the Existing Agreements and the terms of the Agreements are substantially the same as the Existing Agreements, save as otherwise specified below, and except for the Master Financial (2022-2024) Agreement which consolidates and integrates the scope of services under the Master Financial Agreement (TCL Holdings) (2020-2022) and Master Financing Services (2021-2022) Agreement and further expands the scope of services to cover Foreign Exchange Transactions.

Reference is also made to the August 2021 Announcement in relation to, among others, the appointment of Ms. DU Juan by the Board as an executive Director to fill the casual vacancy arising from the resignation of Mr. LI Dongsheng and the re-designation of Mr. WANG Cheng from an executive Director to a non-executive Director.

The purposes of this circular are:

- (i) to provide the Shareholders with further information regarding the details of the Non-exempt Transactions;
- (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;
- (iii) to provide the Shareholders with information regarding the election of Directors; and
- (iv) to give the Shareholders other information in accordance with the requirements of the Listing Rules.

The notice of EGM is enclosed herein as part of this circular.

LETTER FROM THE BOARD

RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

(1) Master Sale and Purchase (2022-2024) Agreement

On 14 June 2019, the Company entered into the Master Sale and Purchase (2019-2021) Agreement with TCL Holdings, which will expire on 31 December 2021. For details, please refer to the June 2019 Circular. As the Company and TCL Holdings wish to continue the continuing connected transactions contemplated thereunder, the Company has on 11 November 2021 (after trading hours) entered into the Master Sale and Purchase (2022-2024) Agreement with TCL Holdings, subject to Shareholders' approval.

The Master Sale and Purchase (2022-2024) Agreement is on substantially similar terms as the Master Sale and Purchase (2019-2021) Agreement, with the major differences set out as follows:

- (i) the expansion of the scope of Electronics Products to cover, among others, (a) all products manufactured, produced or otherwise sold or distributed by the Group rather than only electronic consumer products manufactured, produced or otherwise sold or distributed by the Group; and (b) waste products arising from manufacturing or production process of the Group rather than only waste products arising from manufacturing or production of electronic consumer goods by the Group;
- (ii) the relevant member of the Group may no longer demand the relevant member of TCL Holdings Group to purchase back the TCL Associates Products if such products remain unsold to third parties for six months; and
- (iii) the Master Sale and Purchase (2022-2024) Agreement will be for a term of 3 years.

The material terms of the Master Sale and Purchase (2022-2024) Agreement are summarised below:

Date:	11 November 2021 (after trading hours)
Parties:	(i) The Company (for itself and on behalf of the Group); and (ii) TCL Holdings (for itself and on behalf of TCL Holdings Group).
Duration:	From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
Condition precedent:	The Master Sale and Purchase (2022-2024) Agreement is conditional on and subject to the compliance by the Company with relevant Listing Rules requirements in respect of the Master Sale and Purchase (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the EGM.

LETTER FROM THE BOARD

Major terms:

Sourcing of TCL Associates Products

Each member of the Group may, at its absolute discretion, request to purchase its required TCL Associates Products from members of TCL Holdings Group. Upon receiving purchase request from members of the Group, TCL Holdings may, at its absolute discretion, procure the relevant member of TCL Holdings Group to sell to the relevant member of the Group the required TCL Associates Products.

Sale of Electronics Products

Each member of TCL Holdings may, at its absolute discretion, request to purchase Electronics Products from members of the Group. If any member of TCL Holdings Group requests any member of the Group to purchase from the Group any Electronics Products, the Company may, at its absolute discretion, procure relevant member of the Group to supply such Electronics Products to the relevant member of TCL Holdings Group.

General terms

The terms and conditions (including price and payment terms) of any sale and purchase conducted pursuant to the Master Sale and Purchase (2022-2024) Agreement shall be agreed between relevant member(s) of the Group and TCL Holdings Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the Master Sale and Purchase (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution.

Subject to mutual agreement, the relevant member of the Group has the right to sell, resell or otherwise distribute TCL Associates Products which it has acquired from the relevant member of TCL Holdings Group to any person at such price as such member of the Group may in its absolute discretion determine.

LETTER FROM THE BOARD

Pricing policy and basis of price determination: The overall terms and conditions (including but not limited to price, payment terms and credit terms) as a whole offered by the relevant member of TCL Holdings Group to the relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each individual agreement shall be negotiated on an arm's length basis.

In determining whether the overall terms and conditions are no less favourable to the relevant member of the Group than those offered by Independent Third Parties, the Group will take into account all relevant factors including the fair market price ranges and pricing terms of products of identical, or (if that is not available) of comparable or similar quality, specifications, quantities, required time of delivery, etc. offered by Independent Third Parties in the market as at the time when the individual agreement is entered into.

(2) Master Services (2022-2024) Agreement

On 14 June 2019, the Company entered into the Master Services (2019-2021) Agreement with TCL Holdings, which will expire on 31 December 2021. For details, please refer to the June 2019 Circular. As the Company and TCL Holdings wish to continue the continuing connected transactions contemplated thereunder, the Company has on 11 November 2021 (after trading hours) entered into the Master Services (2022-2024) Agreement with TCL Holdings, subject to Shareholders' approval.

The Master Services (2022-2024) Agreement is on substantially similar terms as the Master Services (2019-2021) Agreement, with the major differences set out as follows:

- (i) from the perspective of neat drafting and easier administrative purpose, Electronics Services (as defined in the June 2019 Circular) and TCL Associates Services (as defined in the June 2019 Circular) under the Master Services (2019-2021) Agreement have been consolidated into Services under the Master Services (2022-2024) Agreement; and
- (ii) the Master Services (2022-2024) Agreement will be for a term of 3 years.

The material terms of the Master Services (2022-2024) Agreement are summarised below:

Date: 11 November 2021 (after trading hours)

- Parties:
- (i) the Company (for itself and on behalf of the Group); and
 - (ii) TCL Holdings (for itself and on behalf of TCL Holdings Group).

LETTER FROM THE BOARD

Duration: From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).

Condition precedent: The Master Services (2022-2024) Agreement is conditional on and subject to the compliance by the Company with relevant Listing Rules requirements in respect of the Master Services (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the EGM.

Major terms: Each member of TCL Holdings Group may from time to time at its absolute discretion request members of the Group to provide the Services in its ordinary and usual course of business, and the relevant member of the Group may at its absolute discretion decide whether to provide the Services to the relevant member of TCL Holdings Group.

Each member of the Group may from time to time, in its ordinary and usual course of business and at its absolute discretion, request members of TCL Holdings Group to provide the Services, and the relevant member of TCL Holdings Group may at its absolute discretion decide whether to provide the Services to the relevant member of the Group.

The terms and conditions (including Service Fees and payment terms) of any Services conducted pursuant to the Master Services (2022-2024) Agreement shall be agreed between relevant member(s) of the Group and TCL Holdings Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the Master Services (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution.

The Service Fees shall be payable in accordance with the payment terms and time as specified in the individual agreements.

LETTER FROM THE BOARD

Pricing policy and basis
of price determination:

The overall terms and conditions (including but not limited to Service Fees) as a whole offered by the relevant member of TCL Holdings Group to the relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms. Each individual agreement shall be negotiated on an arm's length basis.

In determining whether the overall terms and conditions are no less favourable to the relevant member of the Group than those offered by Independent Third Parties, the Group will take into account all relevant factors including the fair market price ranges and pricing terms of service of identical, or (if that is not available) of comparable or similar quality, type, specifications, required time, etc. offered by Independent Third Parties in the market as at the time when the individual agreement is entered into.

(3) Master Financial (2022-2024) Agreement

On 25 March 2020, the Company entered into the Master Financial Agreement (TCL Holdings) (2020-2022) with TCL Holdings and Finance Company (HK), which will expire on 31 December 2022; and on 9 June 2021, the Company entered into the Master Financing Services (2021-2022) Agreement with TCL Holdings, which will expire on 31 December 2022. For details, please refer to the April 2020 Circular and the June 2021 Announcement respectively.

As the Company, TCL Holdings and Finance Company (HK) wish to continue the continuing connected transactions contemplated thereunder, and in order to consolidate and integrate the scope of services under the Master Financial Agreement (TCL Holdings) (2020-2022) and the Master Financing Services (2021-2022) Agreement, the Company has on 11 November 2021 (after trading hours) entered into the Master Financial (2022-2024) Agreement with TCL Holdings and Finance Company (HK), subject to Shareholders' approval, pursuant to which the Master Financial Agreement (TCL Holdings) (2020-2022) and the Master Financing Services (2021-2022) Agreement shall be automatically terminated upon the coming into effect of the Master Financial (2022-2024) Agreement.

The Master Financial (2022-2024) Agreement is on substantially similar terms as the Master Financial Agreement (TCL Holdings) (2020-2022) and the Master Financing Services (2021-2022) Agreement (as the case may be), with the major differences set out as follows:

- (i) the expansion of the scope of services to include the Foreign Exchange Transactions; and
- (ii) the Master Financial (2022-2024) Agreement will be for a term of 3 years.

LETTER FROM THE BOARD

The material terms of the Master Financial (2022-2024) Agreement are summarised below:

- Date: 11 November 2021 (after trading hours)
- Parties: (i) the Company (for itself and on behalf of the Group);
- (ii) TCL Holdings (for itself and on behalf of TCL Holdings Group); and
- (iii) Finance Company (HK).
- Duration: From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
- Condition precedent: The Master Financial (2022-2024) Agreement is conditional on and subject to the compliance by the Company with relevant Listing Rules requirements in respect of the Master Financial (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the EGM.

Major terms:

Deposit Services

Any TCL Electronics Qualified Member may from time to time and at its absolute discretion request to deposit money with Finance Company (HK) and/or other TCL Holdings Financial Services Associates, and Finance Company (HK) and/or other TCL Holdings Financial Services Associates may at its absolute discretion decide whether to accept the deposit from the relevant TCL Electronics Qualified Member.

If any TCL Electronics Qualified Member demands repayment of any money deposited by it with Finance Company (HK) and/or TCL Holdings Financial Services Associates in accordance with the relevant terms and procedure and Finance Company (HK) and/or TCL Holdings Financial Services Associates fails to follow the repayment demand, such TCL Electronics Qualified Member shall then have the right to request TCL Holdings to repay the outstanding deposit amount on behalf of Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates in full.

LETTER FROM THE BOARD

The terms and conditions of Deposit Services conducted pursuant to the Master Financial (2022-2024) Agreement shall be agreed between relevant TCL Electronics Qualified Member and Finance Company (HK) and/or TCL Holdings Financial Services Associate in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the Master Financial (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution.

Credit Services

Any member of Qualified Holdings Group may from time to time and at its absolute discretion request members of the Group to advance loans, and the relevant member of the Group may at its absolute discretion decide whether to advance loans to the relevant member of Qualified Holdings Group.

If any member of the Group demands repayment of any loan (including the interest) advanced to any member of the Qualified Holdings Group in accordance with the relevant terms and procedure and the relevant member of the Qualified Holdings Group fails to follow the repayment demand, TCL Holdings undertakes (and the relevant member of the Group shall then have the right to request TCL Holdings) to repay the outstanding loan (including the interest) on behalf of the relevant member of the Qualified Holdings Group in full.

The terms and conditions of Credit Services conducted pursuant to the Master Financial (2022-2024) Agreement shall be agreed between relevant member of Qualified Holdings Group and relevant member of the Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the Master Financial (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution.

LETTER FROM THE BOARD

Financing Services

Any TCL Electronics Qualified Member may from time to time and at its absolute discretion request Financing Services from TCL Holdings Financial Services Associates, and the relevant TCL Holdings Financial Services Associate may at its absolute discretion decide whether to provide Financing Services to the relevant TCL Electronics Qualified Member.

TCL Holdings Financial Services Associates may request TCL Electronics Qualified Members to provide security (including but not limited to cash deposits, financial instruments, receivables, machinery or equipment etc.) to TCL Holdings Financial Services Associates in respect of the Financing Services provided by TCL Holdings Financial Services Associates, subject to compliance with relevant Listing Rules requirements.

The Company undertakes with TCL Holdings, among others, that in case the relevant TCL Electronics Qualified Members are unable to repay the relevant loans (including the interests) under the Financing Services provided by TCL Holdings Financial Services Associates to the relevant TCL Holdings Financial Services Associates, the Company will (and the relevant TCL Holdings Financial Services Associates are entitled to request the Company to) repay such outstanding loans (including the interest) for the relevant TCL Electronics Qualified Members.

The terms and conditions of Financing Services conducted pursuant to the Master Financial (2022-2024) Agreement shall be agreed between the relevant TCL Electronics Qualified Member and the relevant TCL Holdings Financial Services Associate in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the Master Financial (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution.

LETTER FROM THE BOARD

Foreign Exchange Transactions

Any member of the Group may from time to time and at its absolute discretion request to enter into Foreign Exchange Transactions with Finance Company (HK) and/or other TCL Holdings Financial Services Associates, and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associate may at its absolute discretion decide whether to enter into the Foreign Exchange Transactions with the relevant members of the Group.

TCL Holdings undertakes with the Company, among others, that in case Finance Company (HK) and/or other TCL Holdings Financial Services Associates fails to pay the sum under the Foreign Exchange Transactions to relevant member of the Group pursuant to the relevant terms and conditions, the relevant member of the Group shall then have the right to request TCL Holdings to immediately repay the relevant sum to the relevant member of the Group.

The Company undertakes with TCL Holdings, among others, that in case the relevant member of the Group fails to pay the sum under the Foreign Exchange Transactions to Finance Company (HK) and/or other TCL Holdings Financial Services Associates pursuant to the relevant terms and conditions, the Company will (and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates shall then have the right to request the Company to) immediately repay the relevant sum to Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates.

LETTER FROM THE BOARD

The terms and conditions of Foreign Exchange Transactions conducted pursuant to the Master Financial (2022-2024) Agreement shall be agreed between the relevant member of the Group and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associate in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the Master Financial (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution.

Pricing policy and basis
of price determination:

Deposit Services

If Finance Company (HK) and/or TCL Holdings Financial Services Associates decide to accept any amount of cash deposits from a TCL Electronics Qualified Member (including current deposits, fixed deposits or any other forms of deposits), the interest rates (see *Note 1*) offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates, as the case may be, shall:

- (a) for deposits made within the PRC, be within the range of or higher than:
 - (i) the minimum interest rate promulgated by the PBOC for the same type of deposit services from time to time;
 - (ii) the interest rates for the same type of deposits offered by major commercial banks of the PRC (see *Note 2*) to the relevant TCL Electronics Qualified Member; and
 - (iii) the interest rates for the same type of deposits offered by the Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group); and

other terms and conditions offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates as a whole shall also not be less favourable than those offered by major commercial banks of the PRC to the relevant TCL Electronics Qualified Member, and those offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group), and shall be on normal commercial terms; and

LETTER FROM THE BOARD

- (b) for deposits made outside the PRC, be within the range of or higher than:
 - (i) the interest rates for the same type of deposits offered by major commercial banks located in the place where the relevant TCL Electronics Qualified Member is located (see *Note 3*) to the relevant TCL Electronics Qualified Member; and
 - (ii) the interest rates for the same type of deposits offered by the Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group); and

other terms and conditions offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates as a whole shall also not be less favourable than those offered by major commercial banks located in the place where the relevant TCL Electronics Qualified Member is located to the relevant TCL Electronics Qualified Member, and those offered by the Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group), and shall be on normal commercial terms.

Credit Services

Subject to compliance with all applicable laws, the interest rates (see *Note 4*) offered by the Group in respect of Credit Services shall:

- (a) for loans made within the PRC, be within the range of or higher than:
 - (i) the interest rates for loans of the same type offered by major commercial banks of the PRC (see *Note 2*) to the relevant member of Qualified Holdings Group; and
 - (ii) the interest rates for loans of the same type offered by the Group to any Independent Third Party; and

LETTER FROM THE BOARD

other terms and conditions offered by the Group as a whole shall also not be less favourable to the Group than those offered by the Group to any Independent Third Party and shall be on normal commercial terms; and

- (b) for loans made outside the PRC, be within the range of or higher than:
 - (i) the interest rates for loans of the same type offered by major commercial banks located in the place where the relevant member of Qualified Holdings Group is located (see *Note 3*) to the relevant member of Qualified Holdings Group; and
 - (ii) the interest rates for loans of the same type offered by the Group to any Independent Third Party; and

other terms and conditions offered by the Group as a whole shall also not be less favourable to the Group than those offered by the Group to any Independent Third Party and shall be on normal commercial terms.

Financing Services

If TCL Holdings Financial Services Associates decide to provide any Financing Services to a TCL Electronics Qualified Member, the interest rates charged by TCL Holdings Financial Services Associates shall be within the range of prevailing market rates for the same type of financing services, and the overall terms and conditions (including but not limited to the timeliness and processing efficiency of financing as well as the interest rates) offered by TCL Holdings Financial Services Associates as a whole in respect of the Financing Services shall not be less favourable than those offered by other major commercial banks and/or relevant financial institutions located in the place where the relevant TCL Electronics Qualified Member is located in respect of the same type of financing services and by TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group) with the same credit rating (if any) in respect of same type of financing services, and shall be on normal commercial terms.

LETTER FROM THE BOARD

Foreign Exchange Transactions

If Finance Company (HK) and/or other TCL Holdings Financial Services Associates and the relevant member of the Group decide to enter into Foreign Exchange Transactions, the service fee charged by and/or the exchange rate adopted by Finance Company (HK) and/or other TCL Holdings Financial Services Associates, if any, shall be within the range of prevailing market rates, and the overall terms and conditions (including but not limited to the timeliness and processing efficiency of Foreign Exchange Transactions) offered by Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates as a whole in respect of the Foreign Exchange Transactions shall not be less favourable than those offered by other major commercial banks and/or relevant foreign exchange service providers located in the place where the relevant member of the Group is located in respect of the same type of foreign exchange transactions and by Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group) with the same credit rating (if any) in respect of same type of foreign exchange transactions, and shall be on normal commercial terms.

Notes:

1. For illustration purpose, as at 30 September 2021, the historical interest rates of USD, RMB and HK\$ deposits under the Master Financial Agreement (TCL Holdings) (2020-2022) ranged from 0.01% to 1.8%; 1.7% to 3.5%; and 0.01% to 0.32% respectively.
2. The major commercial banks of PRC refer to Bank of China Limited, Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited or China Construction Bank Corporation, etc.
3. The major commercial banks located in the place where the relevant TCL Electronics Qualified Member or member of Qualified Holdings Group (as the case may be) is located refer to, in the case of Hong Kong, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited or Industrial and Commercial Bank of China (Asia) Limited, etc.
4. For illustration purpose, as at 30 September 2021, the historical interest rates of unsecured loans under the Master Financial Agreement (TCL Holdings) (2020-2022) ranged from 3.2% to 8.0%.

LETTER FROM THE BOARD

(4) Master Brand Promotion (2022-2024) Agreement

On 14 June 2019, the Company entered into the Master Brand Promotion (2019-2021) Agreement with TCL Holdings, which will expire on 31 December 2021. For details, please refer to the June 2019 Circular. As the Company and TCL Holdings wish to continue the continuing connected transactions contemplated thereunder, the Company has on 11 November 2021 (after trading hours) entered into the Master Brand Promotion (2022-2024) Agreement with TCL Holdings, subject to Shareholders' approval. The Master Brand Promotion (2022-2024) Agreement is on substantially similar terms as the Master Brand Promotion (2019-2021) Agreement, with its scope being clarified to include promotion of TCL Holdings Brand.

The material terms of the Master Brand Promotion (2022-2024) Agreement are summarised below:

Date:	11 November 2021 (after trading hours)
Parties:	(i) the Company (for itself and on behalf of the Group); and (ii) TCL Holdings (for itself and on behalf of TCL Holdings Group).
Duration:	From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
Condition precedent:	The Master Brand Promotion (2022-2024) Agreement is conditional on and subject to the compliance by the Company with relevant Listing Rules requirements in respect of the Master Brand Promotion (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the EGM.
Major terms:	The Company shall pay a brand promotion fee to TCL Holdings on a monthly basis during the term of the Master Brand Promotion (2022-2024) Agreement, which shall be determined with reference to the pricing policy and basis of price determination as set out below, and TCL Holdings shall use the brand promotion fee to set up and/or maintain promotion fund(s) for advertisement, promotion, management and maintenance of TCL Brand and/or TCL Holdings Brand. TCL Brand Management Centre is authorised to conduct planning, implementation and consulting work in relation to the use of the fund and promotion activities of TCL Brand.

LETTER FROM THE BOARD

The relevant member(s) of TCL Holdings Group shall, and TCL Holdings shall procure that the relevant member(s) of TCL Holdings Group shall, use the promotion fund(s) in accordance with the Master Brand Promotion (2022-2024) Agreement, provide brand promotion services and allow members of the Group to benefit therefrom.

Pricing policy and basis
of price determination:

Under the Master Brand Promotion (2022-2024) Agreement, the annual amount of the brand promotion fee in relation to TCL Brand 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 from the particular type of products for that financial year subject to adjustments as stated below, depending on the types of products as set out below:

Type of products	Brand promotion fee rate (% of projected annual sales revenue of the Group in respect of the particular type of products)
TCL Brand products sold within the PRC (including sub-brand)	2.25%
TCL Brand products sold outside of the PRC (including sub-brand)	0.75%
Processing of OEM and ODM 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. The parties shall review the brand promotion fee rates in the last month of every financial year according to the status of utilisation of brand promotion fee within the financial year, and may adjust the brand promotion fee rates for that financial year and/or the next financial year accordingly, provided that such adjustment must be mutually agreed by the Company and TCL Holdings and subject to the relevant annual caps and other applicable requirements under the Listing Rules.

The above pricing policy shall also apply *mutatis mutandis* to brand promotion fee in relation to TCL Holdings Brand, unless otherwise agreed between the parties, provided that in any event the respective promotion fee rate in relation to TCL Holdings Brand shall not be higher than the above promotion fee rates.

