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## THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of the Mandatory General Offer, this Composite Document and/or the accompanying Form(s) of Acceptance or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Tonly Electronics Holdings Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms and conditions of the Mandatory General Offer contained in this Composite Document.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to their 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 Composite Document and the accompanying Form(s) of Acceptance.

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**TCL Industries Holdings Co., Ltd.\***  
(TCL實業控股股份有限公司)  
(Incorporated in the PRC with limited liability)

**T.C.L. Industries Holdings (H.K.) Limited**  
(Incorporated in Hong Kong with limited liability)



**TONLY ELECTRONICS HOLDINGS LIMITED**  
通力電子控股有限公司  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 01249)

**COMPOSITE DOCUMENT RELATING TO  
THE MANDATORY CONDITIONAL CASH OFFERS BY UBS AG,  
HONG KONG BRANCH ON BEHALF OF  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED,  
A WHOLLY-OWNED SUBSIDIARY OF  
TCL INDUSTRIES HOLDINGS CO., LTD.\*,  
TO ACQUIRE ALL THE ISSUED SHARES OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
TCL INDUSTRIES HOLDINGS CO., LTD.\*,  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED  
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

**AND  
FOR CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE HELD BY PERSONS ACTING IN CONCERT WITH  
TCL INDUSTRIES HOLDINGS CO., LTD.\* AND/OR  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED)**

**Financial Adviser to TCL Industries Holdings Co., Ltd.\* and  
T.C.L. Industries Holdings (H.K.) Limited**



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



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "DEFINITIONS" in this Composite Document.

A letter from UBS containing, amongst other things, details of the terms and conditions of the Mandatory General Offer is set out on pages 8 to 29 of this Composite Document. A letter from the Board is set out on pages 30 to 41 of this Composite Document. A letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and Optionholders on the Mandatory General Offer is set out on pages 42 to 44 of this Composite Document. A letter from the Independent Financial Adviser containing its recommendation and advice to the Independent Board Committee on the Mandatory General Offer is set out on pages 45 to 67 of this Composite Document.

The procedures for acceptance and settlement of the Mandatory General Offer are set out in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Form(s) of Acceptances of the Mandatory General Offer should be received by the Registrar (in relation to the Share Offer) or the company secretary of the Company (in relation to the Option Offer) by no later than 4:00 p.m. on Friday, 13 December 2019 or such later time and/or date as the Purchaser and Offeror may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "IMPORTANT NOTICES" contained in this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder and Overseas Optionholder wishing to accept the Mandatory General Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. Overseas Shareholders and Overseas Optionholders are advised to seek professional advice on deciding whether to accept the Mandatory General Offer.

This Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.tonlyele.com/> as long as the Mandatory General Offer remains open.

22 November 2019

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## **IMPORTANT NOTICES**

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### **NOTICE TO SHAREHOLDERS AND OPTIONHOLDERS OUTSIDE HONG KONG**

The making of the Mandatory General Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders and Overseas Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Mandatory General Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. The Purchaser, the Offeror, UBS and any other person involved in the Mandatory General Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please see the paragraph headed “OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS” in the “LETTER FROM UBS”.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Purchaser, Offeror and the Company assume no obligation and do not intend to update these forward-looking statements, except as required pursuant to applicable laws and regulations (including the Takeovers Code).

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and may be subject to change. Any change to the timetable will be jointly announced by the Purchaser, the Offeror and the Company as and when appropriate. Unless otherwise specified, all times and dates contained in this Composite Document refer to Hong Kong local time and dates.*

Despatch date of this Composite Document and  
the accompanying Forms of Acceptance (*Note 1*) . . . . . Friday, 22 November 2019

Commencement date of the Mandatory General Offer (*Note 1*) . . . . . Friday, 22 November 2019

Latest time and date for acceptance of the Mandatory General Offer  
on the first Closing Date (*Notes 2*) . . . . . by 4:00 p.m. on Friday,  
13 December 2019

Announcement of the results of the Mandatory General Offer  
as at the first Closing Date, to be posted  
on the Stock Exchange's website (*Note 2*) . . . . . by 7:00 p.m. on Friday,  
13 December 2019

Latest date of posting of remittances for the amounts due  
in respect of valid acceptances received under  
the Mandatory General Offer on or before 4:00 p.m.  
on the first Closing Date assuming the Mandatory General Offer  
becomes or is declared unconditional  
on the first Closing Date (*Note 3*) . . . . . Tuesday, 24 December 2019

Latest time and date for the Mandatory General Offer  
remaining open for acceptance on the final  
Closing Date assuming the Mandatory General Offer  
becomes or is declared unconditional  
on the first Closing Date (*Notes 4, 6, 7, 8*) . . . . . by 4:00 p.m. on Friday,  
27 December 2019

Announcement of the results of the Mandatory General Offer  
as at the final Closing Date, to be posted  
on the Stock Exchange's website . . . . . by 7:00 p.m. on Friday,  
27 December 2019

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## EXPECTED TIMETABLE

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Latest date of posting of remittances for the amounts  
due in respect of valid acceptances received  
under the Mandatory General Offer after the first Closing Date  
but on or before 4:00 p.m. on Friday, 27 December 2019,  
being the latest date on which the Mandatory General Offer  
remains open for acceptances assuming the Mandatory General Offer  
becomes or is declared unconditional  
on the first Closing Date (*Notes 3, 6*) . . . . . Wednesday, 8 January 2020

Latest time and date by which the Mandatory General Offer  
can become or declared unconditional  
as to acceptances (*Note 5*) . . . . . by 7:00 p.m. on Tuesday,  
21 January 2020

*Notes:*

- 1) The Mandatory General Offer, which is conditional, is open for acceptance on and from Friday, 22 November 2019, being the date of posting of this Composite Document, and is capable of acceptance on and from that date until 4:00 p.m. on the first Closing Date, unless the Purchaser and the Offeror revise or extend the Mandatory General Offer in accordance with the Takeovers Code.
- 2) The Mandatory General Offer will initially remain open for acceptances for at least 21 days following the date on which this Composite Document is posted and until 4:00 p.m. on Friday, 13 December 2019 unless the Purchaser and the Offeror revise or extend the Mandatory General Offer in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Mandatory General Offer until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). In accordance with the Takeovers Code, an announcement must be issued on the website of the Stock Exchange no later than 7:00 p.m. on Friday, 13 December 2019 stating whether the Mandatory General Offer has been revised or extended, has expired or has become or been declared unconditional. The Purchaser and the Offeror will issue an announcement in relation to any extension of the Mandatory General Offer, which announcement will state either the next Closing Date or, if the Mandatory General Offer is at that time unconditional as to acceptances, a statement that the Mandatory General Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Mandatory General Offer is closed to those Shareholders and Optionholders who have not accepted the Mandatory General Offer. The Mandatory General Offer will not be extended beyond the first Closing Date unless the Mandatory General Offer becomes unconditional and the Mandatory General Offer would then remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.
- 3) Subject to the Mandatory General Offer becoming unconditional, remittances in respect of the cash consideration for the Offer Shares tendered under the Mandatory General Offer will be despatched to the accepting Shareholder(s) and/or Optionholder(s) (to the address specified on the relevant Forms of Acceptance) by ordinary post at his/her/its own risk as soon as possible, but in any event within seven (7) Business Days following the later of the date of receipt by the Registrar (in the case of the Share Offer) and/or the company secretary of the Company (in the case of Option Offer) of all the relevant documents to render the acceptance under the Mandatory General Offer complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, and the date on which the Mandatory General Offer becomes or is declared unconditional in all respects.

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## EXPECTED TIMETABLE

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- 4) In accordance with the Takeovers Code, where the Mandatory General Offer becomes or is declared unconditional in all respects, the Mandatory General Offer should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Mandatory General Offer is closed. The Offeror has the right, subject to the Takeovers Code, to extend the Mandatory General Offer until such date as it may determine or as permitted by the Executive, in accordance with the Takeovers Code. The Purchaser and the Offeror will issue an announcement in relation to any extension of the Mandatory General Offer, which will state the next Closing Date or, if the Mandatory General Offer has become or is unconditional at that time, then the Mandatory General Offer will remain open until further notice. **The Mandatory General Offer will not be extended beyond the first Closing Date unless the Mandatory General Offer becomes unconditional and the Mandatory General Offer would then remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.**
- 5) In accordance with the Takeovers Code, except with the consent of the Executive, the Mandatory General Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on Tuesday, 21 January 2020, being the 60th day after the day this Composite Document is posted. Accordingly, unless the Mandatory General Offer has previously become unconditional as to acceptances, the Mandatory General Offer will lapse on Tuesday, 21 January 2020 unless extended with the consent of the Executive and in accordance with the Takeovers Code. Therefore, the last day by which the Mandatory General Offer can become or be declared unconditional in all respects is Tuesday, 21 January 2020.
- 6) The latest time and date for acceptance of the Mandatory General Offer and the latest date for posting of remittances for the amounts due under the Mandatory General Offer in respect of valid acceptances will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black rainstorm warning", in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Mandatory General Offer and the latest date for posting of remittances for the amounts due under the Mandatory General Offer in respect of valid acceptances. Instead, the latest time for acceptance of the Mandatory General Offer and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.
- 7) Beneficial owners of the Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.
- 8) Acceptance of the Mandatory General Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code which is administered by the Executive.

Save as mentioned above, if the latest time for the acceptance of the Mandatory General Offer and the posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Purchaser, the Offeror and the Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

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## DEFINITIONS

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*In this Composite Document, the following expressions shall have the following meanings unless the context otherwise requires:*

“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“associate(s)”	has the same meaning ascribed to it under the Takeovers Code
“Awarded Shares”	the Shares awarded under the Restricted Share Award Scheme from time to time which have not been vested to the Grantee(s)
“Board”	the board of Directors
“Business Day(s)”	the day(s) on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited
“Closing Date”	Friday, 13 December 2019, being the first closing date of the Mandatory General Offer, or any subsequent closing date(s) of the Mandatory General Offer if the Mandatory General Offer is extended or revised in accordance with the Takeovers Code
“Company”	Tonly 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: 01249)
“Composite Document”	this composite offer and response document jointly issued by the Purchaser, the Offeror and the Company to the Shareholders and Optionholders in connection with the Mandatory General Offer in compliance with the Takeovers Code
“Condition”	the condition of the Mandatory General Offer, as set out under the paragraph headed “Condition to the Mandatory General Offer” in the “LETTER FROM UBS” in this Composite Document
“control”	has the meaning ascribed to it under the Takeovers Code

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company
“Divested Segment”	the businesses that the Vendor spun off to the Purchaser as part of the Restructuring
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time or any delegate of such Executive Director
“exempt fund managers”	has the meaning ascribed to it under the Takeovers Code
“exempt principal traders”	has the meaning ascribed to it under the Takeovers Code
“Finance Company”	TCL Finance Co., Ltd.* (TCL集團財務有限公司), a company established in the PRC with limited liability and a subsidiary of the Vendor
“Finance Company (HK)”	TCL Finance (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability
“Forms of Acceptance”	the <b>WHITE</b> Form of Share Offer Acceptance and the <b>PINK</b> Form of Option Offer Acceptance accompanying this Composite Document, and “Forms of Acceptance” means either of them
“Grantees”	grantees of Awarded Shares under the Restricted Share Award Scheme
“Group”	the Company and its subsidiaries
“Guangdong Regency”	Guangdong Regency Optics-electron Co., Ltd.* (廣東瑞捷光電股份有限公司), a private company established in the PRC with limited liability, and an indirect subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special and Administrative Region of the PRC



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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board comprising three independent non-executive Directors, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, established in accordance with the Takeovers Code to give recommendations to the Independent Shareholders and the Optionholders as to whether the terms of the Mandatory General Offer are fair and reasonable and as to the acceptance of the Mandatory General Offer
“Independent Financial Adviser” or “Sommerley Capital”	Sommerley Capital Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the Mandatory General Offer
“Independent Shareholders”	Shareholders other than the Purchaser, the Offeror and parties acting in concert with any of them and which, for the avoidance of doubt, includes members of the UBS group which have been granted exempt principal trader or exempt fund manager status for the purpose of the Takeovers Code
“Joint Announcement”	the joint announcement dated 2 October 2019 jointly issued by the Purchaser, the Offeror and the Company in relation to, amongst other things, the Restructuring and the Mandatory General Offer
“Latest Practicable Date”	20 November 2019, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained herein
“Lida Tiancheng”	Huizhou Lida Tiancheng Investment Co., Ltd.* (惠州礪達天成投資有限公司), a limited liability company established in the PRC and the general partner of Lida Zhihui
“Lida Zhihui”	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)), a limited liability partnership established in the PRC and a controlling shareholder of the Purchaser

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mandatory General Offer”	collectively, the Share Offer and the Option Offer
“Offeror”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of the Purchaser and the immediate controlling shareholder of the Company as at the Latest Practicable Date
“Offer Period”	has the same meaning ascribed to it under the Takeovers Code
“Offer Share(s)”	all the issued Share(s) (other than those Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them)
“Option Offer”	the mandatory conditional cash offer made by UBS on behalf of the Offeror to cancel the outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) on the terms and conditions set out in this Composite Document in compliance with the Takeovers Code
“Option Offer Price”	the price for each Share Option payable by the Offeror to the Optionholders accepting the Option Offer
“Optionholder(s)”	holder(s) of the Share Option(s)
“Overseas Optionholder(s)”	Optionholder(s) whose addresses are outside Hong Kong
“Overseas Shareholder(s)”	Independent Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong
“ <b>PINK</b> Form of Option Offer Acceptance”	the <b>PINK</b> Forms of Acceptance and cancellation of all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) in respect of the Option Offer

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## DEFINITIONS

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“PRC”	the People’s Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Appraiser”	China United Assets Appraisal Group Co., Ltd.* (中聯資產評估集團有限公司), an appraisal institution with securities and futures related business evaluation qualification in the PRC
“PRC Appraiser (Shenzhen)”	Shenzhen China United Assets Appraisal Co., Ltd.* (深圳中聯資產評估有限公司), a subsidiary of the PRC Appraiser and an appraisal institution with assets and projects evaluation qualification in the PRC
“Purchaser”	TCL Industries Holdings Co., Ltd. * (TCL實業控股股份有限公司), a company incorporated in the PRC
“Registrar”	Tricor Investor Services Limited
“Relevant Period”	the period commencing six months prior to the date of the Joint Announcement (i.e. 2 April 2019) and up to the Latest Practicable Date
“Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 28 August 2014 as amended on 8 August and 7 September 2017
“Restructuring”	the series of transactions contemplated under the Restructuring Agreement
“Restructuring Agreement”	the Material Assets Sale Agreement dated 7 December 2018 entered into among the Purchaser, the Vendor and Vendor Affiliates in relation to the sale and purchase of all of the issued share capital of the Offeror and the Restructuring
“Restructuring Completion”	completion of the Restructuring for the transfer of all legal ownership in the assets of the Divested Segment on 31 March 2019
“SFC”	the Securities and Futures Commission of Hong Kong

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of par value HK\$1.00 each in the share capital of the Company
“Share Offer”	the mandatory conditional cash offer made by UBS on behalf of the Offeror to acquire the Offer Shares on the terms and conditions set out in this Composite Document and in compliance with the Takeovers Code
“Share Offer Price”	HK\$5.89 for each Offer Share payable by the Offeror to the Independent Shareholders accepting the Share Offer
“Share Option(s)”	the exercisable and not exercisable share options granted under the Share Option Scheme from time to time
“Share Option Scheme”	the share option scheme adopted by the Company on 17 April 2014
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“TCL Electronics”	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)
“TCL Group”	TCL Corporation (TCL集團股份有限公司), together with its subsidiaries, associates and investments before the Restructuring
“Trustee”	BOCI Prudential Trustee Limited, the trustee appointed by the Board for the administration of the Restricted Share Award Scheme

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## DEFINITIONS

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“UBS”	UBS AG (acting through its Hong Kong Branch), a registered institution under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the financial adviser to the Purchaser and the Offeror in relation to the Mandatory General Offer. UBS AG is incorporated in Switzerland with limited liability
“Vendor”	TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000100)
“Vendor Affiliates”	Huizhou TCL Light Electrical Appliances Co., Ltd.* (惠州TCL照明電器有限公司) and TCL Financial Holdings Group (Guangzhou) Co., Ltd.* (TCL金融控股集團(廣州)有限公司), both are wholly-owned by the Vendor
“ <b>WHITE</b> Form of Share Offer Acceptance”	the <b>WHITE</b> Forms of Acceptance and transfer of Shares in respect of the Share Offer
“%”	per cent

\* For identification purpose only

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LETTER FROM UBS

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**UBS AG**

Hong Kong Branch  
2 International Finance Centre  
52/F, 8 Finance Street  
Central, Hong Kong  
Tel. +852-2971-8888  
www.ubs.com

22 November 2019

*To the Independent Shareholders and Optionholders*

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY UBS AG,  
HONG KONG BRANCH ON BEHALF OF  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED,  
A WHOLLY-OWNED SUBSIDIARY OF  
TCL INDUSTRIES HOLDINGS CO., LTD.\*,  
TO ACQUIRE ALL THE ISSUED SHARES OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY THE PURCHASER, OFFEROR AND PARTIES  
ACTING IN CONCERT WITH ANY OF THEM)**

**AND**

**FOR CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE HELD BY PERSONS ACTING IN CONCERT WITH  
THE PURCHASER AND/OR THE OFFEROR)**

**INTRODUCTION**

References are made to the Joint Announcement in relation to, amongst other things, the Restructuring and the Mandatory General Offer.

