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TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

CONNECTED TRANSACTION – DISPOSAL OF EQUITY INTEREST IN HUIZHOU KUYU

DISPOSAL OF EQUITY INTEREST IN HUIZHOU KUYU

On 27 September 2023 (after trading hours), Huizhou TCL Mobile (an indirect wholly-owned subsidiary of the Company) entered into the Equity Transfer Agreement with TCL Holdings, pursuant to which Huizhou TCL Mobile agreed to sell, and TCL Holdings agreed to purchase, the Target Equity Interest representing 10% equity interest in and of Huizhou Kuyu at the consideration of RMB51 million (equivalent to approximately HK\$55.72 million).

As at the date of this announcement, Huizhou Kuyu was held as to 26% by the Group through King Electrical (an indirect wholly-owned subsidiary of the Company) and Huizhou TCL Mobile in aggregate, and as to 74% by TCL Holdings. Upon Completion of the Disposal, the Group will only hold 16% equity interest in and of Huizhou Kuyu through King Electrical, and Huizhou Kuyu will cease to be an associate company of the Company and its results and net assets will no longer be accounted for using the equity method in the consolidated financial statements of the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, 1,374,856,288 Shares, representing approximately 54.83% 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. Accordingly, 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.), it is an associate of T.C.L. Industries (H.K.) and therefore also a connected person of the Company under Chapter 14A of the Listing Rules. The transaction contemplated under the Equity Transfer Agreement therefore constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in relation to the Disposal under the Equity Transfer Agreement exceed 0.1% but all are less than 5%, the entering into of the Equity Transfer Agreement and the connected transaction contemplated thereunder are exempted from the circular (including independent financial advice) and Shareholders' approval under Rule 14A.76(2)(a) of the Listing Rules but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The appraisal value for 100% equity interest in and of Huizhou Kuyu was determined under the income approach. Since Huizhou Kuyu is not a subsidiary of the Company before or after the Disposal, the appraisal will not constitute the profit forecast under Rules 14.60A, 14.62 and 14A.68(7) of the Listing Rules.

DISPOSAL OF EQUITY INTEREST IN HUIZHOU KUYU

Introduction

On 27 September 2023 (after trading hours), Huizhou TCL Mobile (an indirect wholly-owned subsidiary of the Company) entered into the Equity Transfer Agreement with TCL Holdings, pursuant to which Huizhou TCL Mobile agreed to sell, and TCL Holdings agreed to purchase, the Target Equity Interest representing 10% equity interest in and of Huizhou Kuyu at the consideration of RMB51 million (equivalent to approximately HK\$55.72 million).

As at the date of this announcement, Huizhou Kuyu was held as to 26% by the Group through King Electrical (an indirect wholly-owned subsidiary of the Company) and Huizhou TCL Mobile in aggregate, which held 16% and 10% equity interest in and of Huizhou Kuyu respectively, and as to 74% by TCL Holdings, and therefore was an associate company of the Company and its results and net assets were accounted for using the equity method in the consolidated financial statements of the Company. Upon Completion of the Disposal, the Group will only hold 16% equity interest in and of Huizhou Kuyu through King Electrical, and Huizhou Kuyu will cease to be an associate company of the Company and its results and net assets will no longer be accounted for using the equity method in the consolidated financial statements of the Company.

The principal terms of the Equity Transfer Agreement are summarised below:

- Date:** 27 September 2023 (after trading hours)
- Parties:** (i) Huizhou TCL Mobile (as vendor); and
(ii) TCL Holdings (as purchaser).
- Subject matter:** Pursuant to the Equity Transfer Agreement, Huizhou TCL Mobile agreed to sell, and TCL Holdings agreed to purchase, the Target Equity Interest representing 10% equity interest in and of Huizhou Kuyu.
- Consideration:** The consideration for the Disposal shall be RMB51 million (equivalent to approximately HK\$55.72 million).
- Each of the parties shall bear taxes in relation to the Disposal in accordance with applicable laws and regulations.
- Payment terms:** The entire consideration shall be paid in cash in one lump sum to Huizhou TCL Mobile within 30 days after the entering into of the Equity Transfer Agreement.

Completion of the Disposal

The Completion shall take place on the Completion Date, being the date on which TCL Holdings pays the entire consideration in full to Huizhou TCL Mobile.

Upon Completion of the Disposal, the equity interest in Huizhou Kuyu shall be held as to 84% by TCL Holdings and 16% by King Electrical, respectively.

Within 60 days (or such period as agreed in writing by both parties) after the entering into of the Equity Transfer Agreement, both parties shall procure Huizhou Kuyu to amend its articles of association and complete all necessary registration with the relevant administration for industry and commerce in the PRC in respect of the Disposal.