LETTER FROM THE BOARD

INTERNAL CONTROL PROCEDURES AND PRICING POLICIES

In order to safeguard the interests of the Company and the Shareholders, and to ensure that Non-exempt Transactions are on normal commercial terms and on terms no less favourable to the Group than those offered by Independent Third Parties, in addition to those disclosed above, the Company has also adopted the following general and specific internal control procedures and pricing policies:

General internal control procedures and pricing policies

- (i) The Group will periodically collect market information from connected persons and Independent Third Parties and enter such information into its internal database. Before each continuing connected transaction is to be carried out, the Group will compare the terms offered by the relevant connected person with the market data in its internal database to ensure the overall terms offered by such connected person are on normal commercial terms and no less favourable to the Group than those offered by Independent Third Parties.
- (ii) The finance department of the Group will maintain a database to record and monitor the aggregate transaction amounts under the continuing connected transactions from time to time and prepare a monthly report on the status of the aggregate transaction amounts which will be submitted to the finance director of the Group for review.
- (iii) Before conducting any transactions with connected persons, the finance department would confirm the utilisation status of the annual caps to ensure that the Group still have sufficient room under the annual caps for carrying out the relevant continuing connected transactions. The finance department would on a regular basis review the continuing connected transactions carried out during the period under review to assess (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; and (ii) 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. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, the Company would take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules including but not limited to revising the relevant annual caps before entering into the proposed transactions.
- (iv) Every time before conducting any continuing connected transactions, the relevant department of the Group would first prepare the relevant individual agreement for the continuing connected transactions and submit it to the internal control unit and legal department of the Group for review and approval. The internal control unit and the legal department of the Group would review the terms of the proposed transaction and the draft individual agreement to be entered into to make sure that the terms are in compliance with the master agreement and the pricing policy of the Group and that the overall terms and conditions (including prices and payment terms) are no less favourable to the Group than those offered by Independent Third Parties. The transactions could only be carried out after the internal control unit and the legal department have separately given their approval therefor.

LETTER FROM THE BOARD

- (v) All such personnel involved in the Group's internal control procedures are independent of TCL Holdings and its associates.

Specific internal control procedures and pricing policies

Regarding Master Sale and Purchase (2022-2024) Agreement

- (i) The Group will set up periodic targets for Sourcing of TCL Associates Products and Sale of Electronics Products respectively, from which it could project the approximate amount of sales and purchase with TCL Holdings Group, which will be subject to review from time to time depending on the surrounding circumstances such as the Group's performance and overall market conditions. The sales unit and purchase unit will from time to time compare the actual figures against the sales targets and purchase targets in general and will make necessary adjustment for the sales and purchase from TCL Holdings Group for the remaining period.
- (ii) Upon receiving purchase request for TCL Associates Products from the relevant department of the Group, the procurement department of the Group will compare the price offered for the TCL Associates Products with the price offered for comparable products or, if no quotation for comparable products is available, similar products from at least two Independent Third Party suppliers (if available) and make an overall assessment of the terms of supply by such suppliers, including the quality of the products, past history of dealing with such suppliers (if any), payment terms and price, to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2022-2024) Agreement. To the extent where there are no similar or comparable products from Independent Third Party suppliers, the procurement department will obtain quotation information from TCL Holdings Group to ensure that the prices of TCL Associates Products offered by TCL Holdings Group to the Group shall be no higher than those offered by TCL Holdings Group to Independent Third Parties. Whilst there is a wide range of TCL Associates Products and the price of each type of TCL Associate Products varies, for illustrative purpose, taking household appliances products as an example, the current average mark-up rate of the majority of the household appliances type TCL Associate Products offered to the Group and Independent Third Parties is in general within the range of approximately 10% to 20% of the production costs of TCL Holdings Group. The procurement department will obtain production cost information from TCL Holdings to ascertain the mark-up rates. Where the mark-up rate is higher than the expected mark-up rate, the Group will consider whether to purchase TCL Associates Products from TCL Holdings Group based on a basket of factors, including not limited to (i) whether the Group is able to obtain better offer from Independent Third Parties; (ii) quality of products and timeliness of supply; and (iii) the impact to the profitability of the Group and the Group shall only purchase TCL Associates Products from TCL Holdings Group if it is in the interest of the Shareholders and the Group to do so. Nevertheless, such mark-up rate may vary during the term of Master Sale and Purchase (2022-2024) Agreement depending on factors such as market circumstances, supplier relationship, seasonal demand, product specifications, exchange rate fluctuation, mode of delivery, transportation cost and business strategies.

LETTER FROM THE BOARD

- (iii) The procurement director of the Group is responsible for approving the purchase orders from members of the Group. 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. Whilst there are Independent Third Parties which provide products similar to TCL Associates Products such that quotations 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 Holdings Group for Sourcing of TCL Associates Products when, in accordance with the results of the overall assessment of a basket of factors (including but not limited to price, payment terms, credit terms, and whether the products offered are in line with the business line, brand development, overall strategy and planning of the Group), TCL Holdings Group can offer terms of supply for the TCL Associates Products which are no less favourable to the Group than those offered by Independent Third Parties for identical, comparable or similar products (as the case may be).
- (iv) Under the Group's pricing model, the per unit selling 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 Group, and the weight of each factor will vary from order to order based on negotiations with its customers. Whilst there is a wide range of Electronics Products and the price of each type of Electronics Products varies, taking household appliances products as an example, the current gross profit margin of the majority of the household appliance type Electronics Products offered to TCL Holdings Group and Independent Third Parties is in general within the range of approximately 10% to 20%. Where the gross profit margin is lower than the expected gross profit margin, the Group will consider whether to sell Electronics Products to TCL Holdings Group based on a basket of factors, including not limited to (i) whether the Group is able to obtain better offer from Independent Third Parties; (ii) the business strategy of the Group such as brand development and competition for market share; and (iii) the impact to the profitability of the Group and the Group shall only sell Electronics Products to TCL Holdings Group if it is in the interest of the Shareholders and the Group to do so. Nevertheless, the margin that the Company charges may vary during the term of the Master Sale and Purchase (2022-2024) Agreement depending on factors such as market circumstances, customer relationship, credit granted, product specifications, transportation and mode of delivery, production cost, licensing cost.

LETTER FROM THE BOARD

- (v) Upon receiving proposed orders and offering pricing for Electronics Products from TCL Holdings Group, the sales and marketing team reviews the orders, and checks with relevant units (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. The Group would only accept orders from TCL Holdings Group for Sale of Electronics Products when, in accordance with the results of the overall assessment of a basket of factors (including but not limited to price, payment terms, credit terms, sales expenses, logistics and storage expenses and whether the sale is in line with the business line, brand development, overall strategy and planning of the Group), TCL Holdings Group can offer terms of purchase for the Electronics Products which are no less favourable to the Group than those offered by Independent Third Parties for identical, comparable or similar products (as the case may be).

Regarding Master Services (2022-2024) Agreement

- (i) Before entering into individual transactions under the Master Services (2022-2024) Agreement, the operation unit of the relevant member of the Group will examine the terms of the draft individual agreement to ensure that the terms are on normal commercial terms and on terms no less favourable to the Group than those offered by Independent Third Parties, and conform with the Master Services (2022-2024) Agreement.
- (ii) In order to maintain a fair assessment of the overall terms, when a member of the Group requires Services from or is requested to provide Services to TCL Holdings Group, the Group will obtain quotations for comparable services or, in the absence of quotation for comparable services, similar services from at least two Independent Third Parties (whom the Group considers are able to provide the required services of satisfactory quality and at satisfactory standard) (if available) to make sure that (i) the Service Fees to be paid by the Group are not higher than those offered to the Group by Independent Third Parties under prevailing local market conditions; and (ii) the Service Fees to be received by the Group under the contract for Services are not lower than those received from Independent Third Parties under prevailing local market conditions. To the extent where there are no similar or comparable services from Independent Third Parties, the Group will obtain quotation information from TCL Holdings Group to ensure that the prices offered by TCL Holdings Group to the Group shall be no less favourable than those offered by TCL Holdings Group to Independent Third Parties.
- (iii) The Group would also from time to time identify further Independent Third Parties whom 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.

LETTER FROM THE BOARD

Regarding Master Financial (2022-2024) Agreement

General

- (i) The Group has adopted a sound and independent audit system and a comprehensive financial management system. The Group also maintains bank accounts with independent banks. TCL Holdings Group does not share any bank account with the Group.
- (ii) Before entering into individual transactions under the Master Financial (2022-2024) Agreement, the Company's treasury department will, in addition to monitoring the pricing terms (as disclosed below), also examine other terms of the transactions to ensure that the terms conform with the Master Financial (2022-2024) Agreement.
- (iii) The management of the Group will regularly assess the risk of (i) the funds deposited with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates; (ii) the loans advanced to Qualified Holdings Group; (iii) the Financing Services obtained and the value of security provided by the Group; and (iv) the aggregate amount of Foreign Exchange Transactions entered into by the Group. The scope of such risk assessments includes the total balance and maximum daily balance of the deposits, loans and value of security for the period under review, the exchange rate of currencies being the subject of Foreign Exchange Transactions which the Group entered into and the trend thereof, the interest rates of the deposits or loans with/to Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates and/or relevant members of Qualified Holdings Group (as the case may be) during the period under review, and the terms thereof. The management of the Group will also report to the Board every six months with respect to the Deposit Services, Credit Services, Financing Services and Foreign Exchange Transactions under the Master Financial (2022-2024) Agreement including utilisation rate of annual caps.
- (iv) In particular, the Company's audit committee will scrutinise the implementation and enforcement of the transactions under the Master Financial (2022-2024) Agreement. If the Company's audit committee is of the view and decides that it would be in the Company's interests to (i) reduce the level of deposits with Finance Company (HK) and/or TCL Holdings Financial Services Associates; and/or (ii) reduce the level of loans advanced to relevant member of Qualified Holdings Group; and/or (iii) reduce the level of Financing Services obtained and/or the value of security provided by the Group; and/or (iv) reduce the amount of currencies being the subject of Foreign Exchange Transactions to be entered into by the Group, the Group will take appropriate steps to implement its decision, and in such case, any material findings in the risk assessment reports, the views of the Company's audit committee on the deposits, loans, Financing Services and Foreign Exchange Transactions under the Master Financial (2022-2024) Agreement (including its views on how the terms of the Master Financial (2022-2024) Agreement have been complied with) and its decisions on matters in relation thereto will be disclosed in the Company's annual reports.

LETTER FROM THE BOARD

- (v) Pursuant to the Master Financial (2022-2024) Agreement, TCL Holdings has undertaken that if Finance Company (HK) and/or any of the TCL Holdings Financial Services Associates and/or any member of Qualified Holdings Group (as the case may be) fails to make any repayment in accordance with the relevant terms and procedures under the Deposit Services, Credit Services and Foreign Exchange Transactions, TCL Holdings shall repay any outstanding deposits, loans or transaction amount (as the case may be) on behalf of Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates and/or the relevant member of Qualified Holdings Group (as the case may be) in full. Such undertaking provides indemnification for the deposits, loans and Foreign Exchange Transactions under the Master Financial (2022-2024) Agreement.

- (vi) The Company will regularly obtain benchmarks (such as prevailing market interest rates in respect of the various services under the Master Financial (2022-2024) Agreement, including but not limited to the deposit and lending interest rates and foreign currency exchange rate stipulated by the major commercial banks and/or the PBOC) periodically during the term of the Master Financial (2022-2024) Agreement. All the benchmarks obtained by the Company will be kept in a database maintained by the Company, which will be used internally for, in addition to determining the interest rates and services fees etc. under the Master Financial (2022-2024) Agreement, monitoring the market trend and allowing the Group to better formulate its funds management strategy. With all the benchmarks mentioned above collected, the Company's treasury department will negotiate with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates and/or members of Qualified Holdings Group on the best interest rates/exchange rates/fees most favourable to the relevant member of the Group that can be obtained. The benchmarks will set the bottom line for members of the Group in the negotiation process. The head of the treasury department of the Company would have the right to make decision as to whether to enter into transactions with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates and/or members of Qualified Holdings Group at the negotiated interest rates/exchange rates/fees provided that such interest rates/exchange rates/fees comply with the terms of the Master Financial (2022-2024) Agreement.

LETTER FROM THE BOARD

Deposit Services

- (i) To enable the Group to monitor and ensure that the relevant annual caps under the Master Financial (2022-2024) Agreement have not been exceeded, Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates will provide the Group with a monthly report on the status of the Group's deposits.
- (ii) The Group's finance department will monitor the maximum daily balance of the deposits on a daily basis to ensure that the aggregate deposits do not exceed the applicable annual caps.
- (iii) Finance Company (HK) and/or relevant TCL Holdings Financial Services Associates utilise deposits placed with them, to the extent permitted by applicable laws and regulations, by lending the funds out to Holdings Qualified Members (including TCL Electronics Qualified Members). Since the terms of the deposits and loans are often different, Finance Company (HK) and/or relevant TCL Holdings Financial Services Associates face liquidity risks if any deposit becomes due and they do not have sufficient immediately available fund for repayment. The nature of such risk does not differ materially from the liquidity risks faced by the commercial banks and financial institutions. To manage such risks, the Group will request Finance Company (HK), the relevant TCL Holdings Financial Services Associates and TCL Holdings Group to provide the Group with sufficient information including various financial indicators, such as their asset sizes, liquidity ratios, level of bad assets and their risk ratings assessed by the PBOC (if and when available) as well as annual and interim financial statements to enable the Group to monitor and review their financial condition. Each of Finance Company (HK), the relevant TCL Holdings Financial Services Associates and TCL Holdings Group shall notify the Group, subject to compliance with applicable laws and regulations, should it be subject to any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on the financial condition of any of them. If the Group considers that there is any material adverse change in the financial condition of Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates, the Group will take appropriate measures (including early uplift of deposits and a moratorium on further deposits) to protect the Group's financial position.
- (iv) The Company will, from time to time and at its sole discretion, request for the deposits with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates to be withdrawn (either in full or in part) to assess and ensure the liquidity and safety of the Group's deposits.
- (v) Should the balance at the end of any day exceed the maximum daily balance of deposits, the excess funds will be transferred to the Group's designated bank accounts held with an independent commercial bank.

LETTER FROM THE BOARD

Credit Services

- (i) The Group's finance department will monitor the maximum daily balance of the loans on a daily basis to ensure that the aggregate loans do not exceed the applicable annual caps.
- (ii) The Group will request the relevant member of Qualified Holdings Group to provide the Group with sufficient information including various financial indicators, such as its asset size, liquidity ratios, level of bad assets and its risk rating assessed by the PBOC (if and when available) as well as annual and interim financial statements to enable the Group to monitor and review its financial condition. The relevant member of Qualified Holdings Group shall also notify the Group, subject to compliance with applicable laws and regulations, should it be subject to any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on the financial condition of any of them. If the Group considers that there is any material adverse change in the financial condition of the relevant member of Qualified Holdings Group, the Group will take appropriate measures (including ceasing to advance further loans) to protect the Group's financial position.
- (iii) Should the balance of loan at the end of any day reaches 90% of the annual cap, the finance department of the Group would issue a warning to the Group. Upon receiving the warning, the Group would cease advancing further loans to Qualified Holdings Group until the balance of loan falls below 90%.

Financing Services

- (i) The Group's finance department will monitor the maximum daily balance of value of security on a daily basis to ensure that the aggregate value of security do not exceed the applicable annual caps.

Foreign Exchange Transactions

- (i) The Group will enter into Foreign Exchange Transactions with Finance Company (HK) and/or other TCL Holdings Financial Services Associates only on a non-exclusive basis and always subject to the aforementioned pricing policies.

LETTER FROM THE BOARD

Regarding Master Brand Promotion (2022-2024) Agreement

- (i) The rates of brand promotion fee as disclosed in the “pricing policy and basis of price determination” section above in the major terms were determined with reference to a basket of factors, including:
 - (a) the significance of the TCL Brand and/or TCL Holdings Brand to the particular type of products;
 - (b) the difference in terms of promotion scale within and outside the PRC;
 - (c) the proportion of the sales revenue of the Group to that of TCL Holdings Group from the sales of products covered by the Master Brand Promotion (2022-2024) Agreement;
 - (d) the anticipated amount of branding expenses to be incurred by TCL Holdings;
 - (e) the expected growth in sales of the Group derived from the brand promotion activities carried out by TCL Holdings Group; and
 - (f) whether the rate of brand promotion fee is reasonable as a reimbursement of the branding expenses of TCL Holdings Group and as an investment of the Group with reference to the value and benefits brought by such promotion activities.
- (ii) Any variation of the brand promotion fee rates must be approved by the management of the Group, which would consider the effect of such variation based on the projected financial performance of the Group and the proposed annual caps for the remaining term of the Master Brand Promotion (2022-2024) Agreement and the reasons for the variation. Once there is a likelihood that the variation will render the relevant annual cap being exceeded, the relevant 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 cap in accordance with the relevant requirements of the Listing Rules.

LETTER FROM THE BOARD

Annual review of the continuing connected transactions

- (i) 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 or better; and
 - (c) according to the respective agreements governing them and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (ii) 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 all material respects, in accordance with the relevant agreements governing the transactions; and
 - (d) have not exceeded the caps.
- (iii) The Directors shall state in the Company's annual report whether its auditors have confirmed the matters stated in Rule 14A.56 of the Listing Rules.
- (iv) 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 under Rules 14A.55 and 14A.56 of the Listing Rules.
- (v) The Company shall allow, and shall ensure that the counterparties to the continuing connected transactions shall allow the Company's auditors sufficient access to the relevant records for the purpose of the auditors' review of the continuing connected transactions in accordance with the Listing Rules.

LETTER FROM THE BOARD

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 2020 and the eight months ended 31 August 2021, and the respective proposed annual caps of the Non-exempt Transactions for the three years ending 31 December 2024:

	For the year ended 31 December 2019 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2020 (audited) (for actual amount only) HK\$'000	For the 8 months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) HK\$'000	For the year ending 31 December 2022 HK\$'000	For the year ending 31 December 2023 HK\$'000	For the year ending 31 December 2024 HK\$'000
Continuing Connected Transactions (Note 1)						
<i>Master Sale and Purchase (2022-2024) Agreement</i>						
Sourcing of TCL Associates						
Products						
– Historical annual cap (Note 2)	5,795,689	12,216,442	13,130,786			
– Actual (Note 2)	1,204,898	4,526,900	4,284,155			
– Utilisation rate	20.79%	37.06%	32.63%			
– Proposed annual cap				13,508,055	18,335,883	23,242,820
Sale of Electronics Products						
– Historical annual cap (Note 2)	10,251,464	11,404,054	12,542,273			
– Actual (Note 2)	3,517,773	6,881,867	3,289,740			
– Utilisation rate	34.31%	60.35%	26.23%			
– Proposed annual cap				9,002,689	9,756,534	10,666,695

LETTER FROM THE BOARD

	For the year ended 31 December 2019 (audited) (for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2020 (audited) (for actual amount only) <i>HK\$'000</i>	For the 8 months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) <i>HK\$'000</i>	For the year ending 31 December 2022 <i>HK\$'000</i>	For the year ending 31 December 2023 <i>HK\$'000</i>	For the year ending 31 December 2024 <i>HK\$'000</i>
Continuing Connected Transactions (Note 1)						
<i>Master Services (2022-2024) Agreement</i>						
Service Fees to be paid by the Group						
– Historical annual cap (Note 3)	1,726,012	1,944,358	2,139,688			
– Actual (Note 3)	543,140	724,336	556,402			
– Utilisation rate	31.47%	37.25%	26.00%			
– Proposed annual cap				1,885,609	2,164,064	2,456,792
Service Fees to be received by the Group						
– Historical annual cap (Note 3)	260,586	360,637	475,473			
– Actual (Note 3)	16,565	165,492	141,905			
– Utilisation rate	6.36%	45.89%	29.85%			
– Proposed annual cap				410,985	505,104	625,617

LETTER FROM THE BOARD

	For the year ended 31 December 2019 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2020 (audited) (for actual amount only) HK\$'000	For the 8 months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) HK\$'000	For the year ending 31 December 2022 HK\$'000	For the year ending 31 December 2023 HK\$'000	For the year ending 31 December 2024 HK\$'000
Continuing Connected Transactions (Note 1)						
<i>Master Financial (2022-2024) Agreement</i>						
Deposit Services						
Maximum outstanding daily balances of deposits (including interest receivables in respect of these deposits and deposits as security)						
– Historical annual cap (Note 4)	N/A	1,544,000	1,791,000	2,077,000		
– Actual (Note 4)	N/A	1,490,175	1,730,539	N/A		
– Utilisation rate	N/A	96.51%	96.62%			
– Proposed annual cap				2,328,300	3,026,790	3,934,827
Credit Services						
Maximum daily balances of outstanding loans (including interest receivables in respect of these loans)						
– Historical annual cap (Note 4)	N/A	3,500,000	3,500,000	3,500,000		
– Actual (Note 4)	N/A	3,112,844	3,231,647	N/A		
– Utilisation rate	N/A	88.94%	92.33%			
– Proposed annual cap				4,550,000	5,915,000	7,689,500

LETTER FROM THE BOARD

	For the year ended 31 December 2019 (audited) (for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2020 (audited) (for actual amount only) <i>HK\$'000</i>	For the 8 months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) <i>HK\$'000</i>	For the year ending 31 December 2022 <i>HK\$'000</i>	For the year ending 31 December 2023 <i>HK\$'000</i>	For the year ending 31 December 2024 <i>HK\$'000</i>
Continuing Connected Transactions (Note 1)						
Financing Services						
Facility limit (including interest and handling fees) (Note 5)						
– Historical annual cap (Notes 6 and 7)	N/A	N/A	594,000	623,100		
– Actual (Notes 6 and 7)	N/A	N/A	Nil (Note 10)	N/A		
– Utilisation rate	N/A	N/A	0%			
– Proposed annual cap				765,565	956,956	1,196,196
Maximum daily balance of value of security provided for Financing Services (including cash deposits, financial instruments, receivables, machinery or equipment etc.)						
– Historical annual cap (Note 6)	N/A	N/A	591,000	620,000		
– Actual (Note 6)	N/A	N/A	Nil (Note 10)	N/A		
– Utilisation rate	N/A	N/A	0%			
– Proposed annual cap (Note 8)				765,565	956,956	1,196,196
Foreign Exchange Transactions						
Aggregate transaction amount						
– Proposed annual cap				11,666,700	15,555,600	23,333,400

LETTER FROM THE BOARD

	For the year ended 31 December 2019 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2020 (audited) (for actual amount only) HK\$'000	For the 8 months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) HK\$'000	For the year ending 31 December 2022 HK\$'000	For the year ending 31 December 2023 HK\$'000	For the year ending 31 December 2024 HK\$'000
Continuing Connected Transactions (Note 1)						

Master Brand Promotion (2022-2024) Agreement

Brand Promotion Fee						
– Historical annual cap (Note 9)	637,014	930,074	992,555			
– Actual (Note 9)	219,732	244,910	153,225			
– Utilisation rate	34.49%	26.33%	15.44%			
– Proposed annual cap				755,376	854,741	998,174

Notes:

1. For easy comparison of the historical figures and the proposed annual caps transactions are categorised with reference to the Agreements and hence names of the Agreements are used for categorisation in this table.
2. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Sale and Purchase (2019-2021) Agreement.
3. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Services (2019-2021) Agreement.
4. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Financial Agreement (TCL Holdings) (2020-2022).
5. The facility limit includes facility amount with security (including but not limited to facility amount from factoring facility (recourse and without-recourse) and bill discounting facility, facility with cash deposits or other assets as collaterals). For the avoidance of doubt, the facility limit excludes the facility amount provided by TCL Holdings Financial Services Associates to the TCL Electronics Qualified Members without security which, if conducted on normal commercial terms or better, are fully exempt connected transactions pursuant to Rule 14A.90 of the Listing Rules.
6. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Financing Services (2021-2022) Agreement.
7. The respective historical caps and transaction amounts refer to the aggregate annual caps of facility limit and interest and handling fees under the Master Financing Services (2021-2022) Agreement.