**The Restructuring Agreement**

On 7 December 2018, the Vendor, Vendor Affiliates and Purchaser entered into the Restructuring Agreement, pursuant to which the Vendor and Vendor Affiliates agreed to sell and the Purchaser agreed to purchase all of the assets in the Divested Segment for a consideration of RMB 4.76 billion in cash. Included in the assets of the Divested Segment were all of the issued share capital of the Offeror, which owned approximately 48.68% of the issued share capital of the Company upon the Restructuring Completion.

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## LETTER FROM UBS

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The Purchaser understood the Restructuring to be an internal reorganisation of TCL and had been motivated by the Vendor's desire to deploy and streamline its financial, personnel and other resources in furthering its strategic focus on its principal businesses such as semiconductor display and materials. The Purchaser is interested in operating in the business of the Divested Segment by fully leveraging the experience and skillset of the Vendor's existing management team.

### **Completion of the Restructuring**

As of 31 March 2019, legal ownership of all assets in the Divested Segment was transferred to the Purchaser. The Offeror held 130,741,170 Shares, representing approximately 48.68% of the issued share capital of the Company as at Restructuring Completion.

As at the Latest Practicable Date, the Offeror held 130,741,170 Shares, representing approximately 48.65% of the issued share capital of the Company, while the Purchaser, the Offeror and parties acting in concert with any of them in aggregate were interested in 131,529,125 Shares, representing approximately 48.94% of the issued share capital of the Company.

### **Consideration of the Restructuring**

The consideration for the transfer of the assets of the Divested Segment was RMB 4.76 billion in cash. The amount was determined having regard to the appraised value of the assets of the Divested Segment as of 30 June 2018, as adjusted by the aggregate amount of additional capital injections made to assets of the Divested Segment after 30 June 2018.

Apart from the consideration of RMB4.76 billion in cash, there was no other consideration compensation or benefit in whatever form paid or to be paid by the Purchaser, the Offeror or parties acting in concert with any of them to the Vendor or any party acting in concert with the Vendor in connection with the Restructuring.

### **Inadvertent breach of Rule 26.1 of the Takeovers Code by the Purchaser**

Given that the Restructuring involved the acquisition of a company which directly holds a controlling interest in the Company, a Hong Kong public listed company, pursuant to Note 8 to Rule 26.1 of the Takeovers Code, the Purchaser should have consulted the Executive before the Restructuring Agreement was executed.

As a result of the Purchaser's acquisition of all of the issued share capital of the Offeror, the Purchaser and parties acting in concert with it have an obligation to make a mandatory general offer for all the Shares in the Company (other than those already owned by the Purchaser, the Offeror and parties acting in concert with any of them) pursuant to Rule 26.1 of the Takeovers Code.

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## LETTER FROM UBS

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The Purchaser's failure to consult the Executive prior to its execution of the Restructuring Agreement and to make a mandatory general offer for all the Shares in the Company (other than those already owned by the Purchaser, the Offeror and parties acting in concert with any of them) on or around the date of the Restructuring Completion is in breach of Rule 26.1 of the Takeovers Code. The Purchaser sincerely apologises for its inadvertent breach of the Takeovers Code.

### **Implication of the Restructuring on the Mandatory General Offer**

Immediately before the Restructuring, the Vendor held 100% of the issued share capital of the Offeror, which in turn held 130,741,170 Shares, representing approximately 48.70% of the then issued share capital of the Company. Upon the Restructuring Completion, the Purchaser holds the entire issued capital of the Offeror.

Due to the Restructuring, the Purchaser and parties acting in concert with it are, pursuant to directions provided by the Executive, required to make a mandatory general offer for all the Offer Shares pursuant to Note 8 of Rule 26.1 of the Takeovers Code and to make an appropriate offer to the Optionholders for all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) in compliance with Rule 13 of the Takeovers Code by way of cancellation of the Share Options. The Offeror, a wholly-owned subsidiary of the Purchaser upon the Restructuring Completion, implements the Mandatory General Offer.

The Share Offer is conditional upon valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the first Closing Date (or such later time or date as the Purchaser and the Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them and acquired before or during the Mandatory General Offer, will result in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

This letter sets out, among other things, the principal terms of the Mandatory General Offer, together with the information on the Purchaser, the Offeror and the intention of the Purchaser and Offeror regarding the Group. Further details of the terms of the Mandatory General Offer and procedures of acceptance are also set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance. Your attention is also drawn to the letter from the Board as well as the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the letter from Ernst & Young in respect of the Mandatory General Offer, as contained in this Composite Document.



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## LETTER FROM UBS

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### MANDATORY CONDITIONAL CASH OFFERS

As at the Latest Practicable Date, the Company had a total of 268,746,877 Shares in issue. Mr. LI Dongsheng together with his spouse, Ms. ICHIKAWA Yuki, are in aggregate interested in 761,568 Shares<sup>(Note)</sup>, representing approximately 0.28% of the entire issued share capital of the Company as at the Latest Practicable Date. As Mr. LI Dongsheng is a director of the Purchaser and the Offeror, Mr. LI Dongsheng together with his spouse are persons presumed to be acting in concert with the Purchaser and the Offeror in accordance with class 2 of the definition of “acting in concert” in the Takeovers Code.

As of the the Latest Practicable Date, Ms. XIONG Yan and Mr. DU Yuanhua, directors of the Offeror, who are presumed to be acting in concert with the Purchaser and the Offeror, together with spouse of Ms. XIONG Yan, were in aggregate interested in 26,387 Shares, representing approximately 0.01% of the entire issued share capital of the Company.

As at the the Latest Practicable Date, there were 3,783,184 outstanding Awarded Shares awarded to the Grantees which remain unvested. Those Awarded Shares are currently held by the Trustee for the benefits of the Grantees. Pursuant to the rules of the Restricted Share Award Scheme, unless the Board shall in its sole and absolute discretion determine otherwise, upon the occurrence of a change in control of the Company, all the Awarded Shares shall immediately vest on the date when such event of change in control becomes or is declared unconditional. The Board resolved at a Board meeting held on 26 September 2019, whereby only Directors who have no conflict of interests in the relevant resolutions proposed at the Board meeting voted on the relevant resolutions, that the Grantees will be given written notices setting out their rights to accept the Share Offer for their Awarded Shares and the options to either (i) accept the Share Offer and in such case, the Awarded Shares will vest pursuant to the relevant rules of the Restricted Share Award Scheme and form part of the Offer Shares and be subject to the Share Offer; or (ii) not to accept the Share Offer, whereby the Board will exercise its discretion to not vest the Awarded Shares pursuant to the rules of the Restricted Share Award Scheme, and the Awarded Shares shall vest in accordance with their respective original vesting schedules. The Board will issue the said written notices to the Grantees at the same time when this Composite Document is despatched to the Shareholders and Optionholders. A sample notice to the Optionholders and Grantees is set out in Appendix XV.

A copy of this Composite Document is delivered to the Grantees at the same time when this Composite Document is despatched to the Shareholders and Optionholders. The Company will then obtain relevant written replies from the Grantees before the Closing Date. If no reply is obtained from the Grantees, it will be assumed that the Grantees do not intend to accept the Share Offer and agree that such Awarded Shares shall remain unvested but vest in accordance with their respective original vesting schedules. The Board will exercise its discretion not to accelerate the vesting of Awarded Shares which have not taken up the Share Offer.

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*Note:* As disclosed in the Joint Announcement, Mr. LI Dongsheng together with his spouse, Ms. ICHIKAWA Yuki, were in aggregate interested in 761,748 Shares, including Awarded Shares granted under the Restricted Share Award Scheme. On 15 November 2019, 5,974 Awarded Shares held by Ms. ICHIKAWA Yuki were vested under the terms of the grant. As Ms. ICHIKAWA Yuki is a PRC resident, the Company was required to deduct 180 Shares thereof as PRC withholding tax, resulting in the aggregate interest of Mr. LI Dongsheng together with his spouse, Ms. ICHIKAWA Yuki being 761,568 Shares as at the Latest Practicable Date.

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## LETTER FROM UBS

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As at the Latest Practicable Date, the Purchaser, the Offeror and parties acting in concert with any of them were in aggregate interested in a total of 131,529,125 Shares, representing approximately 48.94% of the total issued share capital of the Company. Assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to the Closing Date, there will be 137,217,752 Shares subject to the Share Offer, representing approximately 51.06% of the existing issued share capital of the Company.

As at the Latest Practicable Date, there were 32,883,516 outstanding Share Options entitling the Optionholders to subscribe for an aggregate of 32,883,516 Shares granted under the Share Option Schemes, of which 1,483,154 outstanding Share Options were granted to parties acting in concert with the Purchaser and the Offeror.

As at the Latest Practicable Date, save for 32,883,516 outstanding Share Options, the Company did not have any other outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

### **Terms of the Mandatory General Offer**

UBS is making the Mandatory General Offer on behalf of the Offeror, a wholly-owned subsidiary of the Purchaser, in compliance with the Takeovers Code on the following basis:

#### ***The Share Offer***

For each Offer Share . . . . . HK\$5.89 in cash

The Share Offer Price of HK\$5.89 is determined by reference to the appraised value of the Company as of 30 June 2018, being RMB1,333,072,500, which was used as the basis for determining the consideration for the transfer of assets in the Divested Segment and the underlying imputed acquisition price of each Share in the Restructuring. The computation of the Share Offer Price is based on the formula below:

$$\text{Share Offer Price} = \frac{\text{Appraised value of the Company} \times \text{Exchange Rate (Note 1)}}{\text{Total number of issued shares of the Company (Note 2)}}$$

*Note 1:* The applicable exchange rate as of 30 June 2018 was RMB1.00 to HK\$1.1861.

*Note 2:* Total number of issued Shares of the Company as of 30 June 2018 was 268,357,390.

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## LETTER FROM UBS

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Please refer to Appendix XI of this Composite Document for the extract from the Appraisal Report (資產評估報告) dated 3 December 2018 issued by the PRC Appraiser (pages 3, 16 and 17) and Verified Opinions from the PRC Appraiser in response to enquiries raised by Shenzhen Stock Exchange on the Restructuring (中聯資產評估集團有限公司對深圳證券交易所《關於對TCL集團股份有限公司的重組問詢函》評估問題的回覆的核查意見) published at the website of the Shenzhen Stock Exchange on 22 December 2018 (pages 54 to 69) regarding the appraised value of the Company as of 30 June 2018. Complete copies of the said Appraisal Report and Verified Opinions are available for inspection, details of which are set out in the paragraph headed “DOCUMENTS AVAILABLE FOR INSPECTION” in Appendix IV. Since the appraisal method under the Appraisal Report and Verified Opinion involves discounted cash flow projections, which constitutes a profit forecast of the Company under Rule 10 of the Takeovers Code, it has to be reported on and has been reported on by UBS, the Independent Financial Adviser and Ernst & Young, respectively, in accordance with Rule 10 of the Takeovers Code in the Joint Announcement. The profit forecast used in the Appraisal Report was prepared by the Vendor and accepted by the Purchaser in connection with the Restructuring, and the Directors were not involved in the preparation of the profit forecast. The letters of UBS, the Independent Financial Adviser and Ernst & Young in connection with the appraisal conducted by the PRC Appraiser as required under the Takeovers Code are set out in Appendix XII, Appendix XIII and Appendix XIV of this Composite Document, respectively. An updated appraisal report dated 1 November 2019 regarding the appraised value of the Company as of 30 June 2019 prepared by the PRC Appraiser (Shenzhen) is set out in Appendix V of this Composite Document in compliance with Rule 11.4 of the Takeovers Code. Documents listed in the schedule list of the updated appraisal report are not included in Appendix V but are available for inspection, details of which are set out in the paragraph headed “DOCUMENTS AVAILABLE FOR INSPECTION” in Appendix IV. The PRC Appraiser (Shenzhen) has confirmed that there is no material change to the value of the Company as of 30 September 2019 from the valuation benchmark date of the updated appraisal report, being 30 June 2019. The appraisal method under the updated appraisal report also has to be reported on and has been reported on by UBS, the Independent Financial Adviser and Ernst & Young, in accordance with Rule 10 of the Takeovers Code as set out in Appendix VI, Appendix VII and Appendix VIII of this Composite Document respectively.

The Offer Shares to be acquired shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of the Composite Document.

**The Purchaser and the Offeror will not increase the Share Offer Price as set out above. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Purchaser and the Offeror do not reserve the right to increase the Share Offer Price.**

**The Mandatory General Offer will not be extended beyond the first Closing Date unless the Mandatory General Offer becomes unconditional and the Mandatory General Offer would then remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.**

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## LETTER FROM UBS

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### *The Option Offer*

As at the Latest Practicable Date, there were 32,883,516 outstanding Share Options granted under the Share Option Schemes, among which 23,451,786 Share Options were exercisable and 9,431,730 Share Options were not exercisable. The Share Options have exercise prices in the range of HK\$4.05 to HK\$9.60. As at the Latest Practicable Date, save as disclosed in the section headed “Purchaser’s and Offeror’s Interests in Securities of the Company” in this letter, the Purchaser, the Offeror and the parties acting in concert with any of them did not hold any Share Options.

UBS on behalf of the Offeror makes an appropriate offer to the Optionholders at the Option Offer Price stated below to cancel all outstanding Share Options (exercisable and not exercisable, other than those held by persons acting in concert with the Purchaser and/or the Offeror) in accordance with Rule 13 of the Takeovers Code. Under the Option Offer, the Offeror will offer Optionholders the Option Offer Price, which in general should be the “see-through” price (being the Share Offer Price minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option they hold for the cancellation of every exercisable and not exercisable Share Option in accordance with Rule 13 of the Takeovers Code and Practice Note 6. As some of the exercise prices of the Share Options are above the Share Offer Price, the Option Offer Price for cancellation of each of those Share Option is a nominal amount of HK\$0.0001 for each Share Option.