Basis of the consideration for the Disposal

The consideration for the Disposal was determined after arm's length negotiations between the parties to the Equity Transfer Agreement with reference to the valuation of 100% equity interest in and of Huizhou Kuyu as at 30 April 2023, which was approximately RMB510 million (equivalent to approximately HK\$557.18 million). In view of the business nature of Huizhou Kuyu, the valuation was determined in accordance with the discounted cash flow method under the income approach, as set out in the valuation report prepared by an independent valuer in the PRC, so as to better reflect the future profit generation capability, overall asset portfolio and business advantages of Huizhou Kuyu. The main assumptions made in the valuation include (i) the equity interest of Huizhou Kuyu is already a subject of a transaction; (ii) the equity interest of Huizhou Kuyu can be traded in the market; (iii) Huizhou Kuyu will continue to operate according to its current business and management models; and (iv) there is no material change as to economic and social policies and environment, etc.

Information on Huizhou Kuyu

Huizhou Kuyu is a company established under the laws of the PRC with limited liability. It is principally engaged in e-commerce, advertising, marketing planning, enterprise management consultation, export and import trading and sales of electronic devices, household appliances, telecommunications products, electrical components and computer software and hardware, etc. As at the date of this announcement, Huizhou Kuyu is held as to 74% by TCL Holdings, 16% by King Electrical and 10% by Huizhou TCL Mobile.

Set out below is the financial information of Huizhou Kuyu Group for the financial years ended 31 December 2022 and 31 December 2021 respectively as extracted from its unaudited consolidated management financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises:

	For the year ended	
	31 December 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	13,869,981	11,007,382
Net profit/(loss) before tax	(2,511)	73,051
Net profit/(loss) after tax	(2,544)	73,009

	Balance as at	
	31 December 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	3,276,371	2,297,571
Net assets	22,332	24,914

According to the unaudited consolidated management financial statements of Huizhou Kuyu Group, the unaudited total net liabilities of Huizhou Kuyu Group as at 31 August 2023 was approximately RMB57,463,000.

Financial effects and use of proceeds of the Disposal

After Completion of the Disposal, Huizhou Kuyu will cease to be an associate company of the Company and its results and net assets will no longer be accounted for using the equity method in the consolidated financial statements of the Company. The remaining 16% equity interest in Huizhou Kuyu held by the Group through King Electrical will be accounted for as equity investments designated at fair value through other comprehensive income in the consolidated financial statements of the Group in accordance with Hong Kong Financial Reporting Standard 9 *Financial Instruments*.

As a result of the Disposal, the Group is expected to recognise an aggregate gain of approximately HK\$18.41 million, including (i) a gain of approximately HK\$7.08 million on completion of the Disposal, which is calculated on the basis of the difference between the total consideration of the Disposal receivable by the Group and the carrying amount of the Target Equity Interest as at 31 August 2023; and (ii) a gain of approximately HK\$11.33 million due to reclassifying the remaining 16% equity interest of Huizhou Kuyu held by the Group from associate company to equity investments designated at fair value through other comprehensive income. The actual amount of gain or loss as a result of the Disposal to be recorded by the Group will be subject to review and final audit by the auditor of the Group. The Group expects to receive net proceeds of approximately RMB51 million (equivalent to approximately HK\$55.72 million) before tax from the Disposal. The Group currently intends to use the proceeds from the Disposal as general working capital.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As at the date of this announcement, the businesses of Huizhou Kuyu mainly involve online distribution of TV, air-conditioners, refrigerators and other household appliances. It also provides online distribution services to the Group. As part of its effort in streamlining its operations and optimising channel layout, the Group would like to reduce its stake in Huizhou Kuyu, so as to achieve further enhancement of internal resources management and operational efficiency. The consideration of the Disposal was determined based on the appraisal value of 100% equity interest in and of Huizhou Kuyu, which well exceeds its current net asset value, and therefore it is beneficial to the Company to realise part of its investment in Huizhou Kuyu through the Disposal. After the completion of the Disposal, the Group will still utilise the online distribution services provided by Huizhou Kuyu as usual.

Further, it is expected that the Group would receive net proceeds of approximately HK\$55.72 million before tax from the Disposal, thereby increasing the net assets of the Group and reducing its debt-to-asset ratios, as well as further enhancing the overall quality and efficiency of the operating assets of the Group.