LETTER FROM THE BOARD

8. The proposed annual caps under the Master Financial (2022-2024) Agreement consolidate the respective annual caps for facility limit and interest and handling fees under the Master Financial Agreement (TCL Holdings) (2020-2022).
9. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Brand Promotion (2019-2021) Agreement.
10. Due to the business needs and seasonality of Financing Services required by the Group, the Group has not utilised any Financing Services contemplated under the Master Financing Services (2021-2022) Agreement as of 31 August 2021. It is expected that transactions contemplated thereunder will be conducted in the fourth quarter of 2021.

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. General

The annual caps for the Master Sale and Purchase (2019-2021) Agreement, Master Services (2019-2021) Agreement and Master Brand Promotion (2019-2021) Agreement were set by the Group in early 2019 based on the business scope and extent of the Group at that time and the projection of the business scale and development of the Group from 2019 to 2021 based on the information then available. However, the global market and economy were seriously impacted by the outbreak of coronavirus disease 2019 (COVID-19) in early 2020 and the continuing pandemic, in particular the transportation and logistics restrictions imposed by national governments to curb the COVID-19 pandemic have created tremendous obstacles and even barriers for both domestic and international trade. Against such background which have not been taken into account when setting the annual caps for 2019 to 2021, the utilisation rates of annual caps for such period are relatively low.

In 2021, the COVID-19 pandemic starts to be contained in most regions as a result of the development of COVID-19 vaccines and medication and growing vaccination rate, which in turn allows impacted markets to gradually recover. Moreover, national governments are implementing policies to boost economy and both international and domestic trade. Having taken into account these factors, it is expected that the sales revenue and sales volume of products of the Group will increase from 2022 to 2024, in response to which proposed annual caps with gradual annual increase from 2022 to 2024 are set for the Master Sale and Purchase (2022-2024) Agreement, Master Services (2022-2024) Agreement and Master Brand Promotion (2022-2024) Agreement.

Further, as stated in the August 2020 Announcement, the completion of the acquisition of TCL Communication by the Group took place on 31 August 2020 and as a result thereof, TCL Communication, which was an indirect wholly-owned subsidiary of TCL Holdings prior to the completion which took place on 31 August 2020, ceased to be a connected person of the Company on 31 August 2020 and accordingly (i) the transactions conducted between TCL Communication Group and the Group thereafter no longer constituted connected transactions of the Company, which resulted in lower utilisation rates of annual caps for 2020 and 2021; and (ii) any future transactions conducted between TCL Communication Group and TCL Holdings Group will become connected transactions of the Group and hence the relevant annual caps under the Agreements have taken into account such proposed transactions contemplated.

LETTER FROM THE BOARD

2. Proposed annual caps for the Master Sale and Purchase (2022-2024) Agreement

The proposed annual caps for the transactions under the Master Sale and Purchase (2022-2024) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2019-2021) Agreement;
- (ii) the anticipated increase in overall demand for Sale of Electronics Products and Sourcing of TCL Associates Products from 2022 to 2024: as disclosed in the 2020 annual report of the Company, the global annual sales volume of TCL smart screens for the year ended 31 December 2020 reached 23.93 million sets, with a year-on-year growth of 15.9%, further, according to a retail market researcher China Market Monitor Co., Ltd., the market share by sales volume of TCL smart screens in the PRC was 10.69% and 13.72% respectively in 2019 and 2020, whilst according to global market research company NPD Group, the market share by sales volume of TCL smart screens in the United States of America ranked No.2 in 2019 and 2020, and such trend of market share increase is expected to continue in the coming three years, in view of the foregoing factors coupled with the policy of boosting domestic demand and relevant policy support as announced by the PRC government and the anticipated gradual recovery from the pandemic around the globe the overall demand for Sale of Electronics Products and Sourcing of TCL Associates Products in the coming years is therefore expected to increase accordingly. Also, the Group has seized the opportunity of industry changes by firmly taking smart display as its core business, and is vigorously implementing the “AI x IoT” all-scenario smart and healthy-living strategy. The Group will offer smart living services to users across “All Scenarios, All Categories and Inter-connectivity” which is expected to drive steady expansion of all-category business and firmly move towards global leadership by taking advantage of the synergy of different type of Electronics Products and TCL Associate Products under TCL Brand, and hence leading to considerable increase in overall demand for Sale of Electronics Products and Sourcing of TCL Associate Products;
- (iii) the possible demand for TCL Associates Products 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) under the “AI x IoT” all-scenario smart strategy, together with the prevailing market rates for similar products, taking into account of which the proposed annual caps of Sourcing of TCL Associates Products are set with an increase of approximately 36% from 2022 to 2023, and approximately 27% from 2023 to 2024;

LETTER FROM THE BOARD

- (iv) the projection of demand for Electronics Products, which is expected to increase gradually from 2022 to 2024, in view of the continuing rebound of global economy, improvement in the external environment for corporate development, and the expansion of online sales channel through TCL Holdings Group, together with the prevailing market rates for similar products, taking into account of which the proposed annual caps for Sale of Electronics Products are set with an annual increase of approximately 9% from 2022 to 2024;
- (v) the anticipated increase in average selling price driven by the increase of price of panels (being a major component of Electronic Products) from 2022 to 2024: according to the data from Sigmaintell, an IT research and advisory company, in June 2021, the price of small and medium-sized panels such as 32-inch, 43-inch and 55-inch panels increased by more than 100% year-on-year, and the price of large-sized 65-inch panels increased by more than 60% year-on-year, and such increasing trend is expected to subsist in the coming years;
- (vi) the expected organic growth of around 10% per year in respect of the amount of Electronics Products to be sold to TCL Holdings Group and in respect of the amount of TCL Associates Products to be sourced from TCL Holdings Group during the three years ending 31 December 2024;
- (vii) the available alternatives of supplier or customers (as the case may be) for comparable or similar products in the market;
- (viii) the possible increase in the purchase price taking into account the current trend of surging producer price index which is expected to continue for the years 2022 to 2024: for illustration, according to the statistics of the National Bureau of Statistics of China, the producer price index for manufactured goods of the PRC in September 2021 increased by 10.7% year-on-year, whilst the producer price of industrial products of the PRC in the first nine months of 2021 recorded an average year-on-year increase of 6.7% over the corresponding period in 2020 and such growing trend is expected to continue; and
- (ix) the estimated fluctuation in exchange rate between RMB and HK\$ and the organic growth of the gross domestic products of major markets of Electronics Products in the world during the term of the Master Sale and Purchase (2022-2024) Agreement, in particular, the gross domestic product of the PRC is expected to increase by 5.6% according to the International Monetary Fund.

LETTER FROM THE BOARD

3. Proposed annual caps for the Master Services (2022-2024) Agreement

The proposed annual caps for the transactions under the Master Services (2022-2024) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master Services (2019-2021) Agreement;
- (ii) the projection of the number and scale of relevant projects and operations which may require Services from TCL Holdings Group in the upcoming three years, in particular, the demand for Services in relation to logistics and after-sale required by the Group are expected to increase significantly due to the expected increase in sales volume of TCL Electronics products, whilst service fees in relation to logistics services in overseas market are also expected to surge due to the COVID-19 pandemic; and the demand for IT-related Services to be provided by TCL Holdings Group, which are fundamental to the implementation of the digital transformation policy of the Group, is also expected to increase substantially, taking into account of which the proposed annual caps for Service Fees to be paid by the Group are set with an annual increase of approximately 14% from 2022 to 2024;
- (iii) the projection of the number and scale of relevant projects which TCL Holdings Group 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, taking into account of which the proposed annual caps for Service Fees to be received by the Group are set with an annual increase of approximately 23% to 24% from 2022 to 2024;
- (iv) where applicable, the tender price offered by members of the Group in bidding projects for Services of similar nature to TCL Holdings Group in previous years;
- (v) the prevailing market rate and available alternatives of comparable or similar services in the market;
- (vi) the year-on-year increase of 11.8% in the Group's sales volume of TCL smart screen for the six months ended 30 June 2021, and a year-on-year increase of 37.7% in the Group's sales volume of smart mobile, connective devices and services for the six months ended 30 June 2021, in view of which the business scale of the Group is expected to continue to expand for the years 2022 to 2024 and hence the related Service Fees (mainly logistic and after-sales related Service Fees) are also expected to increase;
- (vii) the expected organic growth of around 10% per year in respect of the amount of Service Fees to be paid and received by the Group to/from TCL Holdings Group during the three years ending 31 December 2024; and
- (viii) the estimated fluctuation in exchange rate between RMB and HK\$ during the term of the Master Services (2022-2024) Agreement.

LETTER FROM THE BOARD

4. Proposed annual caps for the Master Financial (2022-2024) Agreement

The proposed annual caps for the transactions under the Master Financial (2022-2024) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master Financial Agreement (TCL Holdings) (2020-2022) and the Master Financing Services (2021-2022) Agreement;
- (ii) *in respect of Deposit Services:*
 - (a) the expected expansion of the business of the Company in the following years and as a result, the capital available for deposit with Finance Company (HK) and/or TCL Holdings Financial Services Associates would increase, hence the proposed annual caps for Deposit Services are set with an annual increase of approximately 30% from 2022 to 2024;
 - (b) the expected continuing growth of the Group's business in the coming years; accordingly, it is expected that the cash flow of the Group at peak season of sales of the upcoming years would be strong and hence the Group's demand for Deposit Services from TCL Holdings Financial Services Associates may increase up to the proposed annual cap at the peak season;
 - (c) the Group's unaudited consolidated cash and cash equivalents as at 30 June 2021 which amounted to approximately HK\$10,011 million; given that net cash is expected to generate from the business operation of the Group following the previous trend without significant cash outflow and that the business of the Company would experience a gradual growth, it is expected that the Group's cash and cash equivalents would have a stable increase over the three financial years ending 31 December 2024;
 - (d) the actual amount of maximum outstanding daily balances of deposits (including interest receivables in respect of these deposits and deposits as security) under the Master Financial Agreement (TCL Holdings) (2020-2022) reached over 96% of the historical annual caps for the year ended 31 December 2020 and 2021; and
 - (e) the maximum outstanding daily balance of deposits placed by the Group at TCL Holdings Financial Services Associates during the period from 1 January 2021 to 31 August 2021 which exceeded HK\$1,730 million, taking into account of which the Group expects that the maximum amount of deposits to be maintained with TCL Holdings Financial Services Associates could be up to the proposed annual caps for the maximum outstanding daily balance of deposits for the three years ending 31 December 2024;

LETTER FROM THE BOARD

(iii) *in respect of Credit Services:*

- (a) the Group's unaudited consolidated cash and cash equivalents as at 30 June 2021 were approximately HK\$10,011 million, that net cash is expected to generate from the business operation of the Group following the previous trend without significant cash outflow and that the business of the Group would experience a gradual growth, considering which it is expected that the Group would have a stable cash flow surplus over the three financial years ending 31 December 2024 for lending in return for favourable interest income, hence the proposed annual caps for Credit Services are set with an annual increase of approximately 30% from 2022 to 2024;
- (b) the business needs of the Group, as well as the maximum amount of exposure at any time which the Group is prepared to assume under the Master Financial (2022-2024) Agreement in the context of the cash flow of the Group, considering which the Group expects that the maximum amount of loans to be advanced to Qualified Holdings Group could be up to the proposed annual caps for the maximum daily balances of outstanding loans for the three years ending 31 December 2024;
- (c) the actual amount of maximum daily balances of outstanding loans (including interest receivables in respect of these loans) under the Master Financial Agreement (TCL Holdings) (2020-2022) reached approximately 90% of the historical annual caps for the year ended 31 December 2020 and 2021; and
- (d) the proposed annual caps have also taken into account the repayment ability of Qualified Holdings Group, which is estimated based on the unaudited net asset value of the Qualified Holdings Group as of 30 June 2021;

(iv) *in respect of Financing Services:*

- (a) the proposed annual caps for Financing Services are set with an annual increase of approximately 25% from 2022 to 2024, which have taken into account the expected financial needs of TCL Electronics Qualified Members in terms of obtaining Financing Services from TCL Holdings Financial Services Associates;
- (b) the business capacity of TCL Holdings Financial Services Associates;
- (c) the prevailing market conditions of the interests and/or fees charged for comparable financing services; and
- (d) the estimated fluctuation in exchange rate between RMB and HK\$ during the term of the Master Financial (2022-2024) Agreement;

LETTER FROM THE BOARD

- (v) *in respect of Foreign Exchange Transactions:*
- (a) the historical amount of similar foreign exchange transactions entered into by members of the Group during the three years ended 31 December 2020 as Finance Company (HK) and/or other TCL Holdings Financial Services Associates have not entered into similar Foreign Exchange Transactions with members of the Group historically;
 - (b) the projected aggregate amount of Spot Contracts, Forward Contracts and Swap Contracts to be entered into with Finance Company (HK) and/or other TCL Holdings Financial Services Associates in view of the fluctuation of various currencies and expected unstable global economic and political environment in the coming years, taking into account of which the proposed annual caps for Foreign Exchange Transactions are set with an increase of approximately 33% from 2022 to 2023, and approximately 50% from 2023 to 2024;
 - (c) the increasing global presence of the Group, which increases the Group's exposure to foreign exchange risks, for illustration, the revenue of TCL smart screens in overseas markets for the year ended 31 December 2020 recorded a year-on-year growth of approximately 27% from approximately HK\$21.0 billion in 2019 to approximately HK\$26.8 billion;
 - (d) the growing business size of the Group, particularly after the consolidation of TCL Communication Group into the Group on 31 August 2020, and the transactions contemplated to be carried out by TCL Communication Group; and
 - (e) fluctuation in the RMB exchange rate amid global trade uncertainty and other external factors, for example, during the period between January 2020 and September 2021, there was an approximately 12% difference between the highest and lowest USD to RMB monthly closing price; and an approximately 42% difference between the highest and lowest Brazilian Real to RMB monthly closing price.

5. Proposed annual caps for the Master Brand Promotion (2022-2024) Agreement

The proposed annual caps for the transactions under the Master Brand Promotion (2022-2024) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Master Brand Promotion (2019-2021) Agreement;
- (ii) the proposed annual caps for brand promotion fees are set with an increase of approximately 13% from 2022 to 2023, and approximately 17% from 2023 to 2024, which have taken into account the historical sales revenue together with the expected growth in sales revenue in the next three years based on the expected growth in market shares of the Group's TCL Brand and/or TCL Holdings Brand products in the PRC and other regions around the world; and
- (iii) the promotion fee rates which are determined based on the factors set out in the paragraph headed "Pricing policy and basis of price determination" in the section "Renewal of existing continuing connected transactions – (4) Master Brand Promotion (2022-2024) Agreement" above.

LETTER FROM THE BOARD

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 Non-exempt Transactions are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, 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 (2022-2024) 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. The Group has increased its research and development investment and seized the opportunity of industry changes by firmly taking smart display as its core business, and vigorously implementing the “AI x IoT” all-scenario smart and healthy-living strategy. 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 members of TCL Holdings Group established PRC sales centres and overseas sales centres 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, some of the products of TCL Holdings Group would first be sold to the Group, and subsequently the Group would re-sell such products to Independent Third Party customers, while at the same time the Group would first sell some of its products to members of the TCL Holdings Group for them to re-sell such products to Independent Third Party customers. Such arrangement would be carried out under the Master Sale and Purchase (2022-2024) Agreement and would consolidate the majority portion of the product business of TCL Holdings Group, enhance customer experience, achieve reduction of sales expenses and thus enhance the overall profitability of the Group.

(2) Master Services (2022-2024) Agreement

The Company has been accelerating the implementation of a diversified development strategy since 2018. Apart from consolidating and enhancing its existing TV business, the Group also focuses on developing smart mobile, connective devices, internet business, commercial displays and smart home businesses in order to lay down a strong foundation for the new image and new businesses of the Group. Accordingly, the Group gains know-how and achieves expertise in various Services in relation to such business areas. On the other hand, TCL Holdings Group have solid experience in the provision of various Services such as (but not limited to) logistics, after-sale and technology services covering computer hardware and software, cloud platform facility services and information technology consultancy services. Better service quality and lower costs can be achieved if the Group and TCL Holdings Group make effective use of their expertise and economies of scale and provide Services to each other. Moreover, in view of the close relationship between the Group and TCL Holdings Group, TCL Holdings Group has better understanding of the business and operations of the Group and hence is able to provide timely and customised Services to satisfy the needs of the Group.

LETTER FROM THE BOARD

For example, TCL Holdings Group would provide basic hardware and software and related support services, network and internet services, cloud services, IT service rooms and maintenance services and IT consultation services to members 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 member of TCL Holdings Group can avoid the unnecessary risk and cost arising from the establishment of new sales network and also can develop new markets and make profit therefrom. In respect of Services to be provided by the Group to TCL Holdings Group, among others, the Group could share the intelligent commercial information technology and industry solutions of CI Tech (a wholly-owned subsidiary of the Company). In addition, some other subsidiaries of the Group provide supporting 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, smart products of CI Tech and the professional technology and business network of other subsidiaries of the Company to TCL Holdings Group.

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 utilising the expertise, experience and economies of scale of both the Group and TCL Holdings Group.

(3) Master Financial (2022-2024) Agreement

The Master Financial (2022-2024) Agreement consolidates and integrates the Master Financial Agreement (TCL Holdings) (2022-2024) and Master Financing Services (2021-2022) Agreement, which allows the Group to monitor the continuing connected transactions contemplated thereunder in a more administratively convenient and cost-effective manner for better internal management.

Deposit Services

The Master Financial (2022-2024) Agreement provides cost efficient treasury services to all TCL Electronics Qualified Members. The Company believes that TCL Holdings Financial Services Associates as the financing platform for the entire TCL Holdings Group may take advantage of the economies of scale and therefore provide TCL Electronics Qualified Members with deposit interest rates more favourable or at least no less favourable than other financial institutions in or outside the PRC. Specifically, TCL Holdings Financial Services Associates may obtain better financing options from the financial institutions outside through TCL Holdings by making use of its advantage in scale of the capital, and in turn the TCL Holdings Financial Services Associates may offer favourable deposit interest rates to TCL Electronics Qualified Members.

LETTER FROM THE BOARD

Credit Services

In view of the expected idle cash flow of the Group over the three financial years ending 31 December 2024, the Master Financial (2022-2024) Agreement would provide the Group with greater flexibility in the management of its idle cash flow by enabling it to lend a portion of its idle cash resources to Qualified Holdings Group and obtaining favourable interest income in return, thereby efficiently utilising and maximising the return of its idle cash flow.

In view of the close relationship between the Group and Qualified Holdings Group, and the financial needs of Qualified Holdings Group from time to time, the Group would be able to provide more efficient processing of loan requests from Qualified Holdings Group and accordingly has greater competitive advantages over other lending institutions and thereby attracting Qualified Holdings Group to obtain financing from the Group. On the other hand, the Group would benefit from efficiently utilising its idle cash flow and receiving higher interest income by advancing loans to Qualified Holdings Group. Accordingly, both the Group and Qualified Holdings Group would gain from the Credit Services.

Financing Services

Historically, the Group has received similar financing services from various commercial banks and/or financial institutions. Moreover, TCL Holdings, as the controlling shareholder of the Company, has through itself or its subsidiaries been providing financial assistances to the Group from time to time through various means including but not limited to providing Financing Services and the Group has been benefitted therefrom. For illustration, as at 31 December 2020, TCL Holdings together with TCL Technology has guaranteed certain of the Group's bank loans of approximately HK\$2,687 million; TCL Holdings and companies controlled by TCL Holdings have also advanced loans to the Group from time to time upon the Group's request, as at 31 December 2020, the amounts due from the Group to companies controlled by TCL Holdings amounted to approximately HK\$623 million, of which approximately HK\$618 million were interest-free and unsecured. The above financial assistances received and benefitted by the Group are all fully exempted continuing connected transactions pursuant to Rule 14A.90 of the Listing Rules. On the other hand, the Group has, where appropriate, placed its idle cash with TCL Holdings Group to gain interest at a more favourable interest rate. In view of the Group's continuous expansion of business, the Group has entered into the Master Financing Services (2021-2022) Agreement to enable the Group to expand its financial channels, accelerate the efficiency of asset turnover and optimise its financial structure, as well as improve the efficiency of its capital usage. TCL Electronics Qualified Members may continue to obtain financing from TCL Holdings Financial Services Associates as an alternative source especially when the commercial banks or financial institutions are unable to provide sufficient financing resources to satisfy the business needs of the Group. The Master Financial (2022-2024) Agreement, which incorporated the terms of the Master Financing Services (2021-2022) Agreement, will allow the Group to continue to enjoy the same benefits.