Share Option exercise price (HK\$)	Option Offer Price (HK\$)	Number of outstanding Share Options		
		(exercisable)	(not exercisable)	(total)
4.05	1.84	5,504,532	0	5,504,532
7.84	0.0001	8,578,288	9,431,730	18,010,018
9.60	0.0001	9,368,966	0	9,368,966

The Option Offer is extended to all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) on the date on which the Option Offer is made, being the date of despatch of this Composite Document.

Following acceptance of the Option Offer, the relevant Share Options together with all rights attaching thereto will be cancelled and renounced in their entirety.

### **Condition to the Mandatory General Offer**

The Share Offer is conditional only on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the first Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide), and the number of Shares in respect of which, together with Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them and acquired or to be acquired before or during the Mandatory General Offer, resulting in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company in accordance with the Takeovers Code. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

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## LETTER FROM UBS

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**WARNING: The Mandatory General Offer is conditional. If the total number of Shares in respect of the valid acceptances, which the Offeror has received at or before 4:00 p.m. on the first Closing Date (or such other time as the Offeror may, subject to the Takeovers Code, decide) under the Mandatory General Offer together with the Shares acquired before or during the Mandatory General Offer, does not result in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company, the Mandatory General Offer will not become unconditional. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. If Shareholders and potential investors are in any doubt about their position, they should consult their own professional advisers.**

In accordance with Rule 15.1 and Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Mandatory General Offer becomes unconditional as to acceptances and when the Mandatory General Offer becomes unconditional in all respects. The Mandatory General Offer must also remain open for acceptance for at least fourteen (14) days after the Mandatory General Offer becomes or is declared unconditional in all respects. The Shareholders are reminded that the Offeror does not have any obligation to keep the Mandatory General Offer open for acceptance beyond this 14-day period.

### **Return of documents**

If the Mandatory General Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s), letter(s) of grant for the Share Options and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar (in the case of Share Offer) and/or the company secretary of the Company (in the case of Option Offer) will be returned to the Shareholders and the Optionholders, as the case maybe, who have accepted the Mandatory General Offer, by ordinary post at such Shareholders' or Optionholders' own risk as soon as possible but in any event within ten (10) days after the Mandatory General Offer has lapsed.

### ***The Share Offer Price***

The Share Offer Price of HK\$5.89 per Offer Share represents:

- (i) a premium of approximately 7.1% over the closing price of HK\$5.50 per Share as quoted on the Stock Exchange on the last Business Day preceding the date of the Joint Announcement;
- (ii) a premium of approximately 3.5% over the closing price of HK\$5.69 per Share as quoted on the Stock Exchange on the date of the Joint Announcement;

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## LETTER FROM UBS

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- (iii) a premium of approximately 5.6% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.58 per Share;
- (iv) a premium of approximately 6.3% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.54 per Share;
- (v) a premium of approximately 4.6% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.63 per Share;
- (vi) a premium of approximately 3.9% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the sixty (60) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.67 per Share;
- (vii) a discount of approximately 1.0% over the audited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$5.95 per Share as at 31 December 2018, calculated based on the Group's audited consolidated net assets attributable to the Shareholders of approximately HK\$1,598.8 million as at 31 December 2018 and 268,746,877 Shares in issue as at the Latest Practicable Date;
- (viii) a discount of approximately 2.8% over the unaudited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$6.06 per Share as at 30 June 2019, calculated based on the Group's unaudited consolidated net assets attributable to the Shareholders of approximately HK\$1,628.7 million as at 30 June 2019 and 268,746,877 Shares in issue as at the Latest Practicable Date;
- (ix) a discount of approximately 3.1% over the appraised value per Share of approximately HK\$6.08 per Share as of 30 June 2019, calculated based on the appraised value of the Company as of 30 June 2019 being approximately RMB 1,435,602,400 (*Note*) according to the updated appraisal report as set out in Appendix V of this Composite Document and 268,746,877 shares in issue as at the Latest Practicable Date; and
- (x) a premium of approximately 0.3% to the closing price of HK\$5.87 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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*Note:* Hong Kong dollar amount being HK\$1,632,997,730, converted to Hong Kong dollar based on the applicable exchange rate of RMB 1.00 to HKD 1.1375 as at 30 June 2019.

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## LETTER FROM UBS

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### **Highest and lowest Share prices**

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$7.10 per Share on 23 April 2019 and HK\$4.84 per Share on 28 June 2019, respectively.

### **Total value of the Mandatory General Offer**

As at the Latest Practicable Date, there were 268,746,877 Shares in issue and in aggregate outstanding Share Options in respect of 32,883,516 Shares.

Assuming that there is no change in the share capital of the Company, and on the basis of the Share Offer Price of HK\$5.89 per Offer Share and 268,746,877 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company would be valued at approximately HK\$1,582.9 million.

As at the Latest Practicable Date, save as disclosed in the section headed “Purchaser’s and Offeror’s Interests in Securities of the Company” in this letter, the Purchaser, the Offeror and the parties acting in concert with any of them did not hold any other Shares. Based on the 137,217,752 Shares not already owned or agreed to be acquired by the Purchaser, the Offeror and parties acting in concert with any of them and 31,400,362 outstanding Share Options not held by persons acting in concert with the Purchaser and/or the Offeror, assuming (i) no exercisable Share Options will be exercised; (ii) there is no change in the share capital of the Company from the Latest Practicable Date up to the Closing Date; and (iii) the Option Offer is accepted in full:

- a. the value of the Share Offer will be approximately HK\$808.2 million; and
- b. the total amount payable to satisfy the cancellation of all outstanding Share Options will be approximately HK\$9.5 million.

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## LETTER FROM UBS

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Based on the 168,618,114 Shares not already owned or agreed to be acquired by the Purchaser, the Offeror and parties acting in concert with any of them and assuming (i) all outstanding Share Options not held by persons acting in concert with the Purchaser and/or the Offeror are exercised in full; (ii) save as the Shares issued and allotted as a result of the exercise of the Share Options, there is no other change in the share capital of the Company from the Latest Practicable Date up to the Closing Date; and (iii) the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Share Options):

- a. the value of the Share Offer will be approximately HK\$993.2 million; and
- b. no amount will be payable by the Offeror under the Option Offer.

### **Confirmation of financial resources available to the Offeror**

The maximum aggregate amount payable by the Offeror for 168,618,114 Offer Shares upon full acceptances of the Mandatory General Offer is approximately HK\$993.2 million assuming (i) all outstanding Share Options not held by persons acting in concert with the Purchaser and/or the Offeror are exercised in full and (ii) save as the Shares issued and allotted as a result of the exercise of the Share Options, there is no other change in the share capital of the Company from the Latest Practicable Date up to the Closing Date.

The Purchaser and the Offeror intend to finance and satisfy the amount payable under the Mandatory General Offer by cash through the facilities provided by Bank of China (Hong Kong) Limited to the Offeror and internal cash resources of the Offeror. The Purchaser and the Offeror have no intention and there is no arrangement contemplated that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company. UBS, the financial adviser to the Purchaser and Offeror in respect of the Mandatory General Offer, is satisfied that sufficient financial resources are, and will continue to be, available to the Offeror to satisfy the amount payable upon full acceptances of the Mandatory General Offer.

### **Effect of accepting the Mandatory General Offer**

The Mandatory General Offer is conditional. Subject to the Share Offer becoming unconditional, by accepting the Share Offer, provided that valid acceptance forms and the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of this Composite Document.



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## LETTER FROM UBS

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Subject to the Option Offer becoming unconditional, by accepting the Option Offer, the Optionholders will agree to the cancellation of their tendered Share Options and all rights attached thereto with effect from the date on which the Option Offer is made, being the date of the despatch of this Composite Document.

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

**The Purchaser and the Offeror will not increase the Share Offer Price as set out above. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Purchaser and the Offeror do not reserve the right to increase the Share Offer Price.**

**The Mandatory General Offer will not be extended beyond the first Closing Date unless the Mandatory General Offer becomes unconditional and the Mandatory General Offer would then remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.**

### **Share Option Schemes and Restricted Share Award Scheme**

Pursuant to the Share Option Scheme, the Optionholders are entitled to exercise all outstanding Share Options in full (to the extent which has become exercisable and not already lapsed or exercised) at any time within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional. If Optionholders do not accept the Option Offer, they may nonetheless exercise their Share Options (only to the extent exercisable) within such period.

All Optionholders are reminded that pursuant to the Share Option Scheme, if any outstanding and exercisable Share Option is not exercised within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional, such Share Option will automatically lapse. The Optionholders may accept the Option Offer at any time from the commencement of the Option Offer up to 4:00 p.m. on the Closing Date. For the Share Options that are not exercisable, they will still be subject to original vesting schedules and exercise prices under the Share Option Scheme, therefore will not lapse upon the expiry of the twenty-one (21) Business Days period as set out above. The Optionholders can only exercise such Share Options after they become exercisable in accordance with their original vesting schedules. Please also refer to the sample notice to Optionholders and Grantees as set out in Appendix XV.

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## LETTER FROM UBS

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Pursuant to the rules of the Restricted Share Award Scheme, unless the Board shall in its sole and absolute discretion determine otherwise, upon the occurrence of a change in control of the Company, all the Awarded Shares shall immediately vest on the date when such event of change in control becomes or is declared unconditional. The Board resolved at a Board meeting held on 26 September 2019, whereby only Directors who have no conflict of interests in the relevant resolutions proposed at the Board meeting voted on the relevant resolutions, that the Grantees will be given written notices setting out their rights to accept the Share Offer for their Awarded Shares and the options to either (i) accept the Share Offer and in such case, the Awarded Shares will vest pursuant to the relevant rules of the Restricted Share Award Scheme and form part of the Offer Shares and be subject to the Share Offer; or (ii) not to accept the Share Offer, whereby the Board will exercise its discretion to not vest the Awarded Shares pursuant to the rules of the Restricted Share Award Scheme, and the Awarded Shares shall vest in accordance with their respective original vesting schedules. The Board will issue the said written notices to the Grantees at the same time when this Composite Document is despatched to the Shareholders and Optionholders. A sample notice to the Optionholders and Grantees is set out in Appendix XV.

A copy of the Composite Document is delivered to the Grantees at the same time when the Composite Document is despatched to the Shareholders and Optionholders. The Company will then obtain relevant written replies from the Grantees before the Closing Date. If no reply is obtained from the Grantees, it will be assumed that the Grantees do not intend to accept the Share Offer and agree that such Awarded Shares shall remain unvested but vest in accordance with their respective original vesting schedules. The Board will exercise its discretion not to accelerate the vesting of Awarded Shares which have not taken up the Share Offer.

### **Payment**

Subject to the Mandatory General Offer having become, or has been declared, unconditional in all respects, settlement of the consideration in respect of acceptances of the Mandatory General Offer will be made as soon as possible but in any event within seven (7) Business Days of the date on which the duly completed and valid Forms of Acceptance together with the relevant documents of title of the Shares in respect of such acceptances are received by the Offeror or its agent acting on its behalf to render each such acceptance of the Mandatory General Offer complete and valid, or the date on which the Mandatory General Offer has become or is declared unconditional in all respects, whichever is later.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Mandatory General Offer will be rounded up to the nearest cent. Save for payment of stamp duty as set out in this Composite Document, settlement of the amounts due to the accepting Shareholders will be implemented in full without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be entitled against such Shareholder.

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## LETTER FROM UBS

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### **Taxation advice**

Independent Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Mandatory General Offer.

None of the Purchaser, the Offeror, the parties acting in concert with any of them, the Company, UBS, Somerley Capital and/or their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Mandatory General Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Mandatory General Offer.

### **Overseas Shareholders and Overseas Optionholders**

The availability of the Mandatory General Offer to any Overseas Shareholders and Overseas Optionholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders and Overseas Optionholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders and/or Overseas Optionholders who wish to accept the Mandatory General Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Mandatory General Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Shareholders and/or Overseas Optionholders in respect of such jurisdictions).

Any acceptance by any Overseas Shareholders and Overseas Optionholders will be deemed to constitute a representation and warranty from such Overseas Shareholders and Overseas Optionholders to the Purchaser and the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders and Overseas Optionholders should consult their professional advisers if in doubt.

### **Acceptance and Settlement**

Your attention is further drawn to the details regarding the terms and procedures for acceptance and settlement of the Mandatory General Offer as set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

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## LETTER FROM UBS

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### **Hong Kong stamp duty**

The seller's Hong Kong ad valorem stamp duty on acceptance of the Share Offer at a rate of 0.1% of the consideration payable in respect of the acceptance by the Independent Shareholders or if higher, the market value of the Offer Shares subject to such acceptance as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to those relevant Independent Shareholders who accept the Share Offer.

The Offeror will bear the buyer's Hong Kong ad valorem stamp duty as purchaser of the Offer Shares and will arrange for payment of both buyer and seller's ad valorem stamp duty in connection with such sales and purchases under the Share Offer in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

No stamp duty will be payable in connection with the Option Offer.

### **Close of the Mandatory General Offer**

If the Condition is not satisfied on the first Closing Date, the Mandatory General Offer will lapse.

The Purchaser and the Offeror will issue an announcement in relation to the revision, extension or lapse of the Mandatory General Offer or the fulfilment (or if permissible, waiver) of the Condition in accordance with the Takeovers Code and the Listing Rules.

The latest time on which the Offeror can declare the Mandatory General Offer unconditional as to acceptance is 7:00 p.m. on Tuesday, 21 January 2020, being the 60th day after the posting of this Composite Document (or such later date to which the Executive may consent).

In accordance with the Takeovers Code, where the Mandatory General Offer becomes or is declared unconditional in all respects, the Mandatory General Offer should remain open for acceptance for not less than 14 days thereafter. If the Condition is satisfied, the Shareholders will be notified by way of an announcement in accordance with the Takeovers Code and the Listing Rules as soon as practicable thereafter. Further terms of the Mandatory General Offer, including, amongst other things, the procedures for acceptance and settlement, the acceptance period and taxation matters are set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

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## LETTER FROM UBS

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### INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in the PRC on 17 September 2018. As at the Latest Practicable Date, the Purchaser had a total of 6,450,000,000 ordinary shares in issue. Save for the aforesaid, the Purchaser had no other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

Shareholding structure of the Purchaser is set out below:

<b>Shareholders</b>	<b>Shareholding (%)</b>
Lida Zhihui	30.2326
Suning.com Co., Ltd.* (蘇寧易購集團股份有限公司)	23.2558
Pan Mao (Shanghai) Investment Center (L.P.)* (磐茂(上海)投資中心(有限合夥))	15.5039
Huizhou State-owned Asset Management Co., Ltd.* (惠州市國有資產管理有限公司)	9.3023
Xiaomi Technology Co., Ltd.* (小米科技有限責任公司)	9.3023
Beijing Xinrunheng Equity Investment Partnership (L.P.)* (北京信潤恒股權投資合夥企業(有限合夥))	7.7519
Lida Tiancheng	3.1005
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))	1.5504
Mr. ZHONG Weijian (鍾偉堅先生)	<u>0.0003</u>
<b>Total</b>	<b><u><u>100.0000</u></u></b>

The board of directors of the Purchaser includes Mr. LI Dongsheng, Ms. DU Juan, Mr. MI Xin, Mr. LIU Lefei and Mr. ZOU Wenchao. Mr. LI Dongsheng is also the chairman of the Vendor.

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## LETTER FROM UBS

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Lida Zhihui is a PRC limited liability partnership with its general partner being Lida Tiancheng. Lida Tiancheng's executive director and legal representative is Mr. LI Dongsheng; and its supervisor is Mr. HUANG Wei. Mr. LI Dongsheng owns more than 50% economic interest in Lida Tiancheng. Mr. LI Dongsheng also owns more than 50% economic interest in Lida Zhihui as a limited partner, and the remaining limited partnership interests are held by 33 other executives of TCL Group, each with less than 10% partnership interest in Lida Zhihui.