In light of the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement and the transaction contemplated thereunder, although not in the ordinary and usual course of business of the Group, are fair and reasonable, on normal commercial terms or better, and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, 1,374,856,288 Shares, representing approximately 54.83% 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. Accordingly, 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.), it is an associate of T.C.L. Industries (H.K.) and therefore also a connected person of the Company under Chapter 14A of the Listing Rules. The transaction contemplated under the Equity Transfer Agreement therefore constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in relation to the Disposal under the Equity Transfer Agreement exceed 0.1% but all are less than 5%, the entering into of the Equity Transfer Agreement and the connected transaction contemplated thereunder are exempted from the circular (including independent financial advice) and Shareholders' approval under Rule 14A.76(2)(a) of the Listing Rules but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The appraisal value for 100% equity interest in and of Huizhou Kuyu was determined under the income approach. Since Huizhou Kuyu is not a subsidiary of the Company before or after the Disposal, the appraisal will not constitute the profit forecast under Rules 14.60A, 14.62 and 14A.68(7) of the Listing Rules.

Notwithstanding the respective interest and/or roles of certain Directors in TCL Holdings Group, in particular, as at the date of this announcement, (i) Ms. DU Juan is also a director and the chief executive officer 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 transaction contemplated under the Equity Transfer Agreement, therefore all Directors are entitled to vote on the Board resolutions for considering and approving the Equity Transfer Agreement and the Disposal pursuant to the articles of association of the Company.

GENERAL INFORMATION OF THE PARTIES

The Group is principally engaged in display business, innovative business and internet business. For more information on the Group, please visit its official website at <http://electronics.tcl.com> (the information that appears in this website does not form part of this announcement).

TCL Holdings is an investment holding company with a diverse investment portfolio. Its investments are principally in the business of development, manufacturing and distribution of audio/video products, electronic products, communication equipment, home appliances, provision of cloud video conferencing services, intelligent manufacturing solutions, solid waste dismantling and disposal, development and leasing of buildings and industrial parks, supply chain finance, etc. As at the date of this announcement, TCL Holdings, through its wholly-owned subsidiary T.C.L. Industries (H.K.), holds approximately 54.83% of the issued Shares and is the ultimate controlling shareholder of the Company. As at the date of this announcement, the shareholding structure of TCL Holdings is as follows:

Shareholders	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))	32.34%
Ningbo Lida Zhiyu Enterprise Management Co., Ltd.* (寧波礪達致宇企業管理有限公司)	24.25%
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.)* (深圳市啟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.

As at the date of this announcement, Huizhou TCL Mobile is an indirect wholly-owned subsidiary of the Company and is principally engaged in manufacturing and sales of mobile devices, industrial robots, smart robots, smart vehicle equipment, smart wearable equipment, audio devices, smart household consumer devices and telecommunications equipment and development and sales of software, etc.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	TCL Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01070);
“Completion”	the completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement;
“Completion Date”	the date on which the Completion shall take place;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Disposal”	the disposal of the Target Equity Interest pursuant to the terms and conditions of the Equity Transfer Agreement;
“Equity Transfer Agreement”	the equity transfer agreement dated 27 September 2023 entered into between Huizhou TCL Mobile and TCL Holdings;
“Group”	the Company and its subsidiaries;

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huizhou Kuyu”	Huizhou Kuyu Network Technology Co., Ltd.* (惠州酷友網絡科技有限公司), a company established under the laws of the PRC with limited liability and a subsidiary of TCL Holdings;
“Huizhou Kuyu Group”	Huizhou Kuyu and its subsidiaries;
“Huizhou TCL Mobile”	Huizhou TCL Mobile Communication Co., Ltd.* (惠州TCL移動通信有限公司), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company;
“King Electrical”	TCL King Electrical Appliances (Huizhou) Company Limited* (TCL王牌電器(惠州)有限公司), a company established under the laws of the PRC with limited liability and an indirect subsidiary of the Company;
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	share(s) of the Company;
“Shareholder(s)”	holder(s) of Share(s);
“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;
“Target Equity Interest”	the 10% equity interest in and of Huizhou Kuyu held by Huizhou TCL Mobile immediately prior to the entering into of the Equity Transfer Agreement;

“TCL Associate(s)”	the associate(s) of TCL Holdings;
“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 Group”	TCL Holdings and its subsidiaries and any entity that may become subsidiary of TCL Holdings from time to time;
“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;
“TV”	television(s); and
“%”	per cent.

On behalf of the Board
DU Juan
Chairperson

Hong Kong, 27 September 2023

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

For the purposes of this announcement, the exchange rate of RMB1.00 = HK\$1.0925 has been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in RMB or HK\$ has been, could have been or may be converted at such a rate.

As at the date of this announcement, the Board comprises Ms. DU Juan, Mr. YAN Xiaolin and Mr. HU Dien Chien as executive Directors, Mr. WANG Cheng, Mr. SUN Li and Mr. LI Yuhao as non-executive Directors and Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki as independent non-executive Directors.