LETTER FROM THE BOARD

As with the Master Financing Services (2021-2022) Agreement, the Master Financial (2022-2024) Agreement also provides flexible and comprehensive finance and treasury services to all TCL Electronics Qualified Members. As TCL Holdings Financial Services Associates are familiar with the business and operation of the TCL Electronics Qualified Members, it is expected that TCL Holdings Financial Services Associates will be more efficient than other financial institutions in terms of processing transactions for TCL Electronics Qualified Members given their close relationships and hence will be able to satisfy the financing needs of TCL Electronics Qualified Members in a more timely manner. TCL Holdings Financial Services Associates will also be able to provide various tailor-made Financing Services which will better accommodate the business operations of TCL Electronics Qualified Members and facilitate the management of upstream and downstream industry chain of the Group.

The Company also believes that TCL Holdings Financial Services Associates, which include financial institutions duly established in or outside the PRC and the pricing policy and the operation of which are subject to guidelines issued by the relevant authorities where such financial institutions are duly established, may also be able to obtain cost-efficient financing from other financial institutions at lower interest rates by taking advantage of their economies of scale which TCL Electronics Qualified Members may not be able to enjoy if the latter directly borrow from such other financial institutions. It is expected that TCL Electronics Qualified Members may in turn obtain financing from TCL Holdings Financial Services Associates at lower interest rates and/or more favourable terms than those of corporate commercial loans offered by other financial institutions.

As far as the Directors are aware, TCL Holdings Financial Services Associates have established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations. Meanwhile, the Group will also adopt reasonable internal control procedures and corporate governance measures in relation to its utilisation of the Financing Services provided by TCL Holdings Financial Services Associates.

Foreign Exchange Transactions

Due to its international presence and operation, the Group is facing foreign exchange exposure including transaction exposure and translation exposure. The Group therefore has the need to enter into spot contracts for its business and operations and to enter into, among others, forward contracts to manage its foreign exchange exposure from time to time.

Finance Company (HK) and other TCL Holdings Financial Services Associates are able to provide different foreign exchange transaction options in support of the Group's business and treasury activities. Further, as Finance Company (HK) and other TCL Holdings Financial Services Associates are familiar with the business and operation of members of the Group, it is expected that Finance Company (HK) and/or other TCL Holdings Financial Services Associates will be more efficient than other financial institutions in terms of processing transactions for members of the Group given their close relationships and hence will be able to satisfy the needs of members of the Group in a more timely manner. Accordingly, it would be in the interest of the Group to enter into the Foreign Exchange Transactions with Finance Company (HK) and/or other TCL Holdings Financial Services Associates on a non-exclusive basis in accordance with the Master Financial (2022-2024) Agreement.

LETTER FROM THE BOARD

(4) Master Brand Promotion (2022-2024) Agreement

The Company has been using TCL Brand and/or TCL Holdings Brand for the marketing and distribution of its products. The continuous development of the goodwill and brand image of such trademarks is considered to be important to the successful long-term operation of the business of the Group. The Master Brand Promotion (2022-2024) 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.

FINANCIAL EFFECTS OF MASTER FINANCIAL (2022-2024) AGREEMENT

The Company expects more cash will be available for deposit with Finance Company (HK) and/or TCL Holdings Financial Services Associates, as well as lending to Qualified Holdings Group during year 2022 to 2024 at the same time when the Group develops and expands its business. Therefore, it expects that there will be an increase in interest income to be earned from Finance Company (HK) and/or TCL Holdings Financial Services Associates and/or Qualified Holdings Group in the same period. However, given that the interest income from deposit services earned from TCL Holdings Financial Services Associates under the Master Financial Agreement (TCL Holdings) (2020-2022) in the past years; and the interest income from credit services earned from Qualified Holdings Group under the Master Financial Agreement (TCL Holdings) (2020-2022) in the past years only represent a small proportion of its earnings and assets/liabilities, in view of the proposed annual caps, the Company anticipates that the interest income to be earned from the deposits and loans will not have any material impact on its corresponding earnings, assets and liabilities.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 1,260,358,288 Shares, representing approximately 50.82% of the total number of issued Shares, are held by T.C.L. Industries (H.K.), which in turn is held as to 100% by TCL Holdings. As such, T.C.L. Industries (H.K.) 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 T.C.L. Industries (H.K.) and Finance Company (HK) is a direct subsidiary of T.C.L. Industries (H.K.), both TCL Holdings and Finance Company (HK) are associates of T.C.L. Industries (H.K.) and therefore also connected persons of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under each of the Master Sale and Purchase (2022-2024) Agreement, the Master Services (2022-2024) Agreement, the Master Financial (2022-2024) Agreement and the Master Brand Promotion (2022-2024) Agreement therefore 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 respective annual caps of the Master Sale and Purchase (2022-2024) Agreement, Master Services (2022-2024) Agreement, Master Financial (2022-2024) Agreement and Master Brand Promotion (2022-2024) Agreement (i.e. agreements for the Non-exempt Transactions) exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, circular (including independent financial advice), Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios in relation to the Deposit Services and the Credit Services under the Master Financial (2022-2024) Agreement exceed 25%, the aforementioned transactions constitute major transactions of the Company and are subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules.

Further, as the assets ratio of the Credit Services under the Master Financial (2022-2024) Agreement exceeds 8%, the aforementioned transactions also constitute advances to an entity and are subject to the relevant disclosure requirements under Chapter 13 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.

In accordance with the Listing Rules, any connected person of the Company and any Shareholder with a material interest in the Non-exempt Transactions and its close associate(s) must abstain from voting on the relevant resolution(s) at the EGM. Accordingly, TCL Holdings and TCL Associates will abstain from voting on the resolution in respect of the Non-exempt Transactions to be put forward at the EGM. Save as the aforesaid, the Directors are not aware of any other Shareholders who are required to abstain from voting on the resolution(s) in respect of the Non-exempt Transactions to be put forward at the EGM.

As at the Latest Practicable Date, 1,260,358,288 Shares are held by T.C.L. Industries (H.K.), which in turn is held as to 100% by TCL Holdings. Hence, as at the Latest Practicable Date, holders of a total number of 1,260,358,288 Shares, representing approximately 50.82% 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.

Notwithstanding the respective interest and/or roles of certain Directors in TCL Holdings Group, in particular, as at the Latest Practicable Date, (i) Ms. DU Juan is also a director and the general manager of TCL Holdings; (ii) Mr. WANG Cheng is also a director of TCL Holdings; (iii) Mr. HU Dien Chien is also the chief financial officer of TCL Holdings; and (iv) Mr. SUN Li is also the chief technology officer of TCL Holdings, as their respective direct or indirect interests in TCL Holdings Group are insignificant and that none of the TCL Associates are associates of any of the Directors, none of them is considered as having a material interest in the transactions contemplated under the Non-exempt Transactions, therefore all Directors are entitled to vote on the Board resolutions for considering and approving the Non-exempt Transactions pursuant to the Articles.

LETTER FROM THE BOARD

GENERAL INFORMATION ON THE PARTIES

The Group is principally engaged in the research and development, manufacturing and sale of consumer electronic products such as smart screens and mobile communication devices and independently develops home Internet services. The Group helps users to live a smart and healthy life covering household, mobile and commercial scenarios and is devoted to becoming a world-leading smart technology company with smart display as the core strategy and “AI x IoT” as technological driver. 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 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 Latest Practicable Date, TCL Holdings, through its wholly-owned subsidiary T.C.L. Industries (H.K.), held approximately 50.82% of the issued Shares and is the ultimate controlling shareholder of the Company. As at the Latest Practicable Date, the shareholding structure of TCL Holdings is as follows:

Shareholders	Approximate 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))	33.33%
Ningbo Lida Zhiheng Enterprise Management Partnership (Limited Partnership)* (寧波礪達致恒企業管理合夥企業(有限合夥))	23.26%
Pan Mao (Shanghai) Investment Center (L.P.)* (磐茂(上海)投資中心(有限合夥))	18.60%
Huizhou State-owned Asset Management Co., Ltd.* (惠州市國有資產管理有限公司)	9.30%
Xiaomi Technology Co., Ltd.* (小米科技有限責任公司)	9.30%
Beijing Xinrunheng Equity Investment Partnership (L.P.)* (北京信潤恒股權投資合夥企業(有限合夥))	4.65%
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))	1.55%
Total (Note)	100.00%

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.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Finance Company (HK) is a direct subsidiary of T.C.L. Industries (H.K.) and is principally engaged in obtaining and utilising funds required for operation of TCL Holdings Group (including the Group), the main functions of which include but are not limited to financing of funds inside TCL Holdings Group (including the Group), the management of cash pool and liquidity of funds, and assistance of TCL Holdings Group (including the Group) to procure funds, manage foreign currency exchange and risk.

ELECTION OF DIRECTORS

Reference is made to the August 2021 Announcement in relation to, among others, the appointment of Ms. DU Juan as an executive Director to fill the casual vacancy arising from the resignation of Mr. LI Dongsheng and the re-designation of Mr. WANG Cheng from an executive Director to a non-executive Director. Pursuant to the Articles and the corporate governance code and corporate governance report as set out in Appendix 14 of the Listing Rules, directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Moreover, as disclosed in the August 2021 Announcement, the re-designation of Mr. WANG Cheng as a non-executive Director shall be subject to, among others, the approval by the shareholders of the Company at the next general meeting of the Company. Accordingly, Ms. DU Juan and Mr. WANG Cheng shall hold office until the EGM (being the first general meeting after their appointment) and are subject to election by Shareholders at the EGM.

Pursuant to the corporate governance code and corporate governance report as set out in Appendix 14 of the Listing Rules, non-executive directors should be appointed for a specific term, subject to re-election. Accordingly, if elected at the EGM, Mr. WANG Cheng will hold office until the conclusion of the annual general meeting of the Company of 2024.

Further, if elected, Ms. DU Juan and Mr. WANG Cheng, subject to the terms agreed otherwise which expire earlier, will be subject to rotation, removal, vacation or termination of their offices as Directors as set out in the Articles or the disqualification to act as a Director under the Articles, the laws of the Cayman Islands and the Listing Rules. Their particulars required to be disclosed under the Listing Rules are set out in Appendix III to this circular.

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 10 December 2021, Friday at 2:30 p.m., at which resolutions will be proposed for the purposes of considering and, if thought fit, approving the Non-exempt Transactions and their respective proposed annual caps, as well as the election of Ms. DU Juan as an executive Director and the election of Mr. WANG Cheng as a non-executive Director. The notice of the EGM is set out on pages 116 to 119 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 and transfer office of the Company, Tricor Tengis Limited, at Level 54, 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.

LETTER FROM THE BOARD

RECORD DATE

The 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 7 December 2021, Tuesday. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 7 December 2021, Tuesday.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 59 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 60 to 102 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 appendices to this circular.

The Independent Board Committee, having taken into account the advice (together with the principal factors and reasons considered in arriving at such advice) of Pelican Financial Limited, the Independent Financial Adviser, considers that the Non-exempt Transactions are fair and reasonable, on normal commercial terms or better and are entered in the ordinary and usual course of business of the Group, and 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 Board considers that the terms of the Non-exempt Transactions 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.

LETTER FROM THE BOARD

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

PRECAUTIONARY MEASURES FOR THE EGM IN VIEW OF COVID-19 PANDEMIC

In view of the recent development of the pandemic caused by COVID-19, and in order to better protect the safety and health of the Shareholders, a series of pandemic precautionary measures will be implemented at the venue of the EGM:

- (i) compulsory body temperature check will be conducted for every person at the entrance of the venue of EGM. Any person with a body temperature of over 37.5 degree Celsius will not be admitted to the venue;
- (ii) every person is required to wear facial mask at the venue of the EGM;
- (iii) seating in the EGM venue will be arranged so as to allow for appropriate social distancing; and
- (iv) no refreshments will be served at the EGM.

Subject to the development of the COVID-19 pandemic and in compliance with applicable laws and regulations, the Company may implement further precautionary measures at the EGM.

The Company wishes to remind the Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly advises the Shareholders to appoint the chairperson of the EGM as a proxy to vote on relevant resolution(s) as instructed in accordance with the relevant proxy form as an alternative to attending the EGM in person in light of the continuing risks posed by the COVID-19 pandemic. For more details, please refer to the proxy form for the EGM.

Shareholders and other participants who will attend the EGM in person are advised to (a) consider carefully the risk of attending the EGM, which will be held in an enclosed environment; (b) follow and comply with any laws, regulations, guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic; and (c) not to attend the EGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

Yours faithfully,
On behalf of the Board
DU Juan
Chairperson



TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

22 November 2021

To the Shareholders

Dear Sir or Madam,

**(1) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS
AND
(2) MAJOR TRANSACTION – ADVANCES TO AN ENTITY AND
PROVISION OF FINANCIAL ASSISTANCE UNDER
MASTER FINANCIAL (2022-2024) AGREEMENT**

We refer to the circular of the Company dated 22 November 2021 of the Company (the “Circular”) to the Shareholders, of which this letter forms part. Terms defined in the Circular bear the same meanings in this letter unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider and advise the Shareholders in respect of the terms of the Non-exempt Transactions, 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 the Independent Financial Adviser set out on pages 10 to 58 and pages 60 to 102 of the Circular respectively.

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, we consider that the Non-exempt Transactions are fair and reasonable, on normal commercial terms or better and are entered in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. 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.

Yours faithfully,

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



PELICAN FINANCIAL LIMITED

21/F, Lee Garden Three, 1 Sunning Road, Causeway Bay, Hong Kong

22 November 2021

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

Dear Sirs,

**(1) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS
AND
(2) MAJOR TRANSACTION – ADVANCES TO AN ENTITY AND
PROVISION OF FINANCIAL ASSISTANCE UNDER
MASTER FINANCIAL (2022-2024) AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and their respective proposed annual caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 22 November 2021 (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, on 11 November 2021 (after trading hours), the Company entered into the below agreements with TCL Holdings and/or Finance Company (HK) and the transactions contemplated thereunder constitute continuing connected transactions:

- (i) Master Sale and Purchase (2022-2024) Agreement;
- (ii) Master Services (2022-2024) Agreement;
- (iii) Master Financial (2022-2024) Agreement; and
- (iv) Master Brand Promotion (2022-2024) Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The above Agreements are in substance renewal of the Existing Agreements and the terms of the Agreements are substantially the same as the Existing Agreements, save as otherwise specified below, except the Master Financial (2022-2024) Agreement consolidates and integrates the scope of services under the Master Financial Agreement (TCL Holdings) (2020-2022) and Master Financing Services (2021-2022) Agreement and further expands the scope of services to cover Foreign Exchange Transactions.

As at the Latest Practicable Date, 1,260,358,288 Shares of the Company, representing approximately 50.82% 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, T.C.L. Industries (H.K.) 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 T.C.L. Industries (H.K.) and Finance Company (HK) is a direct subsidiary of T.C.L. Industries (H.K.), both TCL Holdings and Finance Company (HK) are associates of T.C.L. Industries (H.K.) and therefore also connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under each of the Master Sale and Purchase (2022-2024) Agreement, Master Services (2022-2024) Agreement, Master Financial (2022-2024) Agreement and Master Brand Promotion (2022-2024) 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 respective annual caps of the Master Sale and Purchase (2022-2024) Agreement, Master Services (2022-2024) Agreement, Master Financial (2022-2024) Agreement and Master Brand Promotion (2022-2024) Agreement (i.e. agreements for the Non-exempt Transactions) exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, circular, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in relation to the Deposit Services and the Credit Services under the Master Financial (2022-2024) Agreement exceed 25%, the aforementioned transactions constitute major transactions of the Company and are subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules.

Further, as the assets ratio of the Credit Services under the Master Financial (2022-2024) Agreement exceeds 8%, the aforementioned transactions also constitute an advance to an entity and are subject to the relevant disclosure requirements under Chapter 13 of the Listing Rules.

The Board currently comprises three executive Directors, four non-executive Directors and four independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki, has been established to advise the Independent Shareholders regarding the Non-exempt Transactions. 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 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. In the last two years, other than our engagement by the Company to act as its independent financial advisor in respect of its continuing connected transactions as disclosed in its circular dated 1 April 2020, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby Pelican Financial Limited 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.

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 of the Group and on normal commercial terms; (ii) whether the terms of the Non-exempt Transactions and their respective 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 validated 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 Agreements, the sample quotations obtained by the Group from TCL Holdings and Independent Third Parties, the purchase/sale records of relevant products and services from/to the TCL Holdings and Independent Third Parties for the two years ended 31 December 2019 and the 9 months ended 30 September 2021 (the “**Period**”), information on the interest rates of the relevant Financial Services provided by the Group and major commercial bank under Financial Services during the Period, the annual report of the Company for the financial year ended 31 December 2020 (the “**2020 Annual Report**”), the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”), the June 2019 Circular, the April 2020 Circular, the June 2021 Announcement, the August 2020 Announcement, the Announcement 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 an in-depth investigation into the business and affairs or the prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Non-exempt Transactions and their respective proposed annual caps, we have considered the following principal factors and reasons.

1. Background of the Non-exempt Transactions

As stated in the Board Letter, the Company has entered into the Existing Agreements with TCL Holdings in June 2019, March 2020 and June 2021, through which TCL Holdings Group and the Group provide different services to each other.

In view that most of the Existing Agreements will expire on 31 December 2021 and that the Group and TCL Holdings Group have been satisfied with the services provided by each other, the Company intends to continue to retain TCL Holdings to carry out such transactions after 31 December 2021. Accordingly, on 11 November 2021, the Company entered into the Agreements with TCL Holdings for another three years commencing on 1 January 2022 to 31 December 2024, subject to the approval from Independent Shareholders.

In addition to the Agreements, on 11 November 2021, the Master Financial Agreement (TCL Holdings) (2020-2022) and the Master Financing Services (2021-2022) Agreement shall be automatically terminated upon the coming into effect of the Master Financial (2022-2024) Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

- (i) In respect of the Master Sale and Purchase (2022-2024) Agreement, the scope of Electronics Products will expand to cover, among others, (a) all products manufactured, produced or otherwise sold or distributed by the Group rather than only electronic consumer products manufactured, produced or otherwise sold or distributed by the Group; and (b) waste products arising from manufacturing or production process of the Group rather than only waste products arising from manufacturing or production of electronic consumer goods by the Group;
- (ii) In respect of the Master Services (2022-2024) Agreement, Electronics Services (as defined in the June 2019 Circular) and TCL Associates Services (as defined in the June 2019 Circular) under the Master Services (2019-2021) Agreement will be consolidated into Services under the Master Services (2022-2024) Agreement;
- (iii) In respect of the Master Financial (2022-2024) Agreement, the scope of services under the Master Financial Agreement (TCL Holdings) (2020-2022) and Master Financing Services (2021-2022) Agreement will be consolidated and integrated and its scope of services will expand to include the Foreign Exchange Transactions; and
- (iv) In respect of the Master Brand Promotion (2022-2024) Agreement, the scope of services will be clarified to include the promotion of TCL Holdings Brand.

2. Background information on the Company and the Group

The Company was incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, while the Group is principally engaged in the manufacturing and sale of consumer electronic products such as smart screens and mobile communication devices and independently develops home Internet services. The Group helps users to live a smart and healthy life covering household, mobile and commercial scenarios and is devoted to becoming a world-leading smart technology company with smart display as the core strategy and “AI x IoT” as a technological driver. The Group has factories in the PRC, Poland, Mexico, Vietnam and Brazil and distributes its products in all major markets globally.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2020 and for the six months ended 30 June 2020 and 30 June 2021 as extracted from the 2020 Annual Report and the 2021 Interim Report, respectively.

Table 1: Summarised financial information of the Group

	For the six months ended 30 June		For the financial year ended 31 December	
	2021	2020	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		(Restated)		(Restated)
<i>Revenue by product</i>				
(i) <i>TCL Smart screen and other products</i>	34,213,076	16,628,848	49,719,563	35,709,056
(ii) <i>Internet business</i>	720,772	521,058	1,233,364	626,176
Total revenue	34,933,848	17,149,906	50,952,927	36,335,232
Gross profit	5,565,843	3,530,625	9,662,208	7,443,162
Profit for the period/year from discontinued operations	–	68,876	1,752,216	457,836
Profit for the period/year from continuing and discontinued operations	1,078,353	589,161	3,645,619	2,329,083

For the six months ended 30 June 2021

According to the 2021 Interim Report, for the six months ended 30 June 2021, the Group's total revenue from continuing operations reached approximately HK\$34.9 billion, increased by approximately 103.7% as compared with approximately HK\$17.1 billion for the same period of the previous year. Such increase was due to an increase in global sales volume of TCL smart screens of approximately 11.8% as compared with the same period of the previous year. As a result of that, the gross profit reached approximately HK\$5.6 billion with an increase of approximately 57.6% year-on-year and the profit for the period from continuing and discontinued operations increased by approximately 83.0% from approximately HK\$0.6 billion to approximately HK\$1.1 billion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2020

According to the 2020 Annual Report, for the year ended 31 December 2020, the Group recorded an annual growth of approximately 40.2% in its annual revenue from continuing operations, from approximately HK\$35.7 billion to approximately HK\$49.7 billion, which was mainly due to the increase in the sales volume of TCL smart screens by approximately 15.9%. As a result of the increase in its revenue, the Group's gross profit increased by approximately 29.8% from approximately HK\$7.4 billion to approximately HK\$9.7 billion between the two years ended 31 December 2019 and 2020. Likewise, the profit for the year, which included the profit from its discontinued operations in TV ODM business, increased by approximately 56.5% for the year ended 31 December 2020 compared with that for the previous year.