### **INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in Hong Kong on 16 July 1996. As at the Latest Practicable Date, the Offeror had a total of 1,541,971,690 ordinary shares in issue. Save for the aforesaid, the Offeror had no other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

The board of directors of the Offeror includes Mr. LI Dongsheng, Mr. DU Yuanhua and Ms. XIONG Yan. The Offeror is an investment holding company with a diverse investment portfolio. Its investments are principally in the business of manufacture and distribution of colour television sets, audio-visual products and mobile phones, as well as trading of related components. The Offeror also has investments in property and development and distribution of digital and other electronic products. Apart from the Offeror's investment in the Company, the Offeror also has significant investment in TCL Electronics, which principally engaged in the manufacture and sale of a wide range of consumer electronics products including television sets, and TCL Communication Technology Holdings Limited, which principally engaged in the manufacture and distribution of mobile phone products and was listed on the Main Board of the Stock Exchange from 2004 to 2016 before privatisation by the Offeror. Upon the Restructuring Completion and as of the Latest Practicable Date, the Offeror was wholly-owned by the Purchaser. The Offeror directly held 130,741,170 Shares, representing approximately 48.65% of the issued share capital of the Company as at the Latest Practicable Date.

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## LETTER FROM UBS

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### **PURCHASER'S AND OFFEROR'S INTERESTS IN SECURITIES OF THE COMPANY**

Upon the Restructuring Completion and as at the Latest Practicable Date, the Purchaser, through the Offeror, was interested in 130,741,170 Shares, representing approximately 48.65% of the issued share capital of the Company as at the Latest Practicable Date.

As of the Latest Practicable Date, Mr. LI Dongsheng together with his spouse, Ms. ICHIKAWA Yuki, were in aggregate interested in 761,568 Shares, representing approximately 0.28% of the entire issued share capital of the Company. Among 761,568 Shares, under the Restricted Share Award Scheme, in aggregate 41,049 Awarded Shares which have not yet been vested were granted to Mr. LI Dongsheng and Ms. ICHIKAWA Yuki. In addition, under the Share Option Scheme, in aggregate 1,393,720 Share Options were granted to Mr. LI Dongsheng and Ms. ICHIKAWA Yuki. Details of holdings of Share Options of Mr. LI Dongsheng and Ms. ICHIKAWA Yuki are set out in Appendix IX. As Mr. LI Dongsheng is a director of the Purchaser and the Offeror, Mr. LI Dongsheng together with his spouse are persons presumed to be acting in concert with the Purchaser and the Offeror in accordance with class 2 of the definition of “acting in concert” in the Takeovers Code. During the period between 9 June 2018 to the Latest Practicable Date, Mr. LI Dongsheng and Ms. ICHIKAWA Yuki have dealt in the securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company as set out in Appendix X.

As of the Latest Practicable Date, Ms. XIONG Yan and Mr. DU Yuanhua, directors of the Offeror, who are presumed to be acting in concert with the Purchaser and the Offeror, together with spouse of Ms. XIONG Yan, were in aggregate interested in 26,387 Shares, representing approximately 0.01% of the entire issued share capital of the Company as at the Latest Practicable Date. As of the Latest Practicable Date, Ms. XIONG Yan and Mr. DU Yuanhua have been granted 30,863 and 58,571 outstanding Share Options, and 1,722 and 2,838 Awarded Shares which have not yet been vested, respectively. Details of the holding of Share Options by Ms. XIONG Yan and Mr. DU Yuanhua are set out in Appendix IX. During the period between 9 June 2018 to the Latest Practicable Date, Ms. XIONG Yan and Mr. DU Yuanhua have dealt in the securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company as set out in Appendix X.

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## LETTER FROM UBS

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Save as disclosed above, the Purchaser and the Offeror confirm that:

- (i) none of the Purchaser, the Offeror and/or parties acting in concert with any of them owns or has control or direction over any voting rights and rights over any Shares or any options, warrants or convertible securities in respect of any voting rights or rights over any Shares or has entered into any outstanding derivatives contracts in respect of securities in the Company;
- (ii) there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Purchaser, the Offeror and/or any parties acting in concert with any of them has borrowed or lent; and
- (iii) none of the Purchaser, the Offeror and/or parties acting in concert with any of them has dealt in any Shares or any options, warrants or convertible securities in respect of the Shares during the period between 9 June 2018 to the Latest Practicable Date.

The Purchaser and the Offeror confirm that there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Purchaser, the Offeror or any party acting in concert with any of them on the one hand, and the Vendor and any party acting in concert with it on the other hand; and any understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder of the Company; and (ii)(a) the Purchaser, the Offeror and any party acting in concert with any of them; or (ii)(b) the Company, its subsidiaries or associated companies.



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## LETTER FROM UBS

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As at the Latest Practicable Date, the Purchaser and the Offeror confirm that:

- (i) there were no agreements or arrangements to which the Purchaser or the Offeror is a party which relate to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Mandatory General Offer;
- (ii) none of the Purchaser, the Offeror and/or parties acting in concert with any of them has received any irrevocable commitment to accept or not to accept the Mandatory General Offer; and
- (iii) there were no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Purchaser, the Offeror and any associates of the Offeror and parties acting in concert with any of them, and any other person.

### **INTENTION OF THE PURCHASER AND THE OFFEROR IN RELATION TO THE GROUP**

It is the intention of the Purchaser and the Offeror to continue with the Group's existing principal business following the close of the Mandatory General Offer. The Purchaser and the Offeror do not intend to introduce any major changes to the existing business and operation of the Group following the close of the Mandatory General Offer. The Purchaser and the Offeror do not intend to discontinue the employment of the employees of the Group or to dispose of or re-deploy the material assets of the Group. The Purchaser and the Offeror will continue to ensure good corporate governance, monitor and review the Group's business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the Group.

### **NO CHANGE TO THE BOARD COMPOSITION**

As at the Latest Practicable Date, the Board comprises Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong as executive Directors, Mr. LIAO Qian as non-executive Director and Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing as independent non-executive Directors.

As at the Latest Practicable Date, it is intended that there will be no change to the Board composition following the close of the Mandatory General Offer.

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## LETTER FROM UBS

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### INTENTION OF THE PURCHASER AND THE OFFEROR TO MAINTAIN THE LISTING OF THE COMPANY

The Purchaser and the Offeror intend to maintain the listing status of the Company on the Main Board of the Stock Exchange following the close of the Mandatory General Offer.

As at the Latest Practicable Date, 100,693,911 Shares, representing approximately 37.47% of the entire issued share capital of the Company, are held by the public (within the meaning of the Listing Rules). Accordingly, as at the Latest Practicable Date, the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules is satisfied.

The directors of the Purchaser and the Offeror undertake to the Stock Exchange that, in the event that the public float of the Company falls below 25% following the close of the Mandatory General Offer, appropriate steps will be taken as soon as possible following the close of the Mandatory General Offer to ensure a sufficient public float.

**The Stock Exchange has stated that if, upon closing of the Mandatory General Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.**

### Compulsory Acquisition

The Purchaser and the Offeror do not intend to exercise any power of compulsory acquisition of any Offer Shares outstanding and not acquired under the Mandatory General Offer after the close of the Mandatory General Offer.

### INFORMATION ON THE VENDOR

The Vendor is a listed company on the Shenzhen Stock Exchange (stock code: 000100), one of the world leading technology industrial groups. Its main businesses include (i) semiconductor display and materials; (ii) industrial finance and investment; and (iii) other related businesses.

### INFORMATION ON THE GROUP

Your attention is drawn to the section headed “INFORMATION ON THE GROUP” in the “LETTER FROM THE BOARD” which contain information on the Group, and Appendices II, III, V and XI of this Composite Document which contain further financial and general information of the Group.

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## LETTER FROM UBS

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### SHAREHOLDING STRUCTURE OF THE COMPANY

Your attention is drawn to the section headed “SHAREHOLDING STRUCTURE OF THE COMPANY” in the “LETTER FROM THE BOARD”.

### GENERAL

All communications, notices, Forms of Acceptance, Share certificate(s), transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Mandatory General Offer to be delivered by or sent to or from the Independent Shareholders and Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Purchaser, the Offeror, parties acting in concert with any of them, UBS, Somerley Capital and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Mandatory General Offer accept any liability for any loss in postage or any other liabilities that may arise as a result thereof. Further details have been set out in Appendix I to this Composite Document and in the Forms of Acceptance.

### ADDITIONAL INFORMATION

Your attention is drawn to the “LETTER FROM THE BOARD”, the “LETTER FROM THE INDEPENDENT BOARD COMMITTEE” and the “LETTER FROM THE INDEPENDENT FINANCIAL ADVISER” as set out in this Composite Document, the accompanying Forms of Acceptance and the additional information set out in the appendices to, which form part of, this Composite Document.

Yours faithfully,

For and on behalf of

**UBS AG, Hong Kong Branch**

**Samson LO**

*Managing Director*

**Jun LUO**

*Managing Director*

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LETTER FROM THE BOARD

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**TONLY ELECTRONICS HOLDINGS LIMITED**

**通力電子控股有限公司**

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

**(Stock Code: 01249)**

*Executive Directors:*

Mr. YU Guanghui  
Mr. SONG Yonghong  
Mr. REN Xuenong

*Registered Office:*

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

*Non-executive Director:*

Mr. LIAO Qian (*Chairman*)

*Principal Place of*

*Business in Hong Kong:*

8th Floor, Building 22E,  
22 Science Park East Avenue,  
Hong Kong Science Park,  
Shatin, New Territories,  
Hong Kong

*Independent Non-executive Directors:*

Mr. POON Chiu Kwok  
Mr. LI Qi  
Mr. LEONG Yue Wing

22 November 2019

*To the Independent Shareholders and the Optionholders*

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY UBS AG,  
HONG KONG BRANCH ON BEHALF OF  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED,  
A WHOLLY-OWNED SUBSIDIARY OF  
TCL INDUSTRIES HOLDINGS CO., LTD.\*,  
TO ACQUIRE ALL THE ISSUED SHARES OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY THE PURCHASER, OFFEROR AND PARTIES  
ACTING IN CONCERT WITH ANY OF THEM)**

**AND**

**FOR CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE HELD BY PERSONS ACTING IN CONCERT WITH  
THE PURCHASER AND/OR THE OFFEROR)**

**INTRODUCTION**

References are made to the Joint Announcement in relation to, amongst other things, the Restructuring and the Mandatory General Offer.

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## LETTER FROM THE BOARD

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On 7 December 2018, the Vendor, Vendor Affiliates and the Purchaser entered into the Restructuring Agreement, under which the Vendor and Vendor Affiliates agreed to sell and the Purchaser agreed to purchase all of the assets in the Divested Segment for a consideration of RMB 4.76 billion in cash. Included in the assets of the Divested Segment were all of the issued share capital of the Offeror, which owned approximately 48.68% of the issued share capital of the Company upon the Restructuring Completion.

As of 31 March 2019, the legal ownership of all assets in the Divested Segment was transferred to the Purchaser. The Offeror held 130,741,170 Shares, representing approximately 48.68% of the issued share capital of the Company as at Restructuring Completion. As at the Latest Practicable Date, the Offeror held 130,741,170 Shares, representing approximately 48.65% of the issued share capital of the Company, while the Purchaser, the Offeror and parties acting in concert with any of them in aggregate were interested in 131,529,125 Shares, representing approximately 48.94% of the issued share capital of the Company.

Pursuant to Note 8 of Rule 26.1 of the Takeovers Code, the Purchaser, the Offeror and parties acting in concert with any of them, pursuant to directions provided by the Executive, are required to make a mandatory general offer for all the Offer Shares, and in compliance with Rule 13 of the Takeovers Code, to make an appropriate offer to the Optionholders for all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) by way of cancellation of the Share Options.

The Share Offer is conditional upon valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the first Closing Date (or such later time or date as the Purchaser and the Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them and acquired before or during the Mandatory General Offer, will result in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Group, the Purchaser, the Offeror and the Mandatory General Offer as well as setting out the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders and the Optionholders in respect of the terms of the Mandatory General Offer and as to acceptance of the Mandatory General Offer, and the letter from the Independent Financial Adviser containing its advice and recommendations to the Independent Board Committee in respect of the terms of the Mandatory General Offer and as to acceptance of the Mandatory General Offer.

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## LETTER FROM THE BOARD

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### MANDATORY CONDITIONAL CASH OFFERS

As mentioned in the “LETTER FROM UBS” on pages 8 to 29 of this Composite Document, UBS is making the Mandatory General Offer for and on behalf of the Offeror to all the Independent Shareholders for all the issued Shares (other than those already owned or agreed to be acquired by the Purchaser, the Offeror and parties acting in concert with any of them) and to the Optionholders for the cancellation of all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) in compliance with Rule 26 and Rule 13 of the Takeovers Code, respectively, on the following basis:

#### The Share Offer

For each Offer Share . . . . . HK\$5.89 in cash

The Share Offer Price of HK\$5.89 is determined by reference to the appraised value of the Company as of 30 June 2018, being RMB 1,333,072,500, which was used as the basis for determining the consideration for the transfer of assets in the Divested Segment and the underlying imputed acquisition price of each Share in the Restructuring. The computation of the Share Offer Price is based on the formula below:

$$\text{Share Offer Price} = \frac{\text{Appraised value of the Company} \times \text{Exchange Rate (Note 1)}}{\text{Total number of issued shares of the Company (Note 2)}}$$

*Note 1:* The applicable exchange rate as of 30 June 2018 was RMB 1.00 to HK\$1.1861.

*Note 2:* Total number of issued Shares of the Company as of 30 June 2018 was 268,357,390.

The Offer Shares to be acquired shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of this Composite Document. The Company confirms that as at the Latest Practicable Date, (a) it has not declared any dividend, the record date of which falls on or after the expected date of despatch of the Composite Document; and (b) it does not have any intention to make, declare or pay any future dividend or make other distributions until the Closing Date.

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## LETTER FROM THE BOARD

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### The Option Offer

UBS on behalf of the Offeror makes an appropriate offer to the Optionholders at the Option Offer Price stated below to cancel all outstanding Share Options (exercisable and not exercisable, other than those held by persons acting in concert with the Purchaser and/or the Offeror) in accordance with Rule 13 of the Takeovers Code. Under the Option Offer, the Offeror will offer Optionholders the Option Offer Price, which in general should be the “see-through” price (being the Share Offer Price minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option they hold for the cancellation of every exercisable and not exercisable Share Option in accordance with Rule 13 of the Takeovers Code and Practice Note 6. As some of the exercise prices of the Share Options are above the Share Offer Price, the Option Offer Price for cancellation of each of those Share Option is a nominal amount of HK\$0.0001 for each Share Option.

Share Option exercise price (HK\$)	Option Offer Price (HK\$)	Number of outstanding Share Options		
		(exercisable)	(not exercisable)	(total)
4.05	1.84	5,504,532	0	5,504,532
7.84	0.0001	8,578,288	9,431,730	18,010,018
9.60	0.0001	9,368,966	0	9,368,966

The Option Offer is extended to all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) on the date on which the Option Offer is made, being the date of despatch of this Composite Document.

Following acceptance of the Option Offer, the relevant Share Options together with all rights attaching thereto will be cancelled and renounced in their entirety.

### Condition to the Mandatory General Offer

The Share Offer is conditional upon valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the first Closing Date (or such later time or date as the Purchaser and the Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them and acquired before or during the Mandatory General Offer, will result in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Purchaser and the Offeror will issue an announcement in relation to the revision, extension or lapse of the Mandatory General Offer or the fulfilment of the condition to the Mandatory General Offer in accordance with the Takeovers Code and the Listing Rules. The latest time on which the Offeror can declare the Mandatory General Offer unconditional as to acceptance is 7:00 p.m. on the 60th day after the despatch of this Composite Document (or such later date to which the Executive may consent).

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## LETTER FROM THE BOARD

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### **Share Option Schemes and Restricted Share Award Scheme**

Pursuant to the Share Option Scheme, the Optionholders are entitled to exercise all outstanding Share Options in full (to the extent which has become exercisable and not already lapsed or exercised) at any time within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional. If Optionholders do not accept the Option Offer, they may nonetheless exercise their Share Options (only to the extent exercisable) within such period.

All Optionholders are reminded that pursuant to the Share Option Scheme, if any outstanding and exercisable Share Option is not exercised within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional, such Share Option will automatically lapse. The Optionholders may accept the Option Offer at any time from the commencement of the Option Offer up to 4:00 p.m. on the Closing Date. For the Share Options that are not exercisable, they will still be subject to original vesting schedules and exercise prices under the Share Option Scheme, therefore will not lapse upon the expiry of the twenty-one (21) Business Days period as set out above. The Optionholders can only exercise such Share Options after they become exercisable in accordance with their original vesting schedules. Please also refer to the sample notice to Optionholders and Grantees as set out in Appendix XV.

Pursuant to the rules of the Restricted Share Award Scheme, unless the Board shall in its sole and absolute discretion determine otherwise, upon the occurrence of a change in control of the Company, all the Awarded Shares shall immediately vest on the date when such event of change in control becomes or is declared unconditional. The Board resolved at a Board meeting held on 26 September 2019, whereby only Directors who have no conflict of interests in the relevant resolutions proposed at the Board meeting voted on the relevant resolutions, that the Grantees will be given written notices setting out their rights to accept the Share Offer for their Awarded Shares and the options to either (i) accept the Share Offer and in such case, the Awarded Shares will vest pursuant to the relevant rules of the Restricted Share Award Scheme and form part of the Offer Shares and be subject to the Share Offer; or (ii) not to accept the Share Offer, whereby the Board will exercise its discretion to not vest the Awarded Shares pursuant to the rules of the Restricted Share Award Scheme, and the Awarded Shares shall vest in accordance with their respective original vesting schedules. The Board will issue the said written notices to the Grantees at the same time when this Composite Document is despatched to the Shareholders and Optionholders. The Board considered that such resolution was passed in the interests and benefits of the Company and the Shareholders as a whole. A sample notice to the Optionholders and Grantees is set out in Appendix XV.

A copy of the Composite Document will be delivered to the Grantees at the same time when the Composite Document is despatched to the Shareholders and Optionholders. The Company will then obtain relevant written replies from the Grantees before the Closing Date. If no reply is obtained from the Grantees, it will be assumed that the Grantees do not intend to accept the Share Offer and agree that such Awarded Shares shall remain unvested but vest in accordance with their respective original vesting schedules. The Board will exercise its discretion not to accelerate the vesting of Awarded Shares which have not taken up the Share Offer.



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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, there were 268,746,877 Shares in issue, among which were 3,783,184 Awarded Shares awarded to the Grantees which remain unvested, and 32,883,516 outstanding Share Options, and save for the aforesaid Share Options, there were no outstanding warrants, options, derivatives or convertible rights affecting the Shares and the Company had not entered into any agreement for the issue of such warrants, options, derivatives or securities as at the Latest Practicable Date.

As at the Latest Practicable Date, the Purchaser, the Offeror and parties acting in concert with any of them were in aggregate interested in a total of 131,529,125 Shares, representing approximately 48.94% of the total issued share capital of the Company, and 1,483,154 outstanding Share Options were granted to parties acting in concert with the Purchaser and the Offeror. Assuming that (a) there is no change in the issued share capital of the Company after the Latest Practicable Date, and (b) none of the outstanding Share Options is exercised prior to the close of the Mandatory General Offer, a total of 137,217,752 Shares will be subject to the Share Offer and a total of 31,400,362 Share Options will be subject to the Option Offer.

Acceptance of the Mandatory General Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted as set out in the paragraph headed “5. RIGHT OF WITHDRAWAL” in Appendix I to this Composite Document.

Further details of the Mandatory General Offer, including the terms and procedures for acceptance and settlement of the Mandatory General Offer, are contained in the “LETTER FROM UBS” as set out on pages 8 to 29 of, and Appendix I to, this Composite Document and the accompanying Forms of Acceptance.

### **MANDATORY GENERAL OFFER IS CONDITIONAL**

Upon the Restructuring Completion, the Purchaser became interested in the entire issued share capital of the Offeror, which, in turn, held 130,741,170 Shares, representing approximately 48.70% of the then issued share capital of the Company. The Purchaser, the Offeror and parties acting in concert with any of them, pursuant to directions provided by the Executive, are required to make a mandatory general offer for all the Offer Shares pursuant to Note 8 of Rule 26.1 of the Takeovers Code and to make an appropriate offer to the Optionholders for all Share Options in compliance with Rule 13 of the Takeovers Code by way of cancellation of the outstanding Share Options.

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## LETTER FROM THE BOARD

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As stated on page 14 of the “LETTER FROM UBS” of this Composite Document, the Mandatory General Offer is conditional only on valid acceptances of the Mandatory General Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the first Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide), and the number of Shares in respect of which, together with Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them and acquired or to be acquired before or during the Mandatory General Offer, resulting in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company in accordance with the Takeovers Code.

### INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and the issued shares of which are listed on the Stock Exchange. It is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets) for third parties’ brands on an ODM (original design manufacture) basis. The Company is also involved in the software development business through its subsidiaries.

The following table is a summary of certain audited consolidated financial information of the Group for the two financial years ended 31 December 2017 and 2018 as extracted from the annual report of the Company for the year ended 31 December 2018 and unaudited consolidated financial information of the Group for the six months ended 30 June 2019:

	<b>For the six months ended 30 June 2019 (unaudited) (HK\$’000)</b>	<b>For the year ended 31 December 2018 (audited) (HK\$’000)</b>	<b>For the year ended 31 December 2017 (audited) (HK\$’000)</b>
Revenue	3,518,176	7,302,951	5,912,479
Profit before tax	115,117	282,308	251,885
Profit for the period	98,672	221,159	198,506
Total comprehensive income for the period	82,704	190,054	285,926

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## LETTER FROM THE BOARD

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	As at 30 June 2019 (unaudited) (HK\$'000)	As at 31 December 2018 (audited) (HK\$'000)	As at 31 December 2017 (audited) (HK\$'000)
Total equity	1,705,238	1,675,274	1,495,199

Further details of the information of the Group are set out in Appendices II, III, V and XI to this Composite Document.

### SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date.

	<i>Number of Shares</i>	<i>Approx. %</i>
The Offeror	130,741,170	48.65
Persons acting in concert with the Purchaser and/or the Offeror ( <i>Note 1</i> )		
– Mr. LI Dongsheng and his spouse	761,568	0.28
– Ms. XIONG Yan and her spouse	11,043	0.00
– Mr. DU Yuanhua	<u>15,344</u>	<u>0.01</u>
<b>Subtotal for the Purchaser, the Offeror and parties acting in concert with any of them</b>	<b>131,529,125</b>	<b>48.94</b>
Persons other than the Purchaser, the Offeror and parties acting in concert with any of them		
– Trustee ( <i>Note 2</i> )	7,186,464	2.67
– Other Shareholders	<u>130,031,288</u>	<u>48.38</u>
<b>Subtotal for persons other than the Purchaser, the Offeror and parties acting in concert with any of them</b>	<b><u>137,217,752</u></b>	<b><u>51.06</u></b>
<b>Total</b>	<b><u><u>268,746,877</u></u></b>	<b><u><u>100.00</u></u></b>

*Note 1:* Among such number of Shares are 91,040 Shares awarded under the Restricted Share Award Scheme to the persons acting in concert with the Purchaser and/or the Offeror, which are held by the Trustee on trust for such persons.

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## LETTER FROM THE BOARD

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*Note 2:* 91,040 Shares awarded under the Restricted Share Award Scheme to the persons acting in concert with the Purchaser and/or the Offeror, which are held by the Trustee on trust for such persons, are excluded from such number of Shares and included in the number of Shares under “Persons acting in concert with the Purchaser and/or the Offeror”.

The following table sets out the shareholding structure of the Company as at the the Latest Practicable Date and as if all outstanding Share Options are exercised in full.

	<i>Number of Shares</i>	<i>Approx. %</i>
The Offeror	130,741,170	43.34
Persons acting in concert with the Purchaser and/or the Offeror ( <i>Note 1</i> )		
– Mr. LI Dongsheng and his spouse	2,155,288	0.71
– Ms. XIONG Yan and her spouse	41,906	0.01
– Mr. DU Yuanhua	73,915	0.02
<b>Subtotal for the Purchaser, the Offeror and parties acting in concert with any of them</b>	<b>133,012,279</b>	<b>44.10</b>
Persons other than the Purchaser, the Offeror and parties acting in concert with any of them		
– Trustee ( <i>Note 2</i> )	7,186,464	2.38
– Other Shareholders	161,431,650	53.52
<b>Subtotal for persons other than the Purchaser, the Offeror and parties acting in concert with any of them</b>	<b>168,618,114</b>	<b>55.90</b>
<b>Total</b>	<b>301,630,393</b>	<b>100.00</b>

*Note 1:* Among such number of Shares under “Persons acting in concert with the Purchaser and/or the Offeror” are 91,040 Shares awarded under the Restricted Share Award Scheme to the persons acting in concert with the Purchaser and/or the Offeror, which are held by the Trustee on trust for such persons.

*Note 2:* 91,040 Shares awarded under the Restricted Share Award Scheme to the persons acting in concert with the Purchaser and/or the Offeror, which are held by the Trustee on trust for such persons, are excluded from such number of Shares and included in the number of Shares under “Persons acting in concert with the Purchaser and/or the Offeror”.

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## **LETTER FROM THE BOARD**

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### **INFORMATION ON THE PURCHASER**

Your attention is drawn to the paragraph headed “INFORMATION ON THE PURCHASER” in the “LETTER FROM UBS” and “APPENDIX IV – GENERAL INFORMATION OF THE PURCHASER AND THE OFFEROR” as set out in this Composite Document.

### **INFORMATION ON THE OFFEROR**

Your attention is drawn to the paragraph headed “INFORMATION ON THE OFFEROR” in the “LETTER FROM UBS” and “APPENDIX IV – GENERAL INFORMATION OF THE PURCHASER AND THE OFFEROR” as set out in this Composite Document.

### **INTENTIONS OF THE PURCHASER AND THE OFFEROR REGARDING THE GROUP**

Your attention is drawn to the paragraph headed “INTENTION OF THE PURCHASER AND THE OFFEROR IN RELATION TO THE GROUP” in the “LETTER FROM UBS” as set out in this Composite Document. The Board is pleased to note the Purchaser’s and the Offeror’s intention (i) to continue with the Group’s existing principal business following the close of the Mandatory General Offer and (ii) to continue the employment of the employees, and the Board is willing to render reasonable co-operation to the Purchaser and the Offeror for the implementation of its intentions regarding the Group which is in the interests of the Group and the Shareholders as a whole.

### **INTENTION OF THE PURCHASER AND THE OFFEROR TO MAINTAIN THE LISTING OF THE COMPANY**

It is stated in the “LETTER FROM UBS” on page 28 of this Composite Document that the Purchaser and the Offeror intend to maintain the listing status of the Company on the Main Board of the Stock Exchange following the close of the Mandatory General Offer.

The directors of the Purchaser and the Offeror undertake to the Stock Exchange that in the event that the public float of the Company falls below 25% following the close of the Mandatory General Offer, appropriate steps will be taken as soon as possible following the close of the Mandatory General Offer to ensure that a sufficient public float exists for the Shares.

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## LETTER FROM THE BOARD

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The Stock Exchange has stated that if, upon the closing of the Mandatory General Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

### INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising three independent non-executive Directors, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, has been formed to make recommendations to the Independent Shareholders and Optionholders as to whether the terms of the Mandatory General Offer are fair and reasonable and as to the acceptance of the Mandatory General Offer.

Mr. LIAO Qian, a non-executive Director, is indirectly interested in the issued share capital of the Purchaser through having 1.8604% limited partnership interest in Lida Zhihui, a limited liability partnership established in the PRC and a controlling shareholder of the Purchaser, and 9% equity interests in Lida Tiancheng, a limited liability company established in the PRC, a shareholder of the Purchaser and the general partner of Lida Zhihui. Accordingly, Mr. LIAO Qian is considered to be interested in the Mandatory General Offer and has not been appointed as a member of the Independent Board Committee in accordance with Rule 2.8 of the Takeovers Code.

### RECOMMENDATION

Your attention is drawn to (i) the “LETTER FROM THE INDEPENDENT BOARD COMMITTEE” on pages 42 to 44 of this Composite Document, which sets out its recommendations to the Independent Shareholders and Optionholders as to whether the terms of the Mandatory General Offer are, or are not, fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned, and as to acceptance thereof; and (ii) the “LETTER FROM THE INDEPENDENT FINANCIAL ADVISER” on pages 45 to 67 of this Composite Document, which sets out its advice and recommendations to the Independent Board Committee as to whether the terms of the Mandatory General Offer are, or are not, fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned, and as to acceptance thereof, and the principal factors considered by it in arriving at its advice and recommendations. You should also read the “LETTER FROM UBS”.

The Independent Shareholders and Optionholders are urged to read those letters carefully before taking any action in respect of the Mandatory General Offer.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

You are advised to read this Composite Document together with the accompanying Forms of Acceptance in respect of the acceptance and settlement procedures of the Mandatory General Offer. Your attention is also drawn to the additional information contained in the Appendices to this Composite Document.

In considering what action to take in connection with the Mandatory General Offer, you should also consider your own tax positions, if any, and in case of any doubt, consult your professional advisers.

Yours faithfully,  
By order of the Board  
**Tonly Electronics Holdings Limited**  
**LIAO Qian**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**TONLY ELECTRONICS HOLDINGS LIMITED**

**通力電子控股有限公司**

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

**(Stock Code: 01249)**

22 November 2019

*To the Independent Shareholders and Optionholders*

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY UBS AG,  
HONG KONG BRANCH ON BEHALF OF  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED,  
A WHOLLY-OWNED SUBSIDIARY OF  
TCL INDUSTRIES HOLDINGS CO., LTD..  
TO ACQUIRE ALL THE ISSUED SHARES OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY THE PURCHASER, OFFEROR AND PARTIES  
ACTING IN CONCERT WITH ANY OF THEM)  
AND  
FOR CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE HELD BY PERSONS ACTING IN CONCERT WITH  
THE PURCHASER AND/OR THE OFFEROR)**

**INTRODUCTION**

We refer to the Composite Document jointly issued by the Purchaser, the Offeror and the Company dated 22 November 2019 of which this letter forms part of. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Mandatory General Offer and to make recommendations to you as to whether, in our opinion, the terms of the Mandatory General Offer are, or are not, fair and reasonable so far as the Independent Shareholders and Optionholders are concerned, and as to the acceptance thereof.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Somerley Capital has been appointed as the Independent Financial Adviser to advise us in respect of the terms of the Mandatory General Offer and as to the acceptance thereof.

We wish to draw your attention to the “LETTER FROM UBS”, the “LETTER FROM THE BOARD”, and the “LETTER FROM THE INDEPENDENT FINANCIAL ADVISER” as set out in the Composite Document as well as the additional information set out in the appendices to the Composite Document.