Table 2: Summarised financial position of the Group

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Total assets		
– Non-current assets	11,038,847	10,740,271
– Current assets	47,946,360	41,595,988
Total liabilities		
– Non-current liabilities	994,028	1,636,846
– Current liabilities	40,082,046	33,964,536
Net current assets	7,864,314	7,631,452
Net assets	17,909,133	16,734,877

As shown in the above table, the net assets of the Group increased from approximately HK\$16.7 billion as at 31 December 2020 to approximately HK\$17.9 billion as at 30 June 2021, representing an increase of approximately 7.0%, which was mainly due to the increase of inventories of approximately HK\$4.0 billion and the increase of prepayments, other receivables and other assets of approximately HK\$3.7 billion. In addition, the Group's cash and cash equivalents amounted to approximately HK\$10.0 billion as at 30 June 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Background information on the connected persons

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 Latest Practicable Date, Finance Company (HK) was a directly subsidiary of T.C.L. Industries (H.K.) and was principally engaged in obtaining and utilising funds required for the operation of TCL Holdings Group (including the Group), the main functions of which included but were not limited to the financing of funds inside TCL Holdings Group (including the Group), the management of cash pool and liquidity of funds, the provision of assistance to TCL Holdings Group (including the Group) to procure funds, the management of foreign currency exchanges and relevant risks.

3. Principal terms of the Non-exempt Transactions and our Assessment thereof

(i) Master Sale and Purchase (2022-2024) Agreement

Pursuant to the Master Sale and Purchase (2022-2024) Agreement, (i) each member of the Group may, at its absolute discretion, request to purchase its required TCL Associates Products from members of TCL Holdings Group and TCL Holdings may, at its absolute discretion, procure the relevant member of TCL Holdings Group to sell to the relevant member of the Group the required TCL Associates Products, and (ii) each member of TCL Holdings may, at its absolute discretion, request to purchase Electronics Products from members of the Group and the Company may, at its absolute discretion, procure relevant member of the Group to supply such Electronics Products to the relevant member of TCL Holdings Group. The terms and conditions (including but not limited to price and payment terms) of any sale and purchase conducted pursuant to the Master Sale and Purchase (2022-2024) Agreement shall be agreed upon between relevant member(s) of the Group and TCL Holdings Group in writing by individual agreements from time to time, provided that the terms of such sale and purchase contracts are consistent with the Master Sale and Purchase (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution. For details on the terms of the Master Sale and Purchase (2022-2024) Agreement, please refer to the section headed “Renewal of existing continuing connected transactions” in the Board Letter.

Pricing policy and basis of price determination

The overall terms and conditions (including but not limited to price, payment terms and credit terms) as a whole offered by the relevant member of TCL Holdings Group to the relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each agreement shall be negotiated on an arm’s length basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our assessment of the principal terms

We have reviewed the Master Sale and Purchase (2022-2024) Agreement and have discussed with the management of the Company the major terms thereof, and we noted that the terms thereof are incorporated substantially from the Master Sale and Purchase (2019-2021) Agreement. We also note that 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 TCL Associates Products/Electronics Products (collectively, the “Goods” as the case may be) from/to TCL Holdings Group, it shall be conducted based on normal commercial terms after arm’s length negotiation, and with reference to the fair market price ranges of products comparable to the Goods offered to/by TCL Holdings Group as at the time when the relevant sale and purchase are performed, to ensure that the terms are no less favourable than the terms offered by other Independent Third Parties and are in the interest of the Group.

In determining whether the pricing basis adopted in the Master Sale and Purchase (2022-2024) Agreement is fair and reasonable, we have obtained, reviewed and examined five randomly-selected 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 (2019-2021) Agreement made between the Company and TCL Holdings within the Period, and compared them to another five randomly-selected sample sale and purchase contracts/invoices or quotations for similar products offered to/by Independent Third Parties and/or offered by the relevant members of TCL Holdings Group to other parties. In our review of these samples, we have reviewed the items being purchased and sold and their respective unit prices. The comparison shows that the unit prices of the purchases and sales made by the Group from/to the relevant members of TCL Holdings Group are in line with the market unit prices and that the pricing basis adopted in the Master Sale and Purchase (2022-2024) Agreement is fair and reasonable. Given that the samples were selected on a random basis and spread across the Period (while the samples with/from TCL Holdings Group and Independent Third Parties dated in the same quarter were compared directly), we consider the samples reviewed are fair and representative and sufficient in supporting our analysis.

In the light of the above and our review of the internal control measures adopted by the Group as discussed in the below section headed “Internal control measures” of this letter, we are of the view that the terms and the price determination of the Master Sale and Purchase (2022-2024) 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

(ii) Master Services (2022-2024) Agreement

Pursuant to the Master Services (2022-2024) Agreement, (i) each member of TCL Holdings Group may from time to time, in its ordinary and usual course of business and at its absolute discretion, engage relevant member(s) of the Group for the provision of Services according to its business needs, and (ii) each member(s) of the Group may from time to time, in its ordinary and usual course of business and at its absolute discretion, engage members of TCL Holdings Group for the provision of Services according to its business needs. Each of the relevant members of the Group/TCL Holdings Group may at its absolute discretion decide whether to provide the Services to the relevant member of TCL Holdings Group/the Group. The terms and conditions (including Service Fees and payment terms) of any Services conducted pursuant to the Master Services (2022-2024) Agreement shall be agreed between relevant member(s) of the Group and TCL Holdings Group in writing by individual agreements from time to time, provided that the terms and conditions of such engagement are consistent with the Master Services (2022-2024) Agreement save and except for the clauses regarding applicable law and dispute resolution. For details on the terms of the Master Services (2022-2024) Agreement, please refer to the section headed “Renewal of existing continuing connected transactions” in the Board Letter.

Pricing policy and basis of price determination

The overall terms and conditions (including but not limited to Service Fees) as a whole offered by the relevant member of TCL Holdings Group to the relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms. Each agreement shall be negotiated on an arm’s length basis.

Our assessment of the principal terms

We have reviewed the Master Services (2022-2024) Agreement and have discussed with the management of the Company the major terms thereof, and we noted that the terms thereof are incorporated substantially from the Master Services (2019-2021) Agreement. Further, the Group is not obliged to provide the relevant Services or engage the relevant members of TCL Holdings Group for the provision of the relevant Services. If the relevant member of the Group decides to provide or engage the relevant members of TCL Holdings Group for the provision of the relevant Services, it shall be conducted based on arm’s length negotiation and 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In determining whether the pricing basis adopted in the Master Services (2022-2024) Agreement is fair and reasonable, we have obtained, reviewed and examined five randomly-selected samples of service contracts and other documents and information (i.e. description of the Services) under the Master Services (2019-2021) Agreement made between the Company and TCL Holdings within the Period, and compared them to another five randomly-selected samples for similar services provided by/to Independent Third Parties. In our review of these samples, we have reviewed the services rendered and the service fees paid by/to the Group. The comparison shows that the service fees paid by/to the Group to/by the relevant members of TCL Holdings Group are in line with the market service fees. Given that the samples were selected on a random basis and spread across the Period (while the samples with/from TCL Holdings Group and Independent Third Parties dated in the same quarter were compared directly), we consider the samples reviewed are fair and representative and sufficient in supporting our analysis.

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 the relevant members of TCL Holdings Group, 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 favourable than, such market prices, while in respect of the service fees received or to be received by the Group from the relevant members of TCL Holdings Group, 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 unfavourable than, such market prices. As such, we are of the view that the pricing basis adopted in the Master Services (2022-2024) Agreement is fair and reasonable.

In the light of the above and our review of the internal control measures adopted by the Group as discussed in the below section headed “Internal control measures” of this letter, we are of the view that the terms and the price determination of the Master Services (2022-2024) 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.

(iii) Master Financial (2022-2024) Agreement

Set out below are the principal terms for Deposit Services, Credit Services, Financing Services and Foreign Exchange Transactions conducted under the Master Financial (2022-2024) Agreement. For details on the terms of the Master Financial (2022-2024) Agreement, please refer to the section headed “Renewal of existing continuing connected transactions” in the Board Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Deposit Services

Pursuant to the Master Financial (2022-2024) Agreement, any TCL Electronics Qualified Member may from time to time and at its absolute discretion request to deposit money with Finance Company (HK) and/or TCL Holdings Financial Services Associates for their Deposit Services, and Finance Company (HK) and/or other TCL Holdings Financial Services Associates may at its absolute discretion decide whether to accept the deposit from the relevant TCL Electronics Qualified Member.

If any TCL Electronics Qualified Member demands repayment of any money deposited by it with Finance Company (HK) and/or TCL Holdings Financial Services Associates in accordance with the relevant terms and procedure and Finance Company (HK) and/or TCL Holdings Financial Services Associates fails to follow the repayment demand, such TCL Electronics Qualified Member shall then have the right to request TCL Holdings to repay the outstanding deposit amount on behalf of Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates in full.

Pricing policy and basis of price determination

If Finance Company (HK) and/or TCL Holdings Financial Services Associates decides to accept any amount of cash deposits from a TCL Electronics Qualified Member (including current deposits, fixed deposits or any other forms of deposits), the interest rates (*see Note 1*) offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates, as the case may be, shall:

- (a) for deposits made within the PRC, be within the range of or higher than:
 - the minimum interest rate promulgated by the PBOC for the same type of deposit services from time to time;
 - the interest rates for the same type of deposits offered by major commercial banks of the PRC (*see Note 2*) to the relevant TCL Electronics Qualified Member; and
 - the interest rates for the same type of deposits offered by the Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group); and

other terms and conditions offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates as a whole shall also not be less favourable than those offered by major commercial banks of the PRC to the relevant TCL Electronics Qualified Member, and those offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group), and shall be on normal commercial terms; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) for deposits made outside the PRC, be within the range of or higher than:
- the interest rates for the same type of deposits offered by major commercial banks located in the place where the relevant TCL Electronics Qualified Member is located (*see Note 3*) to the relevant TCL Electronics Qualified Member; and
 - the interest rates for the same type of deposits offered by the Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group); and

other terms and conditions offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates as a whole shall also not be less favourable than those offered by major commercial banks located in the place where the relevant TCL Electronics Qualified Member is located to the relevant TCL Electronics Qualified Member, and those offered by Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group), and shall be on normal commercial terms.

Credit Services

Pursuant to the Master Financial (2022-2024) Agreement, any member of the Qualified Holdings Group may from time to time and at its absolute discretion request member(s) of the Group to advance loans, and the relevant member of the Group may at its absolute discretion decide whether to advance loans to the relevant member of Qualified Holdings Group.

If any member of the Group demands repayment of any loan (including the interest) advanced to any member of the Qualified Holdings Group in accordance with the relevant terms and procedure and the relevant member of the Qualified Holdings Group fails to follow the repayment demand, TCL Holdings undertakes (and the relevant member of the Group shall then have the right to request TCL Holdings) to repay the outstanding loan (including the interest) on behalf of the relevant member of the Qualified Holdings Group in full.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing policy and basis of price determination

Subject to compliance with all applicable laws, the interest rates (*see Note 4*) offered by the Group shall:

- (a) for loans made within the PRC, be within the range of or higher than:
- the interest rates for loans of the same type offered by major commercial banks of the PRC (*see Note 2*) to the relevant member of Qualified Holdings Group; and
 - the interest rates for loans of the same type offered by the Group to any Independent Third Party; and

other terms and conditions offered by the Group as a whole shall also not be less favourable to the Group than those offered by the Group to Independent Third Party and shall be on normal commercial terms; and

- (b) for loans made outside the PRC, be within the range of or higher than:
- the interest rates for loans of the same type offered by major commercial banks located in the place where the relevant member of the Qualified Holdings Group is located (*see Note 3*) to the relevant member of Qualified Holdings Group; and
 - the interest rates for loans of the same type offered by the Group to any Independent Third Party; and

other terms and conditions offered by the Group as a whole shall also not be less favourable to the Group than those offered by the Group to Independent Third Party and shall be on normal commercial terms; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financing Services

Pursuant to the Master Financial (2022-2024) Agreement, any TCL Electronics Qualified Member may from time to time and at its absolute discretion request Financing Services from TCL Holdings Financial Services Associates, and the relevant TCL Holdings Financial Services Associate may at its absolute discretion decide whether to provide Financing Services to the relevant TCL Electronics Qualified Member.

TCL Holdings Financial Services Associates may request TCL Electronics Qualified Members to provide security (including but not limited to cash deposits, financial instruments, receivables, machinery or equipment etc.) to TCL Holdings Financial Services Associate, subject to compliance of relevant Listing Rules requirements.

The Company undertakes with TCL Holdings, among others, that in case the relevant TCL Electronics Qualified Members are unable to repay the relevant loans (including the interest) under the Financing Services provided by TCL Holdings Financial Services Associates to the relevant TCL Holdings Financial Services Associates, the Company will (and the relevant TCL Holdings Financial Services Associates are entitled to request the Company to) repay such outstanding loans (including the interest) for the relevant TCL Electronics Qualified Members.

Pricing policy and basis of price determination

If TCL Holdings Financial Services Associates decide to provide any Financing Services to a TCL Electronics Qualified Member, the interest rates charged by TCL Holdings Financial Services Associates shall be within the range of prevailing market rates for the same type of financing services, and the overall terms and conditions (including but not limited to the timeliness and processing efficiency of financing as well as the interest rates) offered by TCL Holdings Financial Services Associates as a whole shall not be less favourable than those offered by other major commercial banks and/or relevant financial institutions located in the place where the relevant TCL Electronics Qualified Member is located in respect of the same type of financing services and by TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group) with the same credit rating (if any) in respect of the same type of financing services, and shall be on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Foreign Exchange Transactions

Pursuant to the Master Financial (2022-2024) Agreement, any member of the Group may from time to time and at its absolute discretion request to enter into Foreign Exchange Transactions with Finance Company (HK) and/or other TCL Holdings Financial Services Associates, and the Finance Company (HK) and/or relevant TCL Holdings Financial Services Associate may at its absolute discretion decide whether to enter into the Foreign Exchange Transactions with the relevant members of the Group.

TCL Holdings undertakes with the Company, among others, that in case Finance Company (HK) and/or other TCL Holdings Financial Services Associates fails to pay the sum under the Foreign Exchange Transactions to the relevant members of the Group pursuant to the relevant terms and conditions, the relevant member of the Group shall then have the right to request TCL Holdings to immediately repay the relevant sum to the relevant member of the Group.

The Company undertakes with TCL Holdings, among others, that in case the relevant member of the Group fails to pay the sum under the Foreign Exchange Transactions to Finance Company (HK) and/or other TCL Holdings Financial Services Associates pursuant to the relevant terms and conditions, the Company will (and Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates shall then have the right to request the Company to) immediately repay the relevant sum to Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates.

Pricing policy and basis of price determination

If Finance Company (HK) and/or other TCL Holdings Financial Services Associates and the relevant member of the Group decide to enter into Foreign Exchange Transactions, the service fee charged by and/or the exchange rate adopted by Finance Company (HK) and/or the other TCL Holdings Financial Services Associates, if any, shall be within the range of prevailing market rates, and the overall terms and conditions (including but not limited to the timeliness and processing efficiency of Foreign Exchange Transactions) offered by Finance Company (HK) and/or the other TCL Holdings Financial Services Associates as a whole in respect of the Foreign Exchange Transactions shall not be less favourable than those offered by other major commercial banks and/or relevant foreign exchange service providers located in the place where the relevant member of the Group is located in respect of the same type of foreign exchange transactions and by Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group) with the same credit rating (if any) in respect of same type of foreign exchange transactions, and shall be on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. For illustration purpose, as at 30 September 2021, the historical interest rates of USD, RMB and HK\$ deposits under the Master Financial Agreement (TCL Holdings) (2020-2022) ranged from 0.01% to 1.8%; 1.7% to 3.5%; and 0.01% to 0.32% respectively.
2. The major commercial banks of PRC refer to Bank of China Limited, Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited or China Construction Bank Corporation, etc.
3. The major commercial banks located in the place where the relevant TCL Electronics Qualified Member or member of the Qualified Holdings Group (as the case may be) is located refer to, in the case of Hong Kong, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited or Industrial and Commercial Bank of China (Asia) Limited, etc.
4. For illustration purpose, as at 30 September 2021, the historical interest rates of unsecured loans under the Master Financial Agreement (TCL Holdings) (2020-2022) ranged from 3.2% to 8.0%.

Our assessment of the principal terms

We have reviewed the Master Financial (2022-2024) Agreement and have discussed with the management of the Company the major terms thereof, and we noted that the terms thereof are incorporated substantially from the Master Financial Agreement (TCL Holdings) (2020-2022) and the Master Financing Services (2021-2022) Agreement. Further, the Group is not obliged to provide the relevant services or engage the relevant members of TCL Holdings Group for the provision of the relevant services. If the relevant member of the Group decides to provide or engage the relevant members of TCL Holdings Group for the provision of the relevant services, it shall be conducted based on arm's length negotiation and normal commercial terms that are no less favourable than those offered by the PBOC (if the deposit is to be made in the PRC) and other major commercial banks located in the place where the relevant TCL Electronics Qualified Member is located and which are in the interests of the Group.

In determining whether the pricing basis adopted in the Master Financial (2022-2024) Agreement is fair and reasonable, we have obtained, reviewed and examined the applicable interest rates for deposit services, including normal cash deposits and/or time deposits, offered by Finance Company (HK) to relevant members of the Group in five different and randomly-assigned months from 2020 to 2021, which are March and June 2020, January, April and September 2021 and compared such interest rates to those interest rates offered by other independent financial institutions and/or determined by the PBOC. We consider our samples as fair and representative as they were selected on a random basis and cover different points of time during the two years (while the samples/information from Independent Third Parties or the PBOC dated in the same quarter were compared directly). Through our comparison, we noted that the interest rates offered by Finance Company (HK) or TCL Holdings Financial Services Associates were comparable to and no less favourable than those offered by other independent financial institutions and/or determined by the PBOC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Similarly, in respect of Credit Services, we have obtained, reviewed and examined the applicable interest rates for the said services in five different and randomly-assigned months from 2020 to 2021, which are May, June and October 2020, January and June 2021, and compared such interest rates to the interest rates for loans of the same type offered by major commercial banks to the relevant member of the Qualified Holdings Group and/or by the Group to any other Independent Third Parties. Through our comparison, we noted that the interest rates offered by the relevant member of the Group were comparable to and no less favourable than those offered by major commercial banks to the relevant member of the Qualified Holdings Group and/or by the Group to any other Independent Third Parties. Given that the samples were selected on a random basis and cover different points of time during the two years (while the samples/information from/to Independent Third Parties dated in the same quarter were compared directly), we consider the samples reviewed are fair and representative and sufficient in supporting our analysis.

In respect of Financing Services and Foreign Exchange Transactions, we noted from our discussion with the Company that, the Group had not utilised any Financing Services in the past and that the Foreign Exchange Transactions are new transactions expected to be commenced at the beginning of 2022. Therefore, no documents regarding historical transactions are available for review. However, since (i) the interest rates for Financing Services will be determined with reference to the interest rates for loans of the same type offered by major commercial banks to the relevant member of the Qualified Holdings Group and/or by the Group to Independent Third Parties in the future and will be secured if necessary; (ii) the service fee of and/or the exchange rate adopted in the Foreign Exchange Transactions shall not be less favourable than those offered and/or adopted by other major commercial banks and/or relevant foreign exchange service providers and/or by Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group (including the Group); and (iii) such transactions will undergo the Group's Internal Control Measures (as defined thereafter) as discussed in the below section, we are of the view that the Financing Services and the Foreign Exchange Transactions will be conducted on normal commercial terms and will be fair and reasonable so far as the independent Shareholders are concerned.

In the light of the above and our review of the internal control measures adopted by the Group as discussed in the below section headed "Internal control measures" of this letter, we are of the view that the terms and the price determination of the Master Financial (2022-2024) 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

(iv) Master Brand Promotion (2022-2024) Agreement

Pursuant to the Master Brand Promotion (2022-2024) Agreement, the Company shall pay a brand promotion fee to TCL Holdings monthly during the term of the Master Brand Promotion (2022-2024) Agreement, and TCL Holdings shall use the brand promotion fee to set up and/or maintain promotion fund(s) for advertisement, promotion, management and maintenance of TCL Brand and/or TCL Holdings Brand.

TCL Brand Management Centre is authorised to conduct planning, implementation and consulting work in relation to the use of the fund and promotion activities of TCL Brand.

Pricing policy and basis of price determination

Pursuant to the Master Brand Promotion (2022-2024) Agreement, the annual amount of the brand promotion fee in relation to TCL Brand and/or TCL Holdings Brand payable by the Group to TCL Holdings during each financial year shall range from 0.25% to 2.25% of the projected annual revenue of the Group from the particular type of products for that financial year subject to certain adjustments, depending on the types of products as set out below.

Table 3: Brand promotion fee rate pursuant to the Master Brand Promotion (2022-2024) Agreement

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

The said projected sales revenue of each financial year shall be determined by the Company before the commencement of that financial year. The parties shall review the brand promotion fee rates in the last month of every financial year according to the status of utilisation of brand promotion fee within the financial year, and adjust the brand promotion fee rates for that financial year and/or the next financial year accordingly, provided that such adjustment must be mutually agreed by the Company and TCL Holdings and subject to the relevant annual caps and other applicable requirements under the Listing Rules.

The above pricing policy shall also apply mutatis mutandis to brand promotion fee in relation to TCL Holdings Brand, unless otherwise agreed, provided that in any event, the respective promotion fee rate in relation to TCL Holdings Brand shall not be higher than the above promotion fee rates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our assessment of the principal terms

We have reviewed the Master Brand Promotion (2022-2024) Agreement and have discussed with the management of the Company the major terms thereof, and we noted that the terms thereof are incorporated substantially from the Master Brand Promotion (2019-2021) Agreement.

To assess the fairness and reasonableness of the pricing basis of the Master Brand Promotion (2022-2024) Agreement, we have obtained, reviewed and examined the projected sales of the relevant products of the Group for the three years ending 31 December 2024 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 the relevant members of TCL Holdings Group for the use of TCL Brand and/or TCL Holdings Brand pursuant to the Master Brand Promotion (2022-2024) Agreement, we consider such arrangement as similar to most royalty arrangements in the market which were entered into for the use of a connected person's trademark(s) for the promotion and sales of mutually agreed products and services, with sales being the main basis of determining the brand promotion fee. As such, we have identified five comparable transactions contemplated under similar trademark licence/brand promotion agreements conducted by companies listed on the Stock Exchange during the past two years immediately preceding and up to the date of the Agreements ("**Market Comparables**"). On the other hand, given that from our review, we noted that a lot of the trademark licensing agreements were entered into by pharmaceutical companies listed on the Stock Exchange to acquire technical know-how and data for their research and development of medical products, we consider those transactions as not comparable to the transactions contemplated under the Master Brand Promotion (2022-2024) Agreement as they were not entered into for marketing purposes. Accordingly, we have excluded them from our analysis.