### RECOMMENDATIONS

Having considered the terms of the Mandatory General Offer, having taken into account the information contained in the Composite Document and the advice of the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in its letter in this Composite Document, we consider that the terms of the Share Offer and the Option Offer to be fair and reasonable. We therefore recommend:

- (a) Independent Shareholders to accept the Share Offer; and
- (b) For holders of outstanding and exercisable Share Options, such Optionholders are advised to accept the Option Offer and for holders of Share Options (with exercise price of HK\$7.84) that are not exercisable, such Optionholders are advised not to accept the Option Offer.

Independent Shareholders should note that the Shares closed at a price ranging from HK\$5.85 to HK\$5.88 since the publication of the Joint Announcement and up to and including the Latest Practicable Date. If the market price of the Shares exceeds the Share Offer Price, Independent Shareholders who are inclined to accept the Share Offer should instead sell their Shares in the market if the sales proceeds, net of transaction costs, exceed HK\$5.89 per Share.

Independent Shareholders who are attracted to the prospects of the Group and the industry may consider retaining their Shares. Such Independent Shareholders should bear in mind possibility of a temporary suspension in trading of the Shares following the close of the Mandatory General Offer if the public float requirement is not met. The directors of the Purchaser and Offeror undertake to the Stock Exchange that appropriate steps will be taken as soon as possible following the close of the Mandatory General Offer to ensure a sufficient public float.

Independent Shareholders are reminded to monitor carefully the market price and liquidity of the Shares during the Offer Period.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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For holders of outstanding and exercisable Share Options, such Optionholders are reminded to closely monitor the market price of the Shares during the period for acceptance, bearing in mind that any outstanding and exercisable Share Options not exercised within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional will automatically lapse. Such Optionholders may accept the Option Offer at any time from the commencement of the Option Offer up to 4:00 p.m. on the Closing Date.

For the Share Options that are not exercisable, they will still be subject to the original vesting schedules and exercise prices under the Share Option Scheme, and therefore will not lapse upon the expiry of the twenty-one (21) Business Days period as set out above. In view of the minimal proceeds from accepting the Option Offer, holders of Share Options (with exercise price of HK\$7.84) that are not exercisable, are advised not to accept the Option Offer and keep their Share Options so as to benefit from their potential future value.

The Independent Shareholders and Optionholders are recommended to read the full text of the “LETTER FROM THE INDEPENDENT FINANCIAL ADVISER” on pages 45 to 67 of this Composite Document. Notwithstanding our recommendations, Independent Shareholders and Optionholders should consider carefully the terms and conditions of the Mandatory General Offer.

Yours faithfully,

For and on behalf of the Independent Board Committee of

**Tonly Electronics Holdings Limited**

**Mr. POON Chiu Kwok**

*Independent*

*Non-executive Director*

**Mr. LI Qi**

*Independent*

*Non-executive Director*

**Mr. LEONG Yue Wing**

*Independent*

*Non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Composite Document.*



**SOMERLEY CAPITAL LIMITED**

20<sup>th</sup> Floor

China Building

29 Queen's Road Central

Hong Kong

22 November 2019

*To: the Independent Board Committee*

Dear Sirs,

**THE MANDATORY CONDITIONAL CASH OFFERS BY  
UBS AG, HONG KONG BRANCH ON BEHALF OF  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED,  
A WHOLLY-OWNED SUBSIDIARY OF  
TCL INDUSTRIES HOLDINGS CO., LTD.,  
TO ACQUIRE ALL THE ISSUED SHARES OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
TCL INDUSTRIES HOLDINGS CO., LTD.,  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED  
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)  
AND  
FOR CANCELLATION OF ALL THE OUTSTANDING SHARE OPTIONS OF  
TONLY ELECTRONICS HOLDINGS LIMITED  
(OTHER THAN THOSE HELD BY PERSONS ACTING IN CONCERT WITH  
TCL INDUSTRIES HOLDINGS CO., LTD. AND/OR  
T.C.L. INDUSTRIES HOLDINGS (H.K.) LIMITED)**

### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in relation to the Mandatory General Offer by UBS AG, Hong Kong Branch, on behalf of T.C.L. Industries Holdings (H.K.) Limited. Details of the Share Offer and the Option Offer are set out in the Composite Document dated 22 November 2019, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the Composite Document, immediately before the Restructuring, the Vendor held 100% of the issued share capital of the Offeror, which in turn held 130,741,170 Shares, representing approximately 48.70% of the then issued share capital of the Company. Upon Restructuring Completion, the Purchaser holds the entire issued capital of the Offeror. Due to the Restructuring, the Purchaser and parties acting in concert with it are, pursuant to directions provided by the Executive, required to make a mandatory general offer for all the Offer Shares pursuant to Note 8 of Rule 26.1 of the Takeovers Code and to make an appropriate offer to the Optionholders for all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) in compliance with Rule 13 of the Takeovers Code by way of cancellation of the outstanding Share Options. The Offeror, a wholly-owned subsidiary of the Purchaser upon the Restructuring Completion, implements the Mandatory General Offer.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, has been formed to make recommendations to the Independent Shareholders and the Optionholders as to whether the terms of the Mandatory General Offer are fair and reasonable and as to the acceptance of the Mandatory General Offer. Mr. LIAO Qian, a non-executive Director is indirectly interested in the issued share capital of the Purchaser. Accordingly, Mr. LIAO Qian is considered to be interested in the Mandatory General Offer and has not been appointed as a member of the Independent Board Committee in accordance with Rule 2.8 of the Takeovers Code. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Mandatory General Offer.

We are not associated with and have no significant connection, financial or otherwise, with the Company, the Purchaser, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Mandatory General Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Purchaser, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **BASIS OF OUR OPINION**

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the annual report of the Company for the year ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019; (iii) the announcements published by the Company on the website of the Stock Exchange since 1 January 2018; (iv) the material change statement set out in Appendix II to the Composite Document; and (v) the valuation of 100% equity interests in the Company prepared by the PRC Appraiser (Shenzhen) as set out in Appendix V to the Composite Document. We have sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Purchaser or the Offeror, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document are true as at the Latest Practicable Date, and that the Independent Shareholders and the Optionholders will be notified of any material changes to the Composite Document as soon as reasonably practicable during the Offer Period.

We have not considered the tax and regulatory implications on the Independent Shareholders and the Optionholders of acceptance or non-acceptance of the Mandatory General Offer since these depend on their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, consult their own professional advisers.

### **PRINCIPAL TERMS OF THE MANDATORY GENERAL OFFER**

#### **The Share Offer**

UBS is making the Share Offer for and on behalf of the Offeror on the following basis:

For each Offer Share . . . . . HK\$5.89 in cash

The Share Offer Price of HK\$5.89 per Offer Share under the Share Offer is determined by reference to the appraised value of the Company as of 30 June 2018 which was used as the basis for determining the consideration for the transfer of assets in the Divested Segment and the underlying imputed acquisition price of each Share in the Restructuring. An extract of the appraisal report dated 3 December 2018 issued by the PRC Appraiser regarding the appraised value of the Company as of 30 June 2018 is set out in Appendix XI to the Composite Document. An updated appraisal report dated 1 November 2019 regarding the appraised value of the Company as of 30 June 2019 prepared by the PRC Appraiser (Shenzhen) is set out in Appendix V

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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to the Composite Document. The PRC Appraiser (Shenzhen) has confirmed that there is no material change to the value of the Company as of 30 September 2019 from the valuation benchmark date of the updated appraisal report, being 30 June 2019.

As at the Latest Practicable Date, the Purchaser, the Offeror and parties acting in concert with any of them are in aggregate interested in a total of 131,529,125 Shares, representing approximately 48.94% of the total issued share capital of the Company. Assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to the Closing Date, there will be 137,217,752 Shares subject to the Share Offer, representing approximately 51.06% of the existing issued share capital of the Company.

The Offer Shares to be acquired under the Share Offer shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of the Composite Document.

### ***The Awarded Shares***

As at the Latest Practicable Date, there were 3,783,184 outstanding Awarded Shares awarded to the Grantees which remain unvested. Pursuant to the rules of the Restricted Share Award Scheme, unless the Board shall in its sole and absolute discretion determine otherwise, upon the occurrence of a change in control of the Company, all the Awarded Shares shall immediately vest on the date when such event of change in control becomes or is declared unconditional. The Board resolved at a Board meeting held on 26 September 2019 that the Grantees will be given written notice setting out their rights to accept the Share Offer for their Awarded Shares and the options to either (i) accept the Share Offer and in such case, the Awarded Shares will vest pursuant to the relevant rules of the Restricted Share Award Scheme and form part of the Offer Shares and be subject to the Share Offer; or (ii) not to accept the Share Offer, whereby the Board will exercise its discretion to not vest the Awarded Shares pursuant to the rules of the Restricted Share Award Scheme, and the Awarded Shares shall vest in accordance with their respective original vesting schedules. The Board will issue the said written notices to the Grantees at the same time when this Composite Document is despatched to the Shareholders and Optionholders. As set out in the sub-section headed “Share Option Schemes and Restricted Share Award Scheme” under the section headed “Mandatory Conditional Cash Offers” in the “Letter from the Board” contained in the Composite Document, the Board considered that such resolution was passed in the interests and benefits of the Company and the Shareholders as a whole. A sample notice to the Optionholders and Grantees is set out in Appendix XV to the Composite Document. Further details regarding treatment of the Awarded Shares are set out in same sub-section in the “Letter from the Board” contained in the Composite Document.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Acceptance Condition*

The Share Offer is conditional upon valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 pm on the first Closing Date (or such later time or date as the Purchaser and Offeror may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares already owned by the Purchaser, the Offeror and parties acting in concert with any of them and acquired before or during the Mandatory General Offer, will result in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company.

### **The Option Offer**

UBS on behalf of the Offeror makes an appropriate offer to the Optionholders at the Option Offer Price to cancel all outstanding Share Options (exercisable and not exercisable, other than those held by persons acting in concert with the Purchaser and/or the Offeror) in accordance with Rule 13 of the Takeovers Code. Under the Option Offer, the Offeror will offer Optionholders the Option Offer Price, which in general should be the “see-through” price (being the Share Offer Price minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option they hold for the cancellation of every exercisable and not exercisable Share Option in accordance with Rule 13 of the Takeovers Code. Further discussions relating to the Option Offer are set out in the section headed “The Option Offer” of this letter below.

**Independent Shareholders should note that the Share Offer will be subject to the satisfaction of the acceptance condition as set out above, and the Optionholders should note that the Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Accordingly, the Mandatory General Offer may or may not become unconditional.**

**The Purchaser and the Offeror will not increase the Share Offer Price as set out above. Shareholders, Optionholders and potential investors of the Company should be aware that, following the making of this statement, the Purchaser and the Offeror do not reserve the right to increase the Share Offer Price.**

**The Mandatory General Offer will not be extended beyond the first Closing Date unless the Mandatory General Offer becomes unconditional and the Mandatory General Offer would then remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code.**

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations with regard to the Mandatory General Offer, we have taken into account the following principal factors and reasons:

#### 1. Background of the Mandatory General Offer

On 7 December 2018, the Vendor, Vendor Affiliates and Purchaser entered into the Restructuring Agreement, pursuant to which the Vendor and Vendor Affiliates agreed to sell and the Purchaser agreed to purchase all of the assets in the Divested Segment for a consideration of RMB 4.76 billion in cash. Included in the assets of the Divested Segment were all of the issued share capital of the Offeror, which owned approximately 48.68% of the issued share capital of the Company upon the Restructuring Completion. As of 31 March 2019, legal ownership of all assets in the Divested Segment was transferred to the Purchaser. Further details regarding the reasons for the Restructuring are set out in Joint Announcement. Upon the Restructuring Completion, the Purchaser holds the entire issued share capital of the Offeror. Due to the Restructuring, the Purchaser and parties acting in concert with it are, pursuant to directions provided by the Executive, required to make a mandatory general offer for all the Offer Shares pursuant to Note 8 of Rule 26.1 of the Takeovers Code and to make an appropriate offer to the Optionholders for all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror). The Offeror, a wholly-owned subsidiary of the Purchaser upon the Restructuring Completion, implements the Mandatory General Offer.

#### 2. Information and prospects of the Group

##### (a) Background and financial information of the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its issued shares are listed on the Stock Exchange. It is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets) for third parties' brands on an ODM (original design manufacture) basis. Its products mainly include audio products, video disc players and media boxes. The Company is also involved in the software development business through its subsidiaries.

##### (i) Financial performance

The following is a summary of the financial results of the Group for (a) the two years ended 31 December 2017 and 2018 (both 2017 and 2018 annual results having been extracted from the Company's 2018 annual report); and (b) the six months ended 30 June 2018 and 2019 (both 2018 and 2019 interim results having been extracted from the Company's 2019 interim report).



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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	For the six months ended		For the year ended	
	30 June		31 December	
	2019	2018	2018	2017
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Revenue	3,518,176	2,802,195	7,302,951	5,912,479
Profit for the period/year	98,672	83,279	221,159	198,506
Profit attributable to owners of the parent	98,295	85,383	223,135	198,648
Earnings per share attributable to ordinary equity holders of the parent <i>(in HK cents per share)</i>				
– Basic	37.68	32.82	87.24	78.96
– Diluted	36.55	31.48	84.61	76.71

(1) Revenue

In 2018, the Group recorded total revenue of approximately HK\$7,303 million, representing an increase of approximately 24% as compared to approximately HK\$5,912 million in 2017. For the six months ended 30 June 2019, the Group recorded total revenue of approximately HK\$3,518 million, representing an increase of approximately 26% as compared to approximately HK\$2,802 million in the same period of 2018. The following table sets out the breakdown of revenue by product extracted from the Company's 2018 annual report and 2019 interim report.

	For the six months ended		For the year ended	
	30 June		31 December	
	2019	2018	2018	2017
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Audio products	2,502,579	2,012,758	5,543,219	4,474,557
Headphones	421,474	246,131	704,688	299,824
Video products	137,077	262,387	382,102	684,965
IoT related products	77,677	79,623	175,589	83,458
Ancillary products	304,866	186,315	462,534	321,654
Other Businesses	74,503	14,981	34,819	48,021
Total	<u>3,518,176</u>	<u>2,802,195</u>	<u>7,302,951</u>	<u>5,912,479</u>

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As set out in the Company's 2018 annual report and 2019 interim report, audio products mainly include smart voice speakers, wireless speakers, soundbars, home theatres, and mini speakers; video products mainly include DVD players, BD players, OTT set top boxes, and other products; IoT related products mainly include smart plugs, smart gateways and other IoT products; ancillary products mainly include fabric covering for external sales, plastic injection structural parts, speakers, wireless modules, and other components.

As disclosed in the Company's 2018 annual report and 2019 interim report, the growth in total revenue was mainly driven by audio products, headphones and ancillary product businesses. For the year ended 31 December 2018, revenue derived from audio products, headphones and ancillary product businesses (which are ancillary to the smart products business), together accounted for over 90% of the Group's total revenue. During 2018 and the first half of 2019, the smart audio speaker business of the Group maintained a relatively rapid growth, which was attributable to, among others, a rapid growth in the global market of smart products and the Group's advantage in product technology. Revenue from the Group's audio products segment increased by approximately 24% year-on-year from approximately HK\$4,475 million in 2017 to approximately HK\$5,543 million in 2018. In the first half of 2019, revenue from the Group's audio products segment amounted to approximately HK\$2,503 million, representing an increase of approximately 24% as compared to approximately HK\$2,013 million in the same period of 2018. Meanwhile, the ancillary product business also benefited from the overall market growth. In addition, the shipments of bluetooth headphones of the Group maintained a rapid growth during 2018 and the first half of 2019. As for the video product business, it was mainly affected by the overall decline in video disc player industry. Revenue from the Group's video product segment decreased by approximately 44% year-on-year from approximately HK\$685 million in 2017 to approximately HK\$382 million in 2018. In the first half of 2019, revenue from the Group's video products segment amounted to approximately HK\$137 million, representing a decrease of approximately 48% as compared to approximately HK\$262 million in the same period of 2018.