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 (2022-2024) Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 4: Summarised principal terms of Market Comparables

Date of announcement	Stock code	Company	Nature of transaction	Royalty rate (%)	Royalty basis
29-Nov-2019	694	Beijing Capital International Airport Co., Ltd.	The grant of a non-exclusive right by a connected person of the company to the company to use the trademarks in the PRC in the goods or services under the registered classes of the relevant trademarks	1.00	Audited annual revenue
30-Dec-2019	43	C.P. Pokphand Co. Ltd.	The grant of a non-exclusive right by a connected person of the company to a subsidiary of the company to use the trademarks to promote its sales and strengthen its position in the Vietnam agrifood market	1.50	Net proceeds from the sale of mutually agreed products
19-Feb-2020	1651	Precision Tsugami (China) Corporation Limited	The grant of an exclusive right by a connected person of the company to the company to use the trademarks in the PRC, Hong Kong and Taiwan, and a non-exclusive licence to use the Trademarks in any regions (excluding the PRC, Hong Kong and Taiwan).	1.00 5.00	Net proceeds from the sale of mutually agreed products
26-Mar-2020	81	China Overseas Grand Oceans Group Limited	The grant of a non-exclusive right by a connected person of the company to the company and the relevant parties to use the trademarks in PRC for or in connection with the marketing and sale of its real estate developments	1.00	Audited annual revenue
21-Sep-2020	891	Trinity Limited	The grant of an exclusive right by connected persons of the company to a member of the group to use the trademarks to design, manufacture, sell, distribute, market and promote the licensed products in the PRC, Hong Kong, Macau and Taiwan	5.00	Net proceeds from the sale of mutually agreed products
			Maximum	5.00	
			Minimum	1.00	
			Average	2.42	
			Median	1.25	
11-Nov-2021	1070	The Company	Manufacture and sale of TV sets	0.25% to 2.25%	Projected annual sales revenue from mutually agreed products (<i>Note</i>)

Note: Subject to adjustments made with reference to the utilisation 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 the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the royalty/brand promotion rates (calculated based on revenue) charged in the Market Comparables, which ranged from 1.00% to 5.00% with an average rate of around 2.42%, and compared them to the projected brand promotion fee payable by the Group at 0.25% to 2.25% of the projected annual revenue of the Group. Based on our review, we noted that the highest percentage of brand promotion fee of 2.25% payable by the Group, is not only within the range of royalty/brand promotion rates of the Market Comparables, but also lower and hence more favourable than the market average of the royalty/brand promotion rates of these Market Comparables. It should also be noted that in addition to being granted the right to use the trademarks of a connected person like the Market Comparables, the Group will enjoy promotion activities provided by TCL Holdings Group under the Master Brand Promotion (2022-2024) Agreement. Accordingly, we consider that the brand promotion fee rates payable by the Group cover more value than those royalty/brand promotion rates charged in the Market Comparables, and hence we are of the view that the fees payable by the Group to the relevant members of TCL Holdings Group would be comparable to, or no less favourable than, such market prices and that the pricing basis adopted in the Master Brand Promotion (2022-2024) Agreement is fair and reasonable.

We are also aware that the royalty basis for the Market Comparables is audited sales revenue or net proceeds from the sale of mutually agreed products, whereas the fee basis for the Company is projected annual sales revenue from mutually agreed products. We attribute such difference to the fact that value-added service, i.e., promotion activities provided by TCL Holdings Group, is provided under the Master Brand Promotion (2022-2024) Agreement but not in the Market Comparables. From our discussion with the Company, we understand that TCL Holdings requires the Company to pay the brand promotion fee in advance as such fee serves as a promotion fund held by TCL Holdings for the advertisement, promotion, management and maintenance of TCL Brand and/or TCL Holdings Brand. Given the promotion activities to be provided by TCL Holdings Group and the expenses thereof to be borne by it, we consider that it is fair and reasonable for the Company to determine the annual brand promotion fee based on the projected annual sales revenue from mutually agreed products and pay such fee to TCL Holdings Group in advance prior to the commencement of the coming financial year.

We have reviewed the projected annual sales revenue from mutually agreed products prepared by the Company and noted that it was arrived at based on the historical sales record of similar products and the sales plan of the Group in the coming three years. Although the annual brand promotion fee is determined in advance based on the projected annual sales revenue for the coming financial year, we noted that in order to ensure that the rates of brand promotion fee are reasonable as a reimbursement of branding expenses by TCL Holdings Group and as an investment of the Group with reference to the value and benefits brought by such promotion activities, the parties shall review the brand promotion fee rates in the last month of every financial year based on the utilisation of the annual brand promotion fee for the current year and make adjustments to the projected annual brand promotion fee accordingly (for example, if the reimbursement of branding expenses by TCL Holdings Group in the current year is less than the current-year annual brand promotion fee, the annual brand promotion fee for the coming financial year may be adjusted downward as there remains surplus in the promotion fund held by TCL Holdings).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that the Company would be informed of the promotion expenses to be incurred by TCL Holdings Group and hence be able to use such information to negotiate and adjust the annual brand promotion fee with TCL Holdings for the coming financial year, we consider that there exists a mechanism to ensure that the Company will be provided with the same amount of promotional value from TCL Holdings through TCL Holdings' grant of right to the Company to use the TCL Brand and/or TCL Holdings Brand and TCL Holdings' provision of promotion activities. Coupled with our review of the internal control measures adopted by the Group as discussed in the below section headed "Internal control measures" of this letter, we are of the view that the terms and the price determination of the Master Brand Promotion (2022-2024) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Internal control measures

To ensure that the terms of each of the Non-exempt Transactions (for both receivable and payable transactions) are on normal commercial terms and terms no less favourable to the Group than those offered by Independent Third Parties, the Group has adopted a set of comprehensive internal control measures (the "**Internal Control Measures**"). Please refer to the section headed "Internal control procedures and pricing policies" in the Board Letter for details on the respective internal control procedures and pricing policies adopted for each of the Non-exempt Transactions. The following is a summary of these internal control procedures and pricing policies.

- (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, compare the terms offered by the relevant connected person with the market data in its internal database, which is updated periodically, to ensure the overall terms offered by such connected person are on normal commercial terms and no less favourable to the Group than those offered by Independent Third Parties. For details on the Internal Control Measures for each of the agreements below, please refer to the section headed "Internal control procedures and pricing policies" in the Board Letter;

Master Sale and Purchase (2022-2024) Agreement

- (a) The Group will set up periodic targets for Sourcing of TCL Associates Products and Sale of Electronics Products respectively by projecting the approximate amount of sales and purchase with TCL Holdings Group, which will be subject to review from time to time depending on the surrounding circumstances such as the Group's performance and overall market conditions. The sales unit and purchase unit will from time to time compare the actual figures against the sales target and purchase targets in general and will make necessary adjustment for the sales and purchase from TCL Holdings Group for the remaining period;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) For Sourcing of TCL Associates Products, the procurement department of the Group will from time to time obtain a quote for comparable products or, if no quotation for comparable products is available, similar products from at least two Independent Third Parties (if available) to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2022-2024) Agreement. If there were no similar or comparable products from Independent Third Parties, the procurement department will obtain quotation information from TCL Holdings Group to ensure that the prices of TCL Associates Products offered by TCL Holdings Group to the Group shall be no higher than those offered by TCL Holdings Group to Independent Third Parties. TCL Holdings Group would normally add a mark-up rate on top of their production costs of the TCL Associate Products, which the procurement department would obtain production cost information from TCL Holdings Group to ascertain the mark-up rates. The mark-up rate may vary during the term depending on factors such as market circumstances, supplier relationship, seasonal demand, product specifications, exchange rate fluctuation, mode of delivery, transportation cost and business strategies. The procurement department of the Group will then make an overall assessment of a basket of factors (including but not limited to price, payment terms, credit terms, and whether the products offered are in line with the business line, brand development, overall strategy and planning of the Group), to decide whether to engage TCL Holdings Group or Independent Third Parties and to ensure that the transactions would be conducted in accordance with the terms of the Master Sale and Purchase (2022-2024) Agreement and in accordance with the Company's pricing policy. The procurement director of the Group is responsible for approving the purchase orders from members of the Group, 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; and
- (c) For the Sale of Electronics Products, the sales and marketing team will, upon receiving proposed orders and pricing from TCL Holdings Group, review the orders and check with relevant teams (including production, research and development, product plan control, and (procurement) for production capacity, production cost, pricing, production lead time and confirms or negotiates the terms with customers. Under the Group's pricing model for the Sale of Electronics Products, the per unit selling 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 Group, and the weight of each factor will vary from order to order based on negotiations with its customers. The price will then be submitted to management for approval. The Group will only accept orders from TCL Holdings Group for the Sale of Electronics Products when the terms are in accordance with the results of the overall assessment of a basket of factors (including but not limited to price, payment terms, credit terms, sales expenses, logistics and storage expenses and whether the sale is in line with the business line, brand development, overall strategy and planning of the Group).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Master Services (2022-2024) Agreement

- (a) 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 for comparable services or, in the absence of quotation for comparable services, similar services from at least two Independent Third Parties (whom the Group considers can provide the required services of satisfactory quality and at satisfactory standard) (if available), when a member of the Group requires Services from, or is requested to provide Services to, TCL Holdings Group, 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. If there were no similar or comparable services from Independent Third Parties, the Group will obtain quotation information from TCL Holdings Group to ensure that the prices offered by TCL Holdings Group to the Group shall be no less favourable than those offered by TCL Holdings Group to Independent Third Parties. 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.

Master Financial (2022-2024) Agreement

- (a) The finance department of the Group has a team of designated financial staff and adopted a sound and independent audit system and a comprehensive financial management system;
- (b) Before entering into individual transactions under the Master Financial (2022-2024) Agreement, the Company's treasury department will, in addition to monitoring the pricing terms (as disclosed below), also examine other terms of the transactions to ensure that the terms conform with the Master Financial (2022-2024) Agreement;
- (c) The Group has implemented risk control measures, which include but are not limited to, (a) requesting Finance Company (HK), the relevant TCL Holdings Financial Services Associates and TCL Holdings Group to provide the Group with sufficient information including various financial indicators, such as their asset sizes, liquidity ratios, level of bad assets and their risk ratings assessed by the PBOC (if and when available), as well as annual and interim financial statements to enable the Group to monitor and review their financial condition; (b) taking appropriate measures (including early uplift of deposits and a moratorium on further deposits) to protect the Group's financial position, should the Group considers that there is any material adverse change in the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

financial condition of Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates; (c) requesting to withdraw the deposits (either in full or in part) with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates at its sole discretion so as to assess and ensure the liquidity and safety of the Group's deposits; and (d) requiring TCL Holdings to repay any outstanding deposits, loans or transaction amount (as the case may be) on behalf of Finance Company (HK) and/or any of the TCL Holdings Financial Services Associates and/or any member of the Qualified Holdings Group (as the case may be) if any of the latter fails to make any repayment in accordance with the relevant terms and procedure;

- (d) The Group has implemented internal control measures, which include but are not limited to, (a) having the finance department of the Group to monitor the maximum daily balance of the deposits, loans and value of security on a daily basis to ensure that the aggregate deposits, loans and aggregate value of security do not exceed the applicable annual caps; (b) having the treasury department to monitor and examine, in addition to the pricing terms as mentioned in the next paragraph, other terms of the transactions to ensure that they conform with the Master Financial (2022-2024) Agreement; (c) having Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates to provide the Group with a monthly report on the status of the Group's deposits; (d) having the finance department of the Group to provide a monthly report on the status of the Group's loans to Qualified Holdings Group; (e) entering into Foreign Exchange Transactions with Finance Company (HK) and/or other TCL Holdings Financial Services Associates only on a non-exclusive basis and always subject to the Group's pricing policies; (f) having the management of the Group to regularly assess risk of (i) the funds deposited with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates; (ii) the loans advanced to Qualified Holdings Group; (iii) the Financing Services obtained and the value of security provided by the Group; and (iv) the aggregate amount of Foreign Exchange Transactions entered into by the Group, and to report to the Board every six months with respect to the Deposit Services, Credit Services and Financing Services and Foreign Exchange Transactions under the Master Financial (2022-2024) Agreement including the utilisation rate of annual caps and any potential change in the risk profile of Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates and/or relevant member of Qualified Holdings Group; (g) having the Company's audit committee to scrutinize the implementation and enforcement of the transactions under the Master Financial (2022-2024) Agreement and taking appropriate steps to implement the Company's audit committee's decisions; and (h) disclosing material findings in the aforementioned risk assessment reports and the views and decisions of the Company's audit committee in the Company's annual reports; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (e) The Group has implemented pricing related internal control measures, which involves obtaining benchmarks (such as prevailing market interest rates in respect of the various services under the Master Financial (2022-2024) Agreement, including but not limited to the deposit and lending interest rates and foreign currency exchange rate stipulated by the major commercial banks and/or the PBOC) periodically during the term of the Master Financial (2022-2024) Agreement in order to determine the best interest rates/exchange rates/fees most favourable to the relevant member of the Group under the Master Financial (2022-2024) Agreement. The benchmarks will set the bottom line for members of the Group in the negotiation process. The head of the treasury department of the Company would have the right to make decisions as to whether to enter into transactions with Finance Company (HK) and/or the relevant TCL Holdings Financial Services Associates and/or members of the Qualified Holdings Group at the negotiated interest rates/exchange rates/fees provided that such interest rates/exchange rates/fees comply with the terms of the Master Financial (2022-2024) Agreement.

Master Brand Promotion (2022-2024) Agreement

- (a) 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 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 that year and/or the next financial year shall be revised accordingly with reference to the actual usage of the brand promotion fee within the financial year. Any variation of the brand promotion fee percentage must be approved by the management of the Group, which would consider the effect of such variation 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 amount payable for the financial year and/or the variation will render the relevant annual cap being exceeded, the relevant department will report to the management immediately and appropriate actions in accordance with the relevant requirements of the Listing Rules will be taken.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) Before conducting any transactions with connected persons, the finance department would confirm the utilisation status of the annual caps to ensure that the Group still have sufficient room under the annual caps for carrying out the relevant continuing connected transactions. The finance department would on a regular review the continuing connected transactions carried out under review to assess, 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 amount of the transactions 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. 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) Before conducting any continuing connected transactions, the relevant department of the Group would first prepare the relevant individual agreement for the continuing connected transactions and submit it to the internal control unit and legal department of the Group for review and approval. The internal control unit and the legal department of the Group would review the terms of the proposed transaction and the draft individual agreement to be entered into to make sure that the terms are in compliance with the master agreement and the pricing policy of the Group and that the overall terms and conditions (including prices and payment terms) are no less favourable to the Group than those offered by Independent Third Parties. The transactions could only be carried out after the internal control unit and the legal department have separately given their approval thereof;
- (iv) The auditors of the Group will conduct an annual review on the pricing and the annual caps of the Non-exempt Transactions; and
- (v) The independent non-executive Directors will conduct an annual review of Non-exempt Transactions to ensure that such transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In considering whether the Internal Control Measures which the Group has been adopting as set out above are adequate and effective, we have performed walkthrough of the internal control system on the Non-exempt Transactions and obtained relevant supporting documents including, amongst others, supporting documents regarding (i) the transactions entered into between the Group and the relevant connected person, which we have used to compare with the similar transactions with Independent Third Parties as discussed in the above section headed “Principal terms of the Non-exempt Transactions and our Assessment thereof” of this letter; (ii) the aforementioned risk assessment reports; (iii) the information on the minimum interest rate promulgated by the PBOC and offered by independent financial institutions in the place where the relevant TCL Electronics Qualified Member is located; (iv) information on the interest rates for the same type of deposits offered by the Finance Company (HK) and/or TCL Holdings Financial Services Associates to any other members of the TCL Holdings Group; (v) the information on the interest rates for the loans advanced by the Group to the members of the Qualified Holdings Group, (vi) the approvals from the finance department, treasury department and/or internal control unit; and (vii) records of the actual transaction amount incurred. Based on our review of this information and examination of the internal control system, and we are satisfied that the internal control procedures have been properly maintained by the Group and that the transactions were conducted on normal commercial terms with terms comparable to, or no less favourable than, the terms offered by Independent Third Parties.

We also noted from the 2020 Annual Report that annual reviews of the continuing connected transactions contemplated under the Existing Agreements have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors had reviewed and confirmed that the continuing connected transactions contemplated thereunder were entered into, among other things, (i) in the ordinary and usual course of the Group’s business; (ii) in accordance with the terms of the respective agreements governing such transactions and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) either on normal commercial terms or terms no less favourable to the Group than those available from Independent Third Parties. The 2020 Annual Report also confirms that the Company’s auditors had 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 their terms and that the proposed annual caps were not exceeded. Furthermore, the Non-exempt Transactions 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.

Given that (i) the continuing connected transactions under the Existing Agreements have been conducted in accordance with their terms; (ii) the Non-exempt Transactions will continue to be compared with the terms of similar services or transactions offered by Independent Third Parties to ensure that the relevant engagements will be conducted on normal commercial terms; (iii) there is an appropriate segregation of duties in the approval process in each of the transactions and engagements; (iv) a monitoring system is in place with the finance department of the Group to ensure that the annual caps are not exceeded from time to time; and (v) the pricing and the proposed annual caps of the Non-exempt Transactions will be reviewed annually by the auditors, the internal audit department and the independent non-executive Directors, we are satisfied that the Internal Control Measures are adequate and effective in ensuring the Non-exempt Transactions will be entered into on normal commercial terms and are comparable to, or no less favorable than, the market rates and that there is an effective operating system in place to monitor the annual caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Historical transaction amounts 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 2020 and the eight months ended 31 August 2021.

Table 5: Historical transaction amounts of relevant continuing connected transactions

	For the year ended 31 December 2019 (audited) (for actual amount only) <i>HK\$'000</i>	For the year ended 31 December 2020 (audited) (for actual amount only) <i>HK\$'000</i>	For the eight months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) <i>HK\$'000</i>
Continuing Connected Transactions (Note 1)			
<i>Master Sale and Purchase (2022-2024) Agreement (Note 2)</i>			
<u>Sourcing of TCL Associates Products</u>			
– Historical annual cap	5,795,689	12,216,442	13,130,786
– Actual	1,204,898	4,526,900	4,284,155
– Utilisation rate	20.79%	37.06%	32.63%
<u>Sale of Electronics Products</u>			
– Historical annual cap	10,251,464	11,404,054	12,542,273
– Actual	3,517,773	6,881,867	3,289,740
– Utilisation rate	34.31%	60.35%	26.23%
<i>Master Services (2022-2024) Agreement (Note 3)</i>			
<u>Service Fees to be paid by the Group</u>			
– Historical annual cap	1,726,012	1,944,358	2,139,688
– Actual	543,140	724,336	556,402
– Utilisation rate	31.47%	37.25%	26.00%
<u>Service Fees to be received by the Group</u>			
– Historical annual cap	260,586	360,637	475,473
– Actual	16,565	165,492	141,905
– Utilisation rate	6.36%	45.89%	29.85%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December 2019 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2020 (audited) (for actual amount only) HK\$'000	For the eight months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) HK\$'000
Continuing Connected Transactions (Note 1)			
<i>Master Financial (2022-2024) Agreement</i>			
<u>Deposit Services (Note 4)</u>			
Maximum outstanding daily balances of deposits (including interest receivables in respect of these deposits and deposits as security)			
– Historical annual cap	N/A	1,544,000	1,791,000
– Actual	N/A	1,490,175	1,730,539
– Utilisation rate	N/A	96.51%	96.62%
<u>Credit Services (Note 4)</u>			
Maximum daily balances of outstanding loans (including interest receivables in respect of these loans)			
– Historical annual cap	N/A	3,500,000	3,500,000
– Actual	N/A	3,112,844	3,231,647
– Utilisation rate	N/A	88.94%	92.33%
<u>Financing Services (Notes 5 - 7)</u>			
Facility limit (including interest and handling fees)			
– Historical annual cap	N/A	N/A	594,000
– Actual	N/A	N/A	Nil (Note 9)
– Utilisation rate	N/A	N/A	0%
Maximum daily balance of value of security provided for Financing Services (including cash deposits, financial instruments, receivables, machinery or equipment etc.) (Note 6)			
– Historical annual cap	N/A	N/A	591,000
– Actual	N/A	N/A	Nil (Note 9)
– Utilisation rate	N/A	N/A	0%
<u>Foreign Exchange Transactions</u>	N/A	N/A	N/A

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December 2019 (audited) (for actual amount only) HK\$'000	For the year ended 31 December 2020 (audited) (for actual amount only) HK\$'000	For the eight months ended 31 August 2021 (unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for historical annual cap only) HK\$'000
Continuing Connected Transactions (Note 1)			

Master Brand Promotion (2022-2024) Agreement

Brand Promotion Fee

– Historical annual cap (Note 8)	637,014	930,074	992,555
– Actual	219,732	244,910	153,225
– Utilisation rate	34.49%	26.33%	15.44%

Notes:

1. For easy comparison of the historical figures and the proposed annual caps, transactions are categorised with reference to the Agreements and hence names of the Agreements are used for categorisation in this table.
2. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Sale and Purchase (2019-2021) Agreement.
3. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Services (2019-2021) Agreement.
4. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Financial Agreement (TCL Holdings) (2020-2022). The annual caps for Deposit Services and Credit Services for the year ending 31 December 2022 were HK\$2,077.0 million and HK\$3,500.0 million respectively.
5. The facility limit includes facility amount with security (including but not limited to facility amount from factoring facility (recourse and without-recourse) and bill discounting facility, facility with cash deposits or other assets as collaterals). For the avoidance of doubt, the facility limit excludes the facility amount provided by TCL Holdings Financial Services Associates to the TCL Electronics Qualified Members without security which, if conducted on normal commercial terms or better, are fully exempt connected transactions pursuant to Rule 14A.90 of the Listing Rules.
6. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Financing Services (2021-2022) Agreement. The annual caps of (i) facility limit and (ii) the maximum daily balance of the value of the security provided for Financing Services for the year ending 31 December 2022 was HK\$623.1 million and HK\$620.0 million respectively.
7. The respective historical caps refer to the aggregate annual caps of facility limit and interest and handling fees under the Master Financing Services (2021-2022) Agreement.
8. The respective historical caps and transaction amounts refer to the annual caps and transaction amounts under the Master Brand Promotion (2019-2021) Agreement.
9. Due to the business needs and seasonality of Financing Services required by the Group, the Group has not utilised any Financing Services contemplated under the Master Financing Services (2021-2022) Agreement as of 31 August 2021. It is expected that transactions contemplated thereunder will be conducted in the fourth quarter of 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are the proposed annual caps for the Non-exempt Transactions for the three years ending 31 December 2024 and the relevant breakdowns.

Table 6: Proposed annual caps for the Non-exempt Transactions

	For the year ending 31 December 2022 HK\$'000	For the year ending 31 December 2023 HK\$'000	For the year ending 31 December 2024 HK\$'000
Proposed annual caps			
<i>Master Sale and Purchase (2022-2024) Agreement</i>			
Sourcing of TCL Associates Products	13,508,055	18,335,883	23,242,820
Sale of Electronics Products	9,002,689	9,756,534	10,666,695
<i>Master Services (2022-2024) Agreement</i>			
Service Fees to be paid by the Group	1,885,609	2,164,064	2,456,792
Service Fees to be received by the Group	410,985	505,104	625,617
<i>Master Financial (2022-2024) Agreement</i>			
<u>Deposit Services</u>			
Maximum outstanding daily balances of deposits (including interest receivables in respect of these deposits and deposits as security)	2,328,300	3,026,790	3,934,827
<u>Credit Services</u>			
Maximum daily balances of outstanding loans (including interest receivables in respect of these loans)	4,550,000	5,915,000	7,689,500
<u>Financing Services</u>			
Facility limit (including interest and handling fees) (Note 1)	765,565	956,956	1,196,196
Maximum daily balance of the value of the security provided for Financing Services (including cash deposits, financial instruments, receivables, machinery or equipment etc.) (Note 2)	765,565	956,956	1,196,196
<u>Foreign Exchange Transactions</u>	11,666,700	15,555,600	23,333,400
<i>Master Brand Promotion (2022-2024) Agreement</i>			
Brand promotion fee	755,376	854,741	998,174

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The facility limit includes facility amount with security (including but not limited to facility amount from factoring facility (recourse and without-recourse) and bill discounting facility, facility with cash deposits or other assets as collaterals). For the avoidance of doubt, the facility limit excludes the facility amount provided by TCL Holdings Financial Services Associates to the TCL Electronics Qualified Members without security which, if conducted on normal commercial terms or better, are fully exempt connected transactions pursuant to Rule 14A.90 of the Listing Rules.
2. The proposed annual caps for the Master Financial (2022-2024) Agreement consolidate the respective annual caps for facility limit and interest and handling fees under the Master Financial Agreement (TCL Holdings) (2020-2022).

Basis for determining the proposed annual caps and our analysis

(i) General

As mentioned in the Board Letter, the annual caps for the Master Sale and Purchase (2019-2021) Agreement, Master Services (2019-2021) Agreement and Master Brand Promotion (2019-2021) Agreement were set by the Group in early 2019 based on the business scope and extent of the Group at that time and the projection of the business scale and development of the Group from 2019 to 2021 based on the information then available. However, the utilisation rates of the annual caps for such period are relatively low due to the impact of COVID-19. In view that the COVID-19 pandemic has started to be contained in most regions and governments worldwide has started implementing policies to boost their economies, the Group expects that the sales revenue and sales volume of products of the Group will increase from 2022 to 2024, in response to which the proposed annual caps with gradual annual increase from 2022 to 2024 are set for the Master Sale and Purchase (2022-2024) Agreement, Master Services (2022-2024) Agreement and Master Brand Promotion (2022-2024) Agreement.

Further, as the transactions conducted between TCL Communication Group and the Group no longer constitute connected transactions of the Company after the completion of the acquisition of TCL Communication by the Group which took place on 31 August 2020, lower utilisation rates of annual caps for 2020 and 2021 are resulted. Meanwhile, any future transactions conducted between TCL Communication Group and TCL Holdings Group will become connected transactions of the Group and hence the relevant annual caps under the Agreements were set with such consideration taken into account.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Master Sale and Purchase (2022-2024) Agreement

In determining the annual caps for the Master Sale and Purchase (2019-2021) Agreement, the Group has taken into account, among others, (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2019-2021) Agreement; (ii) the anticipated increase in price of panels (being a major component of Electronics Products) from 2022 to 2024; (iii) the expected organic growth of around 10% per year in respect of the amount of Electronics Products to be sold to TCL Holdings Group and in respect of the amount of TCL Associates Products to be sourced from TCL Holdings Group during the three years ending 31 December 2024; (iv) the possible increase in the purchase price taking into account the current trend of surging producer price index which is expected to continue for the years 2022 to 2024; (v) the estimated fluctuation in exchange rate between RMB and HK\$; and (vi) other factors as disclosed in the sub-section headed “Proposed annual caps for the Master Sale and Purchase (2022-2024) Agreement” under the section headed “Basis for determination of the proposed annual caps” in the Board Letter.

Sourcing of TCL Associates Products

- (a) According to the 2020 Annual Report, the Group was ranked second in the global LCD TV market with a market share of 10.9% in terms of sales volume in 2020 according to the latest report of Omdia, and was also ranked second in the PRC LCD TV market with a market share of 13.7% in terms of sales volume in 2020 with reference to the CMM omni-channel data. As discussed with the Company and as set out in the Board Letter, the Group has seized the opportunity of industry changes to implement the “AI x IoT” all-scenario smart strategy and expects to expand its market shares by taking advantage of the synergy of different types of TCL Associate Products and increasing the overall demand for the Sale of Electronics Products and the Sourcing of TCL Associate Products.
- (b) For the years ended 31 December 2019 and 2020, the actual amounts of TCL Associates Products sourced under the Master Sale and Purchase (2019-2021) Agreement were approximately HK\$1.2 billion and HK\$4.5 billion respectively, representing an increase of approximately 275.7%. For the eight months ended 31 August 2021, the actual amount of TCL Associates Products sourced under the Master Sale and Purchase (2019-2021) Agreement was approximately HK\$4.3 billion. If such amount is annualised, the amount of TCL Associates Products sourced under the Master Sale and Purchase (2019-2021) Agreement for the year ending 31 December 2021 is estimated to be approximately HK\$6.4 billion, representing an increase of approximately 42.0% from the actual amount of TCL Associates Products sourced for the year ended 31 December 2020.
- (c) As the Group is now focusing its businesses on smart screen products and strives to become a full-scenario smart technology company with numerous product lines, it is expected that the Sourcing of TCL Associates Products would increase substantially in the coming years, especially goods in relation to smart home products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Sale of Electronics Products

- (d) For the years ended 31 December 2019 and 2020, the actual amounts of Electronics Products sold under the Master Sale and Purchase (2019-2021) Agreement were approximately HK\$3.5 billion and HK\$6.9 billion respectively, representing an increase of approximately 95.6%. For the eight months ended 31 August 2021, the actual amount of Electronics Products sold under the Master Sale and Purchase (2019-2021) Agreement was approximately HK\$3.3 billion. If such amount is annualised, the amount of Electronics Products sold under the Master Sale and Purchase (2019-2021) Agreement for the year ending 31 December 2021 is estimated to be approximately HK\$4.9 billion, representing a drop of approximately 28.3% from the actual amount of Electronics Products sold for the year ended 31 December 2020.
- (e) Meanwhile, as disclosed in the 2020 Annual Report, the Group had achieved a stable growth in its revenue and recorded an annual growth of approximately 40.2% in 2020, and that the Group will focus on developing its core business and further integrating smart mobile, connective devices and service-related businesses, and accelerating the development of “AI x IoT” strategy. Also, the Group expects that the global economy will continue to rebound and the external environment for corporate development will improve. Accordingly, the demand for Electronics Products is expected to increase gradually from 2022 to 2024, together with the prevailing market rate for similar products. As such, it is expected that the Sale of Electronics Products will increase in the future as the Group makes progress in its business diversification and expands its geographical markets.

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 (2022-2024) Agreement, the proposed annual caps for the Sourcing of TCL Associates Products for the three years ending 31 December 2024 of approximately HK\$13.5 billion, HK\$18.3 billion and HK\$23.2 billion respectively, account for approximately 32.7%, 44.4% and 56.3% of the Group’s cost of sales of approximately HK\$41.3 billion for the year ended 31 December 2020, while the Sale of Electronics Products for the three years ending 31 December 2024 of approximately HK\$9.0 billion, HK\$9.8 billion and HK\$10.7 billion respectively, account for approximately 17.7%, 19.1% and 20.9% of the Group’s total revenue of approximately HK\$51.0 billion for the year ended 31 December 2020. In this respect, we are of the view that there is and would be no excessive reliance of the Group on the TCL Holdings Group for the sales and/or purchases of Goods and that the proposed annual caps for the Master Sale and Purchase (2022-2024) Agreement are fair and reasonable for the following reasons:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (a) Given the growth of approximately 103.7% in the Group's revenue from continuing operations between the six-month ended 30 June 2020 and the six-month ended 30 June 2021, and the annual growth of approximately 40.2% in the Group's annual revenue from continuing operations between the two years ended 31 December 2020 and 2021, it is expected that the Group will increase its demand for Goods and that the Group's sales and cost of sales will also increase in the coming years. Accordingly, the sales to and/or purchase from the relevant members of the TCL Holdings Group 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 2024 shall be less than those percentages as set out in the preceding paragraph above;
- (b) The Group has been operating and will continue to operate independently from the relevant members of the TCL Holdings Group and will negotiate transactions directly with them for any Goods required by the Group or the relevant members of the TCL Holdings Group; and
- (c) The Group's Sourcing of TCL Associates Products from the relevant members of the TCL Holdings Group is conducted for the Group to receive a stable and reliable source of supply of the necessary finished goods for the Group's operations, whilst the Group's Sale of Electronics Products to the relevant members of the TCL Holdings Group is conducted to allow the Group to widen its revenue base.

(iii) Master Services (2022-2024) Agreement

In determining the annual caps for the Master Services (2022-2024) Agreement, the Group has taken into account, among others, (i) the historical amounts of the relevant transactions under the Master Services (2019-2021) Agreement; (ii) the expected organic growth of around 10% per year in respect of the amount of Service Fees to be paid and received by the Group to/from TCL Holdings Group during the three years ending 31 December 2024; (iii) the estimated fluctuation in exchange rate between RMB and HK\$; and (iv) other factors as disclosed in the sub-section headed "Proposed annual caps for the Master Services (2022-2024) Agreement" under the section headed "Basis for determination of the proposed annual caps" in the Board Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Service Fees to be paid by the Group

The actual amount of Service Fees rendered under the Master Services (2019-2021) Agreement was approximately HK\$543.1 million and HK\$724.3 million for the two years ended 31 December 2020 respectively, representing an increase of approximately 33.4%. For the eight months ended 31 August 2021, the actual amount of Service Fees paid was approximately HK\$556.4 million under the Master Services (2019-2021) Agreement. If such amount is annualised, the estimated amount of Service Fees paid under the Master Services (2019-2021) Agreement for the year ending 31 December 2021 is estimated to be approximately HK\$834.6 million, representing an increase of approximately 15.2% from the actual amount of service fees rendered for the year ended 31 December 2020. Given such historical growth, we are of the view that the expected organic growth of around 10% per year in respect of the amount of Service Fees to be paid by the Group to TCL Holdings Group during the three years ending 31 December 2024 is fair and reasonable.

As stated in the Board Letter, the Group expects that the Services in relation to logistics and after-sale services required by the Group will increase significantly with the expected increase in the sales volume of Electronics Products and the demand for IT-related Services to be provided by TCL Holdings Group given the Group's implementation of digital transformation policy, taking into account of which the proposed annual caps for Service Fees to be paid by the Group are set to increase annually by approximately 14.0% from 2022 to 2024.

Service Fees to be received by the Group

For the years ended 31 December 2019 and 2020, the actual amount of Service Fees received under the Master Services (2019-2021) Agreement was approximately HK\$16.6 million and HK\$165.5 million respectively, representing an increase of approximately 899.0% compared to the prior year. Meanwhile, for the eight months ended 31 August 2021, the actual amount of Service Fees received was approximately HK\$141.9 million under the Master Services (2019-2021) Agreement. If such amount is annualised, the estimated amount of Service Fees received under the Master Services (2019-2021) Agreement for the year ending 31 December 2021 is estimated to be approximately HK\$212.9 million, representing an increase of approximately 28.6% from the actual amount of Service Fees received for the year ended 31 December 2020. Given such historical growth, we are of the view that the expected organic growth of around 10% per year in respect of the amount of Service Fees to be received by the Group from TCL Holdings Group during the three years ending 31 December 2024 is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted that under the Master Services (2022-2024) 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 2024 of approximately HK\$1.9 billion, HK\$2.2 billion and HK\$2.5 billion respectively, account for approximately 4.6%, 5.2% and 5.9% of the Group's cost of sales of approximately HK\$41.3 billion for the year ended 31 December 2020, 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 2024 of approximately HK\$411.0 million, HK\$505.1 million and HK\$625.6 million respectively, account for approximately 0.8%, 1.0% and 1.2% of the Group's total revenue of approximately HK\$51.0 billion for the year ended 31 December 2020. 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 and that the proposed annual caps for Services are fair and reasonable for the following reasons:

- (a) The proposed annual caps for the aggregate amount of each of the Services account for less than 6.0% of the Group's total revenue or cost of sales for the year ended 31 December 2020, and that the Group's total revenue and cost of sales are expected to continue to increase in parallel in the coming years;
- (b) 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
- (c) The Group's provision of Services to TCL Holdings Group is conducted for the purposes of expanding the Group's business scope, increasing its sources of revenue and enhancing its competitiveness and profitability, whilst TCL Holdings Group's provision of Services to the Group is conducted for the purposes of reducing the costs of the Group and enhancing its efficiency in various business units through centralising its IT platforms and application systems, professionalising its basic services and smart management so that the Group can focus and centralise its resources in developing its own core business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) Master Financial (2022-2024) Agreement

As stated in the Board Letter, the proposed annual caps for Deposit Services, Credit Services, Financing Services and Foreign Exchange Transactions are determined with reference to, among others, (i) the historical amounts of the relevant or similar transactions; and (ii) other factors as set out in the sub-section headed “Proposed annual caps for the Master Financial (2022-2024) Agreement” under the section headed “Basis for determination of the proposed annual caps” in the Board Letter.

As mentioned in the Board Letter, the Master Financial (2022-2024) Agreement consolidates and integrates the Master Financial Agreement (TCL Holdings) (2020-2022) and Master Financing Services (2021-2022) Agreement, and allows the Group to monitor the continuing connected transactions contemplated thereunder in a more administratively convenient and cost-effective manner.

Meanwhile, the proposed annual caps for Deposit Services for the three years ending 31 December 2024 are set to increase by approximately 30.0% per annum. According to the 2021 Interim Report, for the six months ended 30 June 2021, the Group’s global TV sales volume increased year-on-year by approximately 11.8% and that the Group had unaudited consolidated cash and cash equivalents of approximately HK\$10,011 million at 30 June 2021. Given that the Group’s business is expected to continue to grow in the coming years and that net cash is expected to be generated from the business operation of the Group following the previous trend without significant cash outflow, we concur with the Company that the Group’s cash and cash equivalents are expected to experience a stable increase and that its cash flow is expected to be strong especially at its peak sales season, leading the Group’s demand for Deposit Services from TCL Holdings Financial Services Associates to increase up to the proposed annual caps at the peak season in the upcoming years. Given the above and the fact that the actual and/or annualised amount of maximum outstanding daily balances of deposits under the Master Financial Agreement (TCL Holdings) (2020-2022) reached over 96.0% of the historical annual caps for the year ended and ending 31 December 2020 and 2021, we are of the view that it is reasonable to estimate that the maximum outstanding daily balances of deposits for the three years ending 31 December 2024 will increase by approximately 30.0% per annum and we consider the proposed annual caps for Deposit Services as fair and reasonable.

Similarly, in determining the proposed annual caps for Credit Services for the three years ending 31 December 2024, we noted that the Group has considered its net cash position as at 30 June 2021 and the expectation of growth of which as mentioned above. We noted that the Group has also considered its business needs and the maximum amount of exposure at any time it is prepared to assume for Credit Services in the context of its cash flow, as well as the repayment ability of the Qualified Holdings Group estimated based on the unaudited net asset value of the Qualified Holdings Group as at 30 June 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that (i) the actual or annualised amount of maximum daily balances of outstanding loans (including interest receivables in respect of these loans) under the Master Financial Agreement (TCL Holdings) (2020-2022) reached approximately 90.0% of the historical annual caps for the year ended and ending 31 December 2020 and 2021; (ii) the Group's net cash as at 30 June 2021 can cover the proposed annual caps for Credit Services for each of the three years ending 31 December 2024 given that such proposed annual caps represent only about half of the amount of the Group's net cash, and that the net cash position of the Group is expected to remain or even improve following the previous trend; and (iii) the Qualified Holdings Group is expected to fulfil its repayment obligations under Credit Services, we are of the view that the proposed annual caps for Credit Services are fair and reasonable.

For the proposed annual caps for Financing Services which are set with an annual increase of approximately 25.0% from 2022 to 2024, we noted that the Group has considered the expected financial needs of TCL Electronics Qualified Members and the business capacity of TCL Holdings Financial Services Associates. Given that (i) the Group has a total of approximately HK\$7,051.2 million of interest-bearing bank and other borrowings as at 30 June 2021, the proposed annual caps for facility limit (including interest and handling fees) account for at most approximately 17.0% of the Group's total borrowings as at 30 June 2021, and (ii) the proposed annual caps for maximum daily balance of value of security provided for Financing Services (including cash deposits, financial instruments, receivables, machinery or equipment etc.) account for at most approximately 6.7% of the net asset value of the Group as at 30 June 2021, we are of the view that the proposed annual caps for Financing Services are fair and reasonable.

For Foreign Exchange Transactions, we noted that members of the Group have not entered into similar foreign exchange transactions with Finance Company (HK) and/or other TCL Holdings Financial Services Associates historically, but given the growing business size and increasing exposure to foreign exchange risks of the Group, particularly after the consolidation of TCL Communication Group into the Group on 31 August 2020, the Group has considered the projected aggregate amount of Spot Contracts, Forward Contracts and Swap Contracts to be entered into with Finance Company (HK) and/or other TCL Holdings Financial Services Associates when determining the annual caps for Foreign Exchange Transactions, which we consider as fair and reasonable.

(v) *Master Brand Promotion (2022-2024) Agreement*

As stated in the Board Letter, the proposed annual caps for brand promotion fees are determined with reference to, among others, (i) the historical amounts of the relevant transactions under the Master Brand Promotion (2019-2021) Agreement; and other factors as set out in the sub-section headed "Proposed annual caps for the Master Brand Promotion (2022-2024) Agreement" under the section headed "Basis for determination of the proposed annual caps" in the Board Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have 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 ending 31 December 2021. In addition, we noted that under the Master Brand Promotion (2022-2024) 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 2024 of approximately HK\$0.8 billion, HK\$0.9 billion and HK\$1.0 billion respectively, account for only approximately 1.8%, 2.1% and 2.4% of the Group's cost of sales of approximately HK\$41.3 billion for the year ended 31 December 2020. Accordingly, the proposed annual caps for the Master Brand Promotion (2022-2024) is not excessive and reasonable in our view.

(vi) Section conclusion

In light of the above and the fact that the Group and TCL Holdings Group have already established business relationships under the Existing Agreements and the services provided to/by TCL Holdings Group have been satisfactory to both parties, we are of the view that the continuing engagement with TCL Holdings Group would promote the business operation of the Group, and the proposed annual caps for the Agreements 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.

5. The reasons for and benefits of the Continuing Connected Transactions

As stated in the Board Letter, the Directors are of the view that the Master Sale and Purchase (2022-2024) Agreement would consolidate the majority portion of the product business of TCL Holdings Group, enhance customer experience, achieve a reduction of selling expenses and enhance the overall profitability of the Group under the Group's "AI x IoT" all-scenario smart and healthy-living strategy. While the Master Services (2022-2024) Agreement would provide the Group with a chance to expand its business scope, increase its sources of revenue and enhance its competitiveness and profitability through utilising the expertise, experience and economies of scale of both the Group and TCL Holdings Group.

As for the Master Financial (2022-2024) Agreement, the Directors are of the view that the agreement would provide the Group with (i) deposit services with favourable interest rates by taking advantage of the scale of the capital of TCL Holdings Financial Services Associates; (ii) greater flexibility in the management of its idle cash flow by enabling it to lend a portion of its idle cash to the Qualified Holdings Group and obtaining favourable interest income in return through the Credit Services; (iii) opportunities to expand its financial channels, accelerate the efficiency of its asset turnover and optimise its financial structure, as well as to improve the efficiency of its capital usage; and (iv) efficient foreign exchange transactions that support the Group's business and treasury activities.

Meanwhile, for the Master Brand Promotion (2022-2024) Agreement, the Board believes that using TCL Brand and/or TCL Holdings Brand to market and distribute its products would allow the Group to enjoy the benefits brought by the goodwill and brand image of these brands, which are crucial to the long-term success of the Group's business operation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the above, we are of the view that the Non-exempt Transactions are beneficial to the Group as they would allow the Group to effectively manage its supply chain, expand its business scope, increase its sources of revenue, enhance its competitiveness and profitability and develop its overall goodwill and brand image. Therefore, we consider the entering into of the Agreements is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Non-exempt Transactions and their respective proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms, and are entered into in the ordinary and usual course of business of the Group and 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 favour of the resolution(s) approving the Non-exempt Transactions and their respective 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 and their respective proposed annual caps at the EGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited
Charles LI*
Managing 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. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year of the Group.