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(2) Profit attributable to owners of the parent

As set out in the table above, profit attributable to owners of the parent in 2018 was approximately HK\$223 million, representing an increase of approximately 12% as compared to approximately HK\$199 million in 2017. For the six months ended 30 June 2019, profit attributable to owners of the parent was approximately HK\$98 million, representing an increase of approximately 15% as compared to approximately HK\$85 million in the same period of 2018. The increase in profit attributable to owners of the parent was mainly attributable to the increase in revenue mentioned above.

(3) Earnings per Share

Basic and diluted earnings per Share for (i) the year ended 31 December 2017; (ii) the year ended 31 December 2018; (iii) the six months ended 30 June 2018; and (iv) the six months ended 30 June 2019 was approximately (a) HK\$0.7896 and HK\$0.7671; (b) HK\$0.8724 and HK\$0.8461; (c) HK\$0.3282 and HK\$0.3148; and (d) HK\$0.3768 and HK\$0.3655 respectively. The movements in the earnings per Share generally followed the movements of the Group's financial results.

(4) Dividends

Total dividend per Share for the financial years ended 31 December 2017 and 2018 was HK\$0.35 and HK\$0.30 respectively. No interim dividend was declared for the six months ended 30 June 2018 and 2019. The Company's implied dividend yield based on the Share Offer Price of HK\$5.89 per Offer Share and the total dividend of the Company of HK\$0.30 for the year ended 31 December 2018 is approximately 5.09%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *Financial position*

Set out below is an extract of the financial position of the Group (a) as at 31 December 2017 and 2018 (both 2017 and 2018 financial position having been extracted from the Company's 2018 annual report); and (b) as at 30 June 2019 (having been extracted from the Company's 2019 interim report).

	<b>As at</b>	<b>As at 31 December</b>	
	<b>30 June</b>	<b>2018</b>	<b>2017</b>
	(Unaudited)	(Audited)	(Audited)
	(HK\$'000)	(HK\$'000)	(HK\$'000)
Total assets	4,794,261	4,704,893	4,113,052
Total liabilities	3,089,023	3,029,619	2,617,853
Equity attributable to owners of the parent	1,628,664	1,598,775	1,495,199

As at 30 June 2019, the Group's total assets were approximately HK\$4,794 million. Assets of the Group mainly include (a) property, plant and equipment of approximately HK\$935 million; (b) inventories of approximately HK\$1,134 million; and (c) trade and bills receivables of approximately HK\$1,414 million. As at 30 June 2019, the Group recorded total liabilities amounted to approximately HK\$3,089 million, which mainly consisted of (a) trade and bills payables of approximately HK\$1,756 million; and (b) other payables and accruals of approximately HK\$671 million.

As at 30 June 2019, the Group had interest-bearing bank borrowings of approximately HK\$296 million. Taking into account the cash and bank balances amounting to approximately HK\$704 million, the Group had a net cash balance of approximately HK\$408 million as at 30 June 2019. The gearing ratio of the Group as at 30 June 2019, measured by total interest-bearing bank borrowings divided by equity attributable to owners of the parent, was approximately 18%, as compared to approximately 5% as at 31 December 2018 mainly due to increase in bank borrowings. The gearing ratio of Suga International Holdings Limited (stock code: 912); Alco Holdings Limited (stock code: 328); and China Sinostar Group Company Limited (stock code: 485) (i.e. the Comparable Companies (as defined below)) calculated on the same basis based on the information disclosed in their latest annual reports are approximately 10%, 14% and 7% respectively. The gearing ratio of the Group of approximately 18% as at 30 June 2019 is higher than the gearing ratios of the Comparable Companies. As set out in Appendix II to the Composite Document, as at 30 September 2019, the Group had bank borrowings and capital commitments of approximately HK\$232.8 million and HK\$107.9 million respectively.

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The Group's consolidated equity attributable to owners of the parent amounted to approximately HK\$1,599 million and HK\$1,629 million as at 31 December 2018 and 30 June 2019, with a value per Share of approximately HK\$5.95 and HK\$6.06 respectively (calculated based on 268,746,877 Shares in issue as at the Latest Practicable Date). The Share Offer Price of HK\$5.89 per Offer Share represents a discount of approximately 1.0% and 2.8% to the net asset value per Share attributable to owners of the parent as at 31 December 2018 and 30 June 2019 respectively.

**(b) Prospects of the Group**

As discussed in the paragraph headed "Background and financial information of the Group" above, during 2018 and the first half of 2019, the smart audio speaker business of the Group maintained a relatively rapid growth, which was attributable to, among others, a rapid growth in the global market of smart products. As set out in the Company's 2019 interim report and as advised by the management of the Company, according to the market data report for the first quarter of 2019 issued by International Data Corporation<sup>1</sup> ("IDC"), an independent market research institution, in terms of smart home equipment, smart speakers (screen-equipped smart speaker included) had a growth rate of approximately 37% in global shipments and reached 23.20 million units in the first quarter of 2019. The shipment of smart speakers in the PRC market exceeded 10 million units in the first quarter of 2019, reaching 11.22 million units, representing a significant growth comparing with the same period in 2018. As further disclosed in the Company's 2019 interim report, along with the continuous development of smart voice products, more corporations are expected to enter this field in the future and the market competition is expected to become fiercer. In addition, along with the intensifying trade dispute between the PRC and the U.S. and the rising of trade barriers around the world, the tension in trading was escalating which posed significant challenges to the global economy and the future business development of the Group. Notwithstanding the challenges above, the Group will continue to devote great effort to the development of its smart and ancillary product businesses, in particular, smart voice speakers and other voice-related smart eco-ancillary products. The Group will also continue to seek viable business expansion opportunities with the aim to enhance the long-term value of the Group and generate more return for its Shareholders. The executive Directors consider, and we concur, that the long-term prospects of the Group remain generally positive, but not without challenges.

<sup>1</sup> As stated on IDC's official website, IDC is a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. With more than 1,100 analysts worldwide, IDC offers global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries.

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### **3. Information on the Offeror, the Purchaser, and their intentions in relation to the Group**

As set out in the section headed “Information on the Offeror” in the “Letter from UBS” of the Composite Document, the Offeror is a company with a diverse investment portfolio incorporated in Hong Kong on 16 July 1996. Its investments are principally in the business of manufacture and distribution of colour television sets, audio-visual products and mobile phones, as well as trading of related components. The Offeror also has investments in property and development and distribution of digital and other electronic products. Upon the Restructuring Completion and as of the Latest Practicable Date, the Offeror was wholly-owned by the Purchaser, a company incorporated in the PRC on 17 September 2018. The Offeror directly held 130,741,170 Shares, representing approximately 48.65% of the issued share capital of the Company as at the Latest Practicable Date. Further details regarding the Offeror and the Purchaser are set out in the sections headed “Information on the Offeror” and “Information on the Purchaser” in the “Letter from UBS” of the Composite Document. The Mandatory General Offer has been triggered by the Restructuring Completion and is not, in our view, intended to enable the Offeror to acquire more shares.

As set out in the sections headed “Intention of the Purchaser and the Offeror in Relation to the Group” and “No Change to the Board Composition” in the “Letter from UBS” of the Composite Document, it is the intention of the Purchaser and the Offeror to continue with the Group’s existing principal business following the close of the Mandatory General Offer. The Purchaser and the Offeror do not intend to introduce any major changes to the existing business and operation of the Group following the close of the Mandatory General Offer. The Purchaser and the Offeror do not intend to discontinue the employment of the employees of the Group or to dispose of or re-deploy the material assets of the Group. The Purchaser and the Offeror will continue to ensure good corporate governance, monitor and review the Group’s business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the Group. As at the Latest Practicable Date, it is intended that there will be no change to the Board composition following the close of the Mandatory General Offer.

### **4. Maintenance of the listing status of the Company**

As set out in the section headed “Intention of the Purchaser and the Offeror to Maintain the Listing of the Company” in the “Letter from UBS” of the Composite Document, the Purchaser and the Offeror intend to maintain the listing status of the Company on the Main Board of the Stock Exchange following the close of the Mandatory General Offer. The directors of the Purchaser and the Offeror undertake to the Stock Exchange that, in the event that the public float of the Company falls below 25% following the close of the Mandatory General Offer, appropriate steps will be taken as soon as possible following the close of the Mandatory General Offer to ensure a sufficient public float.

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The Stock Exchange has stated that if, upon closing of the Mandatory General Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

### 5. Analysis of the Share Offer Price

#### (a) Historical price performance of the Shares

The chart below illustrates the daily closing price per Share from 1 January 2018 up to and including the Latest Practicable Date (the “**Review Period**”), and the comparison of the Share price performance with the Hang Seng Index (“**HSI**”) and the Share Offer Price.



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As illustrated in the chart above, the performance of the Shares has in general followed the HSI during the Review Period. From the beginning of 2018 to mid-March 2018, the Share prices closed between HK\$7.70 and HK\$10.00 per Share. Afterwards, the Share price showed a general downward trend and closed at HK\$4.70 as at 22 October 2018. Since 22 October 2018 up to 12 December 2018, the Share price showed a general upward trend and closed at HK\$6.19 on 12 December 2018. Between the period of 13 December 2018 and 15 March 2019, the Shares closed between HK\$5.72 and HK\$6.09. On 15 March 2019 (after trading hours), the Company's 2018 annual results announcement was published. Afterwards, the Share price showed a general upward trend and closed at HK\$7.10 as at 23 April 2019. After that the Share Price trended downward and bottomed at HK\$4.84 on 28 June 2019. The Share Price saw a rebound in July 2019 and closed at HK\$5.78 as at 31 July 2019. Since August and up to 2 October 2019, the Share prices closed between HK\$5.45 and HK\$6.00. On 2 October 2019 (after trading hours), the Company published the Joint Announcement. Share price closed at HK\$5.86 on the following day (3 October 2019), representing an increase of approximately 3.0% compared to the closing Share price of HK\$5.69 on 2 October 2019. Since the publication of the Joint Announcement up to and including the Latest Practicable Date, the Share price closed in a range of HK\$5.85 to HK\$5.88, which is slightly below the Share Offer Price. As at the Latest Practicable Date, the Shares closed at HK\$5.87, representing a slight discount of approximately 0.3% to the Share Offer Price.

**(b) Offer price comparisons**

The Share Offer Price of HK\$5.89 per Offer Share represents:

- (i) a premium of approximately 7.1% over the closing price of HK\$5.50 per Share as quoted on the Stock Exchange on the last Business Day preceding the date of the Joint Announcement;
- (ii) a premium of approximately 3.5% over the closing price of HK\$5.69 per Share as quoted on the Stock Exchange on the date of the Joint Announcement;
- (iii) a premium of approximately 5.6% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.58 per Share;



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- (iv) a premium of approximately 6.3% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.54 per Share;
- (v) a premium of approximately 4.6% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.63 per Share;
- (vi) a premium of approximately 3.9% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the sixty (60) consecutive trading days up to and including the date of the Joint Announcement of approximately HK\$5.67 per Share; and
- (vii) a premium of approximately 0.3% over the closing price of HK\$5.87 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In summary, the Share Offer Price of HK\$5.89 per Offer Share represents (a) premium in a range of approximately 3.5% to 7.1% over the closing Share prices for different periods up to and including the date of the Joint Announcement; and (b) a discount of approximately 1.0% and 2.8% to the net asset value per Share attributable to owners of the parent as at 31 December 2018 and 30 June 2019 respectively.

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**(c) Trading liquidity**

Set out in the table below are the monthly total trading volume of the Company's Shares and the percentages of such monthly total trading volume to the total issued Shares and the public float of the Company during the period from 1 January 2018 up to and including the Latest Practicable Date:

	<b>Monthly total trading volume of the Shares (Note 1)</b>	<b>Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 2)</b>	<b>Percentage of the monthly total trading volume of the Shares to the public float of the Company (Note 2 and 3)</b>
<b>2018</b>			
January	12,339,543	4.6%	12.4%
February	3,448,539	1.3%	3.5%
March	6,453,725	2.4%	6.5%
April	1,934,365	0.7%	1.9%
May	1,842,588	0.7%	1.9%
June	2,592,247	1.0%	2.6%
July	4,088,245	1.5%	4.1%
August	2,167,340	0.8%	2.2%
September	931,034	0.3%	0.9%
October	2,649,962	1.0%	2.6%
November	1,505,120	0.6%	1.5%
December	1,347,159	0.5%	1.3%
<b>2019</b>			
January	1,310,670	0.5%	1.3%
February	1,377,330	0.5%	1.4%
March	3,054,449	1.1%	3.0%
April	3,107,351	1.2%	3.1%
May	912,669	0.3%	0.9%
June	2,338,661	0.9%	2.3%
July	1,506,728	0.6%	1.5%
August	710,636	0.3%	0.7%
September	1,131,609	0.4%	1.1%
October	32,826,776	12.2%	32.6%
From 1 November up to and including the Latest Practicable Date	2,364,213	0.9%	2.3%

Notes:

1. Source: Bloomberg

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2. The calculation is based on the monthly total trading volume of the Company's Shares divided by the total issued Shares of the Company or the total number of Shares in public float at the end of each month (or as at the Latest Practicable Date for November 2019).
3. The total number of Shares in public float is calculated based on the number of Shares held by the public (within the meaning of the Listing Rules) at the end of each month (or as at the Latest Practicable Date for November 2019).

During the period from February 2018 to September 2019, the percentages of the monthly total trading volume of the Shares to the total issued Shares were within the range of approximately 0.3% to 2.4%, and the percentages of the monthly total trading volume of the Shares to the public float of the Company were within the range of approximately 0.7% to 6.5%, which we regard as generally low. The percentages of the monthly total trading volume of the Shares to the total issued Shares and the public float of the Company for January 2018 were approximately 4.6% and 12.4% respectively. The management of the Company advised us that they are not aware of any reasons for the higher trading volume in January 2018. In our opinion, the publication of the Joint Announcement on 2 October 2019 (after trading hours) heightened the trading activity in October 2019, with the total trading volume of the Shares increased to 32,826,776 Shares (representing approximately 12.2% of the total issued Shares and approximately 32.6% of the public float of the Company) in October 2019. The percentages of the total trading volume of the Shares from 1 November 2019 up to and including the Latest Practicable Date to the total issued Shares and the public float of the Company as at the Latest Practicable Date were approximately 0.9% and 2.3% respectively. In view of the above, if Independent Shareholders (especially those with a significant number of Shares) wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The Share Offer provides an exit alternative for the Independent Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price without disturbing the market price.

***(d) Independent valuation of 100% equity interests in the Company***

As set out in Appendix V to the Composite Document, the appraised value of 100% equity interests in the Company as of 30 June 2019 under the income approach prepared by the PRC Appraiser (Shenzhen) amounted to RMB1,435,602,400, which is equivalent to approximately HK\$6.08 per Share (calculated based on (i) 268,746,877 Shares in issue as at the Latest Practicable Date; and (ii) the applicable exchange rate of RMB1.00 to HK\$1.1375 as at 30 June 2019). The Share Offer Price of HK\$5.89 per Offer Share represents a slight discount of approximately 3.1% to such value. The PRC Appraiser (Shenzhen) has confirmed that there is no material change to the value of the Company as of 30 September 2019 from the valuation benchmark date of the updated appraisal report, being 30 June 2019. The main content of the updated appraisal report dated 1 November 2019 is contained in Appendix V to the Composite Document.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The appraised value of the Company has been derived from income approach which takes into account the future cash flow forecast of the Group. As such the valuation is regarded as a profit forecast pursuant to R10 of the Takeovers Code and is required to be reported on. In this connection, we have issued a letter (the “**R10 Letter**”) contained in Appendix VII to the Composite Document. Furthermore, our report on the qualifications and experience of the PRC Appraiser (Shenzhen) is required under R11.1(b) of the Takeovers Code and the R10 Letter also constitutes such report from us.