The audited consolidated financial statements of the Company for the years ended 31 December 2020, 2019 and 2018 and the unaudited consolidated financial statements of the Company for the six months ended 30 June 2021 together with the relevant notes to the financial statements of the Company can be found on pages 122-307 of the annual report of the Company for the year ended 31 December 2020, pages 117-292 of the annual report of the Company for the year ended 31 December 2019, pages 117-281 of the annual report of the Company for the year ended 31 December 2018, and pages 21-63 of the interim report of the Company for the six months ended 30 June 2021. Please see below the hyperlinks to the aforesaid documents:

Annual report for the year ended 31 December 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0421/2021042100003.pdf>

Annual report for the year ended 31 December 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0429/2020042900011.pdf>

Annual report for the year ended 31 December 2018:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0418/ltn201904181133.pdf>

Interim report for the six months ended 30 June 2021:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0903/2021090300129.pdf>

2. STATEMENT OF INDEBTEDNESS**Borrowings**

As at the close of business on 31 October 2021, being the latest practicable date for the purpose of this indebtedness statement, the Group had total interest-bearing borrowings of approximately HK\$7,883,717,000, comprising (a) unsecured bank loans of approximately HK\$7,853,237,000; (b) advances from banks as consideration for factored trade receivables of approximately HK\$8,574,000; and (c) other loans of approximately HK\$21,906,000.

Lease obligations

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms of one to ten years. As at 31 October 2021, the Group's total lease liabilities recognised under Hong Kong Financial Reporting Standards 16 under non-cancellable operating leases contracts were HK\$471,717,000.

Capital commitments and contingent liabilities

As at 31 October 2021, (a) the Group had capital commitments of approximately HK\$789,801,000 and HK\$131,793,000 which were contracted but not provided for and authorised but not contracted for, respectively; and (b) provisions in the amount of HK\$829,355,000 for warranties and restructuring and HK\$1,422,000 for pending legal cases.

Pledge of assets

As at 31 October 2021, the Group had restricted cash and pledged deposits balance of approximately HK\$90,872,000 pledged as the balance of performance and quality guarantees, financial assets and banking facilities for the Group.

Save as aforesaid, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 October 2021, being the latest practicable date for the purpose of this indebtedness statement.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 31 October 2021.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the effect of the proposed renewal of major and continuing connected transactions and the financial resources available to the Group, including internally generated financial resources, the Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances. As at the Latest Practicable Date, the Company has obtained from its auditor the relevant confirmation regarding the sufficiency of working capital as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECTS

Despite the ongoing resurgence of COVID-19 worldwide and the changing landscape of the panel industry, which has further polarised the TV industry, the Group has delivered a solid and strong performance since the pandemic outbreak. With more than 20 years of experience in developing overseas business, the Group has built up a comprehensive global production capacity layout and established worldwide channels. Coupled with its distinctive advantage of vertically integrated industrial chain, it will be able to better seize the new opportunities of industry development in the post-pandemic era. In the coming years, the Group will remain vigilant about the changes in the pandemic situation, continue to consolidate its industry leading position while ensuring the safety of its employees, and further implement its “AI x IoT” all-scenario smart and healthy living strategy:

- enhance R&D and product innovation, attach great importance to R&D investment and vigorously develop industry-leading high-end display technologies such as QLED, Mini LED and 8K. Continue to focus on intelligent interaction technologies, strengthen R&D and innovation around AI, Internet-based big data, 5G, intelligent manufacturing and other technology areas to continuously enhance the Group’s core competitiveness;
- fully leverage on the Group’s distinctive advantage of vertically integrated industrial chain to minimise the pressure on gross profit caused by shortage and increasing price of upstream panel, and further reinforce its advantages over global supply chain and channels to strengthen the development of emerging markets, continue to enhance the brand power and competitiveness of the Group in the domestic and overseas TV markets, and move firmly towards the goal of becoming No.1 brand in the global TV market;
- accelerate the further development of the global Internet business, deepen the cooperation with overseas Internet partners while vigorously enhancing the operation and profitability of Falcon Network Technology, to improve the integration of domestic and overseas content resources, enhance product competitiveness, continuously explore and develop innovative business and reinforce the operation and profitability of global Internet business; and
- seize the opportunities brought by the accelerated implementation of cutting-edge technologies such as AI and IoT. Amid the intelligent and technological transformations, the Group will step up its efforts in implementing the all-scenario smart and healthy living strategy of “AI x IoT”; accelerate the integration of smart mobile, connective devices and service related business with smart display business as the core, step up the development of three major smart scenarios namely smart home, mobile services and smart commercial display to offer users smart living services across “All Scenarios, All Categories and Inter-connectivity”, drive steady expansion of all-category business and firmly move towards global leadership.

Looking forward, although the increasing price of raw materials such as panel has brought considerable operating pressure to both the industry and the Group, the Group forges ahead by actively adjusting its product mix, optimising its supply chain and channel structure in order to minimise the impact caused by cost increase. With the rapid development of cutting-edge technologies such as AI and IoT, the digital and intelligentised transformation of the display industry will see a comprehensive speed-up, bringing significant development opportunities. The Group will, with “Smart Screens Interconnect Everything and Lead to the Future” as the core, continue to focus on high-end display and smart interaction technologies, and vigorously promote and implement the development strategy of intelligentisation and globalisation. The Group will continuously place great emphasis on and increase its investment in R&D and product innovation, deepen its global supply chain and channel deployment, accelerate its digital transformation, support the development of innovative businesses and steadily increase its revenue from value-added Internet services. Confident and determined as ever, the Group will endeavour to become a global leader in providing users around the world with the best products and services that enable multi-screen, real-time interactions, and all scenario smart sensing, and bring long-term sustainable growth and returns to the shareholders of the Company.

5. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

The Group has not made any acquisition after the date of the latest published audited accounts required to be disclosed in this circular pursuant to the Listing Rules.

1. RESPONSIBILITY OF THE DIRECTORS

This document, 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 executives 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 and chief executives	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	Other interests (Note 1)	Personal interests		
DU Juan (Note 3)	264,075	–	–	264,075	0.01%
YAN Xiaolin	13,414	3,395,637	808,312	4,217,363	0.17%
WANG Cheng (Note 4)	3,697,954	7,625,290	5,142,206	16,465,450	0.66%
Albert Thomas DA ROSA, Junior	7,463	7,463	116,442	131,368	0.01%
SUN Li (Note 6)	–	2,428,562	–	2,428,562	0.10%
LI Yuhao	24,000	–	–	24,000	0.001%
Robert Maarten WESTERHOF	37,315	7,463	116,442	161,220	0.01%
WANG Yijiang	36,849	7,463	242,260	286,572	0.01%
LAU Siu Ki	37,315	7,463	236,301	281,079	0.01%
ZHANG Shaoyong	201,000	4,973,256	381,747	5,556,003	0.22%

Notes:

1. 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.
2. The percentages are calculated based on the issued share capital of the Company as at the Latest Practicable Date, i.e. 2,479,909,785 Shares.
3. Ms. DU Juan is also the general manager and a director of TCL Holdings.
4. Mr. WANG Cheng is also a director of TCL Holdings.
5. Mr. HU Dien Chien is also the chief financial officer of TCL Holdings.
6. Mr. SUN Li is also the chief technology officer of TCL Holdings.

Save as disclosed in this paragraph 2, as at the Latest Practicable Date, none of the Directors and chief executives 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 2020 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 2020 (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 (or his/her respective close associates) 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

SEMP TCL Mobilidade Ltda., formerly known as TCT Mobile – Telefones Ltda., an indirect non-wholly owned subsidiary of the Company, is currently a defendant in a lawsuit in Brazil with Brazil tax authority for alleged improper application of tax credits for the period of 2012 and 2013. In June 2018, SEMP TCL Mobilidade Ltda. filed an ordinary appeal and the court ordered the record remanded for a new trial of the administrative defence in March 2019. As at the Latest Practicable Date, the lawsuit is still ongoing. Based on the response from the independent attorney in charge, it is expected that the litigation will last for 3 to 5 years.

Save as disclosed above, 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 22 November 2021 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 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by, or 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. MATERIAL CONTRACTS

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

- (i) the equity transfer agreement dated 14 September 2020 entered into between CI Tech and an Independent Third Party for the disposal of 100% equity interest in TCL New Technology (Huizhou) Co., Limited* (TCL新技術(惠州)有限公司, a subsidiary of CI Tech) at the consideration of RMB80.09 million;
- (ii) the conditional share transfer agreement dated 29 June 2020 entered into among Zhengjia Investment, T.C.L. Industries (H.K.) and the Company relating to the acquisition of the entire equity interest in TCL Communication by the Company from Zhengjia Investment at the total consideration of RMB1.5 billion (for details, please refer to the announcement and circular of the Company dated 29 June 2020 and 30 June 2020 respectively);
- (iii) the conditional share transfer agreement dated 29 June 2020 entered into between the Company and T.C.L. Industries (H.K.) for the disposal of the entire equity interest in Moka International by the Company to T.C.L. Industries (H.K.) at the total consideration of RMB2.5 billion (for details, please refer to the announcement and circular of the Company dated 29 June 2020 and 30 June 2020 respectively);
- (iv) the deed dated 29 June 2020 entered into among TCL Technology, T.C.L. Industries (H.K.) and the Company pursuant to which the parties agreed to terminate the Deed of Non-Competition (1999) and variation deeds in relation thereto (for details, please refer to the announcement and circular of the Company dated 29 June 2020 and 30 June 2020 respectively);
- (v) the deed dated 29 June 2020 entered into among TCL Holdings, T.C.L. Industries (H.K.) and the Company in favour of the Company whereby each of TCL Holdings and T.C.L. Industries (H.K.) has undertaken not to (save for certain exception) directly or indirectly carry on or be engaged or interested in the manufacture and assembly of TCL brand TVs and smart phones (for details, please refer to the announcement and circular of the Company dated 29 June 2020 and 30 June 2020 respectively);

- (vi) the share purchase agreement dated 3 June 2020 entered into among TCL NL (as purchaser), STA (as seller), SEMP TCL (as intervening-consenting party), ABH (as intervening consenting party) and OCE (as intervening-consenting party) for the acquisition of 40% equity interest in SEMP TCL at a maximum consideration of approximately 325,407,278.84 Brazilian Reals (for details, please refer to the announcements of the Company dated 3 June 2020 and 21 July 2020 respectively);
- (vii) the private instrument of commitment of sale and purchase of real estate and equipment dated 3 June 2020 entered into among SEMP TCL (as purchaser), STA (as seller), TCL NL (as intervening consenting party), OCE (as intervening consenting party) and ABH (as intervening consenting party) in relation to the acquisition of two plots of land, all respective buildings and constructions and equipment by SEMP TCL from STA at a consideration of approximately 55,000,000 Brazilian Reals (for details, please refer to the announcements of the Company dated 3 June 2020 and 21 July 2020 respectively); and
- (viii) the shareholders' agreement dated 20 July 2020 entered into among TCL NL, STA, SEMP TCL (as intervening-consenting party) and ABH (as intervening consenting party) in relation to, among others, the grant of put option to STA and call option to TCL NL regarding 20% equity interest in SEMP TCL held by STA (for details, please refer to the announcements of the Company dated 3 June 2020 and 21 July 2020 respectively);
- (ix) the public deed of purchase and sale of the property dated 20 July 2020 entered into among STA, SEMP TCL and Superintendência da Zona Franca de Manaus (Manaus Free Trade Zone Authority, a local governmental authority of Brazil) in relation to the completion of the transaction mentioned in paragraph (vii) above (for details, please refer to the announcements of the Company dated 3 June 2020 and 21 July 2020 respectively).

10. MISCELLANEOUS

- (a) The registered office of the Company is situated at P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of the Company in Hong Kong is at 7th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The joint company secretaries of the Company are Mr. HU Dien Chien, an executive Director and the chief financial officer of the Company, and 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.

11. DOCUMENTS ON DISPLAY

Electronic copies of the following documents are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://electronics.tcl.com>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the Master Sale and Purchase (2022-2024) Agreement;
- (b) the Master Services (2022-2024) Agreement;
- (c) the Master Financial (2022-2024) Agreement;
- (d) the Master Brand Promotion (2022-2024) Agreement;
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter from Pelican Financial Limited, the Independent Financial Adviser, the text of which is set out in this circular; and
- (g) the written consent from Pelican Financial Limited referred to in the section headed “Expert and Consent” in this appendix.

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

(1) Ms. DU JUAN

Ms. DU Juan, born in May 1970, is the chairperson of the Board, an executive Director and the chairperson of the strategy committee of the Company. Ms. DU Juan graduated from the Department of Investments of Zhongnan University of Economics and Law (bachelor's degree), and obtained an executive master of business administration (“EMBA”) degree from Cheung Kong Graduate School of Business. From July 1991 to May 1999, she worked in the Huizhou branch of China Construction Bank Corporation; and in May 1999, she joined TCL Corporation. Ms. DU Juan has successively worked as the general manager of the settlement centre of TCL Corporation, the general manager of TCL Finance Co., Ltd.* (TCL集團財務有限公司), the president and the chairperson of the board of directors of TCL Financial Services Holdings Group (Guangzhou) Company Limited* (TCL金服控股集團(廣州)有限公司); from July 2016 to February 2018 she was a vice president of TCL Technology; from March 2018 to August 2021, she was an executive director and the chief operating officer of TCL Technology; from January 2019 to August 2021, she also took up the role of the chief financial officer of TCL Technology; from October 2019 to October 2021, she was a non-executive director of Bank of Shanghai Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange, stock code: 601229.SH). Ms. DU Juan is currently a director and the general manager of TCL Holdings, and a non-executive director of TCL Technology.

As at the Latest Practicable Date, Ms. DU Juan is interested or is deemed to be interested in 264,075 Shares within the meaning of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, Ms. DU Juan (i) does not hold any other positions in the Company or any other members of the Group; (ii) has not held any other directorships at present or in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have other major appointments or professional qualifications; (iii) has no interest in the Shares within the meaning of Part XV of SFO; and (iv) does not have any relationships with any other Directors, senior management or any substantial or controlling shareholders of the Company.

Ms. DU Juan has entered into a service agreement with the Company for an initial term of three years commencing on 9 August 2021, which will be automatically renewed for a further term of one year each unless terminated by at least three months' written notice served by either party to the other party, subject to election at general meeting and retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles or the Listing Rules. Pursuant to the terms of the service agreement, Ms. DU Juan is not entitled to any directors' fee, subject to annual review by the Remuneration Committee, but she is entitled to receive discretionary bonus payment or other benefits as may be determined by the Remuneration Committee with reference to her experience, duties and responsibilities within the Company as well as the Company's performance and prevailing market conditions.

Save as disclosed above, as at the Latest Practicable Date, there is no other information required to be disclosed nor is/was Ms. DU Juan involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(w) of the Listing Rules. The Board is not aware of any other matters in relation to her election which need to be brought to the attention of the Shareholders.

(2) Mr. WANG Cheng

Mr. WANG Cheng, born in November 1974, is a non-executive Director. Mr. WANG Cheng joined the Company in July 1997. During 1997 to 2006, he held various positions in human resources department of the Company's sales company and Europe channel customer department of strategic OEM business centre of TTE Corporation (a subsidiary of the Company). From 2006 to 2015, he successively worked as general manager of TCL (Vietnam) Corporation Limited (a then subsidiary of the Company), general manager of overseas business centre and vice president of the Company. From June 2015 to July 2016, Mr. WANG Cheng was assigned as human resources director and general manager of human resource management centre of TCL Technology. From August 2016 to November 2017, Mr. WANG Cheng was the general manager of supply chain management centre and chief operating officer of the Company. From January 2019 to August 2021, Mr. WANG Cheng was the general manager of TCL Holdings. Mr. WANG Cheng has been the chief operating officer of TCL Technology and a director of TCL Holdings since August 2021 and a director of Amlogic (Shanghai) Co., Ltd.* (晶晨半導體(上海)股份有限公司) (the shares of which are listed on the sci-tech innovation board of the Shanghai Stock Exchange, stock code: 688099.SH). Mr. WANG Cheng is also currently the chairman of Huizhou Electronic Information Industry Association. Mr. WANG Cheng graduated from Heilongjiang Commercial College in 1997 with a Bachelor's Degree in Economics. In 2005, he acquired an EMBA degree from University of Texas at Arlington.

As at the Latest Practicable Date, Mr. WANG Cheng is interested or is deemed to be interested in Shares within the meaning of Part XV of the SFO as follows:

- (a) 3,697,954 Shares;
- (b) share options carrying rights to subscribe for 5,142,206 Shares; and
- (c) 7,625,290 unvested restricted shares of the Company granted under the Share Award Scheme.

Save as disclosed above, as at the Latest Practicable Date, Mr. WANG Cheng (i) does not hold any other positions in the Company or any other members of the Group; (ii) has not held any other directorships at present or in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas and does not have other major appointments or professional qualifications; (iii) has no interest in the shares of the Company within the meaning of Part XV of SFO; and (iv) does not have any relationships with any other Directors, senior management or any substantial or controlling shareholders of the Company.

Mr. WANG Cheng has entered into a letter of appointment with the Company for an initial term of three years commencing on 9 August 2021, subject to election at general meeting and retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles or the Listing Rules. Pursuant to the terms of the letter of appointment, Mr. WANG Cheng is not entitled to any directors' fee, subject to annual review by the Remuneration Committee, but he is entitled to receive discretionary bonus payment or other benefits as may be determined by the Board based on the recommendation by the Remuneration Committee with reference to his experience, duties and responsibilities within the Company as well as the Company's performance and prevailing market conditions.

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

OTHER INFORMATION

If elected at the EGM, all the aforesaid Directors, subject to the terms agreed otherwise which expire earlier, will be subject to the rotation, removal, vacation or termination of such offices as set out in the Articles or the disqualification to act as a Director under the Articles, the laws of the Cayman Islands and the Listing Rules. Save as disclosed herein, the above Directors did not in the past three years up to the Latest Practicable Date hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas, did not as at the Latest Practicable Date have other major appointments and professional qualifications, any interests in the Shares within the meaning of Part XV of the SFO and any relationship with any other Directors, senior management or any substantial or controlling Shareholders, and there is no information which is discloseable or are/were the above Directors to be elected involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(w) of the Listing Rules, and the Board is not aware of any other matters which need to be brought to the attention of the Shareholders.

NOTICE OF EGM



TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of TCL 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 10 December 2021, Friday, at 2:30 p.m., to consider and, if thought fit, pass the following ordinary resolutions (with or without modifications):

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the Master Sale and Purchase (2022-2024) Agreement (as defined in the circular of the Company dated 22 November 2021 (the “**Circular**”)), the terms and the transactions contemplated thereunder (a copy of the agreement has been produced to the meeting and marked “A” and initialed by the chairperson 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 2024 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 (2022-2024) Agreement or the transactions contemplated thereunder.”

2. “**THAT**

- (a) the Master Services (2022-2024) Agreement (as defined in the Circular), the terms and the transactions contemplated thereunder (a copy of the agreement has been produced to the meeting and marked “B” and initialed by the chairperson 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 2024 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 Services (2022-2024) Agreement or the transactions contemplated thereunder.”

NOTICE OF EGM

3. **“THAT**

- (a) the Master Financial (2022-2024) Agreement (as defined in the Circular), the terms and the transactions contemplated thereunder (a copy of the agreement has been produced to the meeting and marked “C” and initialed by the chairperson 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 2024 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 Financial (2022-2024) Agreement or the transactions contemplated thereunder.”

4. **“THAT**

- (a) the Master Brand Promotion (2022-2024) Agreement (as defined in the Circular), the terms and the transactions contemplated thereunder (a copy of the agreement has been produced to the meeting and marked “D” and initialed by the chairperson 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 2024 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 (2022-2024) Agreement or the transactions contemplated thereunder.”

5. **“THAT**

Ms. DU Juan be elected as an executive director of the Company.”

6. **“THAT**

Mr. WANG Cheng be elected as a non-executive director of the Company until the conclusion of the annual general meeting of the Company of 2024.”

On behalf of the Board
DU Juan
Chairperson

Hong Kong, 22 November 2021

NOTICE OF EGM

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/its 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/its 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 Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, 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. The record date for determining the entitlements of the shareholders to attend and vote at the EGM is 7 December 2021, Tuesday. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, by no later than 4:30 p.m. on 7 December 2021, Tuesday.
4. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
5. Shareholders of the Company should note that the EGM will be held as scheduled when typhoon signal no. 8 (or above) or black rainstorm warning signal or "extreme conditions" as defined under Chapter 1 of the Rules of the Exchange of The Stock Exchange of Hong Kong Limited is in force. In such event, shareholders of the Company should make their own decision as to whether they would attend the meeting under bad weather conditions bearing in mind their own situations and if they should choose to do so, they are advised to exercise care and caution.
6. In view of the recent development of the pandemic caused by coronavirus disease 2019 (COVID-19), and in order to better protect the safety and health of the shareholders of the Company, a series of pandemic precautionary measures will be implemented at the venue of the EGM:
 - (i) compulsory body temperature check will be conducted for every person at the entrance of the venue of EGM. Any person with a body temperature of over 37.5 degree Celsius will not be admitted to the venue;
 - (ii) every person is required to wear facial mask at the venue of the EGM;
 - (iii) seating in the EGM venue will be arranged so as to allow for appropriate social distancing; and
 - (iv) no refreshments will be served at the EGM.

Subject to the development of the COVID-19 pandemic and in compliance with applicable laws and regulations, the Company may implement further precautionary measures at the EGM.

The Company wishes to remind its shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly advises the shareholders to appoint the chairperson of the EGM as a proxy to vote on relevant resolution(s) as instructed in accordance with the relevant proxy form as an alternative to attending the EGM in person in light of the continuing risks posed by the COVID-19 pandemic. For more details, please refer to the proxy form for the EGM.

NOTICE OF EGM

Shareholders of the Company and other participants who will attend the EGM in person are advised to (a) consider carefully the risk of attending the EGM, which will be held in an enclosed environment; (b) follow and comply with any laws, regulations, guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic; and (c) not to attend the EGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

As at the date of this notice, the Board comprises Ms. DU Juan, Mr. YAN Xiaolin and Mr. HU Dien Chien as executive directors of the Company, Mr. WANG Cheng, Mr. Albert Thomas DA ROSA, Junior, Mr. SUN Li and Mr. LI Yuhao as non-executive directors of the Company and Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki as independent non-executive directors of the Company.