**(e) Price to earnings**

As mentioned in the sub-section headed “Information and prospects of the Group” of this letter, the Group is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets) for third parties’ brands on an ODM (original design manufacture) basis. For the financial year ended 31 December 2018, revenue derived from audio products, headphones and ancillary product businesses (which is ancillary to the smart products business), together accounted for over 90% of the Group’s total revenue. Accordingly, we have conducted a search on Bloomberg for companies listed on the Main Board of the Stock Exchange, which, based on their latest published annual reports available as at the date immediately prior to the Latest Practicable Date, are principally engaged in the consumer electronics business involving audio products and components. We have identified three companies namely, Suga International Holdings Limited (stock code: 912); Alco Holdings Limited (stock code: 328); and China Sinostar Group Company Limited (stock code: 485) (collectively, the “**Comparable Companies**”), which represent an exhaustive list of companies comparable to the Company based on the criteria above. Suga International Holdings Limited has a price to earnings (“**P/E**”) ratio of approximately 8.3 times as at the date immediately prior to the Latest Practicable Date (as sourced from Bloomberg). Alco Holdings Limited and China Sinostar Group Company Limited recorded net loss for the latest financial year, therefore analysis on P/E ratios are not applicable. The implied P/E of the Company at the Share Offer Price is approximately 6.7 times (*Note*). Given there is only one company available for comparison as set out above, we do not consider it sufficient to form a meaningful analysis on the implied P/E of the Company at the Share Offer Price. We also note that there are companies listed on overseas stock exchanges which are engaged in the consumer electronics business involving audio products and components. However, given that these companies are listed in overseas markets with different characteristics to Hong Kong (for example, valuation, ratio between institutional investors and retail investors, regulations), we consider that a comparison with such companies may not provide meaningful information for the Independent Shareholders.

*Note:* The implied P/E ratio of the Company at the Share Offer Price is calculated as the Share Offer Price of HK\$5.89 per Offer Share divided by the basic earnings per share of the Company, which is calculated as the trailing twelve months profit attributable to owners of the parent divided by the number of Shares in issue as at the Latest Practicable Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Accordingly, we have not performed any peer analysis for the Share Offer. Our analysis of the Share Offer has been set out in other parts of this sub-section including analysis on historical Share price and trading liquidity as set out above.

### THE OPTION OFFER

UBS on behalf of the Offeror makes an appropriate offer to the Optionholders at the Option Offer Price to cancel all outstanding Share Options (exercisable and not exercisable, other than those held by persons acting in concert with the Purchaser and/or the Offeror) in accordance with Rule 13 of the Takeovers Code, which is conditional upon the Share Offer becoming or being declared unconditional in all respects. As at the Latest Practicable Date, there were 32,883,516 outstanding Share Options granted under the Share Option Scheme, among which 23,451,786 Share Options were exercisable and 9,431,730 Share Options were not exercisable. The Share Options have exercise prices in the range of HK\$4.05 to HK\$9.60.

As set out in the sub-section headed “Terms of the Mandatory General Offer” under the section headed “Mandatory Conditional Cash Offers” in the “Letter from UBS” of the Composite Document, under the Option Offer, the Offeror will offer Optionholders the Option Offer Price, which in general should be the “see-through” price (being the Share Offer Price minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option they hold for the cancellation of every exercisable and not exercisable Share Option in accordance with Rule 13 and Practice Note 6 of the Takeovers Code. As some of the exercise prices of the Share Options are above the Share Offer Price, the Option Offer Price for cancellation of each of those Share Option is a nominal amount of HK\$0.0001 for each Share Option. For 5,504,532 outstanding Share Options with exercise price of HK\$4.05, the “see-through” price is HK\$1.84. For (i) 18,010,018 outstanding Share Options with exercise price of HK\$7.84; and (ii) 9,368,966 outstanding Share Options with exercise price of HK\$9.60, the “see-through” price is zero and the Option Offer Price of a nominal amount of HK\$0.0001 for each Share Option will be made. The “see-through” principle is normally adopted in Hong Kong for pricing option offers which form part of general offers and privatisation proposals and is in accordance with Rule 13 and Practice Note 6 of the Takeovers Code.

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As at the Latest Practicable Date, (i) all of 5,504,532 outstanding Share Options with exercise price of HK\$4.05 are exercisable; (ii) among the 18,010,018 outstanding Share Options with exercise price of HK\$7.84, 8,578,288 Share Options are exercisable and 9,431,730 Share Options are not exercisable; and (iii) all of 9,368,966 outstanding Share Options with exercise price of HK\$9.60 are exercisable. Pursuant to the Share Option Scheme, if any outstanding and exercisable Share Option is not exercised within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional, such Share Option will automatically lapse. The Optionholders may accept the Option Offer at any time from the commencement of the Option Offer up to 4:00 p.m. on the Closing date. If Optionholders do not accept the Option Offer, they may nonetheless exercise their Share Options (only to the extent exercisable) within the twenty-one (21) Business Days period as set out above. For the Share Options that are not exercisable, they will still be subject to original vesting schedules and exercise prices under the Share Option Scheme, and therefore will not lapse upon the expiry of the twenty-one (21) Business Days period as set out above. The Optionholders can only exercise such Share Options after they become exercisable in accordance with their original vesting schedules. In view of the minimal proceeds from accepting the Option Offer, Optionholders with Share Options that are not exercisable, should, in our view, keep their Share Options so as to benefit from their potential future value. Further details in relation to the Mandatory General Offer are set out in the “Letter from UBS”, “Further terms and procedures for acceptance of the Mandatory General Offer” and “Sample Notice to Optionholders and Grantees” in Appendix I and XV to the Composite Document respectively.

### DISCUSSION

#### (i) The Share Offer

##### (a) *Financial performance and prospects of the Group*

The Group recorded an increase in profit attributable to owners of the parent in 2018 of approximately 12% compared to 2017, and an increase of approximately 15% in the first half of 2019 compared to same period in 2018. The increase was mainly attributable to the increase in revenue from sales of the Group’s audio products and headphones. As disclosed in the Company’s 2019 interim report, along with the continuous development of smart voice products, more corporations are expected to enter this field in the future and the market competition is expected to become fiercer. Further, along with the intensifying trade dispute between the PRC and the U.S. and the rising of trade barriers around the world, the tension in trading was escalating which posed significant challenges to the global economy and the future business development of the Group. The Group will continue to seek viable business expansion opportunities with the aim to enhance the long-term value of the Group and generate more return for its Shareholders. The executive Directors consider that the long-term prospects of the Group remain generally positive, but not without challenges.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group's consolidated equity attributable to owners of the parent amounted to approximately HK\$1,629 million as at 30 June 2019, with a value per Share of approximately HK\$6.06. The Share Offer Price of HK\$5.89 per Offer Share represents a discount of approximately 2.8% to the net asset value per Share attributable to owners of the parent as at 30 June 2019.

**(b) Share Offer Price compared to historical Share prices**

We have assessed the fairness of the Share Offer Price by reviewing Share prices of the Company during the Review Period. The Share Offer Price of HK\$5.89 per Offer Share represents a premium in a range of approximately 3.5% to 7.1% over the closing Share prices for different periods up to and including the date of the Joint Announcement. Since the publication of the Joint Announcement and up to and including the Latest Practicable Date, the Shares closed at a range of HK\$5.85 to HK\$5.88, which is slightly below the Share Offer Price. As at the Latest Practicable Date, the Shares closed at HK\$5.87, representing a slight discount of approximately 0.3% to the Share Offer Price. **The Purchaser and the Offeror will not increase the Share Offer Price and do not reserve the right to do so.**

**(c) Trading liquidity**

Trading in the Shares was generally low during the Review Period. Accordingly, if the Independent Shareholders (especially those with a significant number of Shares) wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The Share Offer provides an exit alternative for the Independent Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price (at a premium over the average historical Share price for different periods (60, 30, 10 and 5 consecutive trading days up to and including the date of the Joint Announcement, the date of the Joint Announcement and the last Business Day preceding the date of the Joint Announcement)) without disturbing the market price.

**(d) Valuation of the Company**

As discussed in this letter above, the appraised value of 100% equity interests in the Company as of 30 June 2019 under the income approach prepared by the PRC Appraiser (Shenzhen) amounted to RMB1,435,602,400, which is equivalent to approximately HK\$6.08 per Share. The Share Offer Price of HK\$5.89 per Offer Share represents a slight discount of approximately 3.1% to such value. The PRC Appraiser (Shenzhen) has confirmed that there is no material change to the value of the Company as of 30 September 2019 from the valuation benchmark date of the updated appraisal report, being 30 June 2019. As explained in this letter above, we have not performed an analysis of the Share Offer based on comparable companies due to limited number of companies available for comparison as set out in the paragraph headed "Price to earnings" of this letter above.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Despite the Share Offer Price represents a slight discount to the net asset value per Share attributable to owners of the parent as at 30 June 2019 and the appraised value per Share of the Company as of 30 June 2019 (approximately 2.8% and 3.1%, respectively), in view of the factors summarised in this section above, and in particular, (i) the premium of the Share Offer Price ranging from 3.5% to 7.1% over the average historical market price of the Shares for different periods (60, 30, 10 and 5 consecutive trading days up to and including the date of the Joint Announcement, the date of the Joint Announcement and the last Business Day preceding the date of the Joint Announcement) as discussed above; (ii) the generally low trading liquidity of the Shares during the Review Period; and (iii) prospects of the Group as discussed in the sub-section headed “Information and prospects of the Group” of this letter, we consider the Share Offer Price is fair and reasonable.

### **(ii) The Option Offer**

The Option Offer Price for the outstanding Share Options is determined by reference to the Share Offer Price of HK\$5.89 and the exercise price of the Share Options of HK\$4.05, HK\$7.84 and HK\$9.60. This is the “see-through” principle which is in line with market practice and is in accordance with Rule 13 and Practice Note 6 of the Takeovers Code.

## **OPINION AND RECOMMENDATIONS**

### **(i) The Share Offer**

Based on the above principal factors and reasons and as summarised in the section headed “Discussion” above, we consider the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer, with the provisos set out below.

Independent Shareholders should note that the Shares closed at a price ranging from HK\$5.85 to HK\$5.88 since the publication of the Joint Announcement and up to and including the Latest Practicable Date. If the market price of the Shares exceeds the Share Offer Price during the Offer Period, Independent Shareholders who are inclined to accept the Share Offer should instead sell their Shares in the market if the sales proceeds, net of transaction costs, exceed HK\$5.89 per Share.

Independent Shareholders who are attracted to the prospects of the Group and the industry may consider retaining their Shares. Such Independent Shareholders should bear in mind possibility of a temporary suspension in trading of the Shares following the close of the Mandatory General Offer if the public float requirement is not met. The directors of the Purchaser and Offeror undertake to the Stock Exchange that appropriate steps will be taken as soon as possible following the close of the Mandatory General Offer to ensure a sufficient public float.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Independent Shareholders are reminded to monitor carefully the market price and liquidity of the Shares during the Offer Period.

**(ii) The Option Offer**

We consider the terms of the Option Offer, which are based on the “see through” principle, to be fair and reasonable so far as the Optionholders are concerned. For holders of outstanding and exercisable Options, we recommend the Independent Board Committee to advise such Optionholders to accept the Option Offer. Such Optionholders are reminded to closely monitor the market price of the Shares during the period for acceptance, bearing in mind that any outstanding and exercisable Share Options not exercised within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional will automatically lapse. Such Optionholders may accept the Option Offer at any time from the commencement of the Option Offer up to 4:00 p.m. on the Closing Date.

For the Share Options that are not exercisable, they will still be subject to original vesting schedules and exercise prices under the Share Option Scheme, and therefore will not lapse upon the expiry of the twenty-one (21) Business Days period as set out above. In view of the minimal proceeds from accepting the Option Offer, we recommend the Independent Board Committee to advise holders of Share Options that are not exercisable (with exercise price of HK\$7.84) not to accept the Option Offer and keep their Share Options so as to benefit from their potential future value.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Stephanie Chow**  
*Director*

*Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over ten years' experience in the corporate finance industry.*

**1. PROCEDURES FOR ACCEPTANCE****The Share Offer**

- (a) To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Share Offer.
- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer, you must send the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand, to the Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, marked "Tonly Electronics Holdings Limited – Share Offer" on the envelope, in any event no later than 4:00 p.m. on the first Closing Date or such later time and/or date as the Purchaser and the Offeror may determine and announce in accordance with the Takeovers Code.
- (c) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your holding of Shares (whether in full or in part), you must:
  - (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the duly completed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (ii) arrange for the Shares to be registered in your name through the Registrar, and deliver the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (iii) if your Shares have been lodged with a licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct the licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with the licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to the licensed securities dealer/registered institution in securities/custodian bank as required by them; or
- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.
- (d) If the Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof). Such action will be deemed to be an irrevocable authority to the Offeror and/or UBS or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

- (f) Acceptance of the Share Offer will be treated as valid only if the completed **WHITE** Form of Share Offer Acceptance is received by the Registrar on or before 4:00 p.m. on the first Closing Date and the Registrar has recorded the acceptance and any relevant documents required by the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or
  - (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph of this paragraph (f)); or
  - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (g) Seller's ad valorem stamp duty payable by Independent Shareholders who accept the Share Offer calculated at a rate of 0.1% of the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, or if higher, the market value of the Offer Shares subject to such acceptance as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to those Independent Shareholders who accept the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Independent Shareholders who accept the Share Offer and pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (h) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

- (i) If the Share Offer does not become, or is not declared, unconditional as to acceptances on the first Closing Date, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the Independent Shareholders who have accepted the Share Offer by ordinary post at the Independent Shareholders' own risk as soon as possible but in any event within ten (10) days after the Share Offer has lapsed.

**The Option Offer**

- (a) To accept the Option Offer, you should complete the **PINK** Form of Option Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Option Offer.
- (b) The completed **PINK** Form of Option Offer Acceptance should be forwarded, together with all letter(s) of grant and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) in respect of the Share Option(s) so tendered for acceptance, stating the number of Shares underlying the Share Option(s) in respect of which you intend to accept the Option Offer, by post or by hand, to the company secretary of the Company at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, marked "Tonly Electronics Holdings Limited – Option Offer" on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address by no later than 4:00 p.m. on the first Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

- (c) If the letter(s) of grant in respect of the Share Option(s) and/or other document of title (and/or satisfactory indemnity or indemnities required in respect thereof) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Option Offer, the **PINK** Form of Option Offer Acceptance should nevertheless be completed and delivered to the company secretary of the Company together with a letter stating that you have lost one or more of the letter(s) of grant in respect of the Share Option(s) and/or other document of title (and/or satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the company secretary of the Company as soon as possible thereafter. If you have lost your letter(s) of grant, you should also write to the company secretary of the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of the Company.
- (d) If the letter(s) of grant in respect of your Share Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, you must exercise the Share Options to the extent exercisable as indicated in the paragraph headed “3. Exercise of Share Options” of this Appendix below, but (i) the relevant exercise notice and cheque for the subscription monies must reach the company secretary of the Company before the earlier of (a) the Mandatory General Offer close, or (b) the expiry date of twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional; and (ii) the relevant **WHITE** Form of Share Offer Acceptance together with a copy of the set of documents delivered to the company secretary of the Company for exercising the Share Options must reach the Registrar on or before 4:00 p.m. on the first Closing Date. You should also write to the company secretary of the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of the Company.
- (e) No acknowledgement of receipt of any **PINK** Form of Option Offer Acceptance, letter(s) of grant for the Share Options and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (f) No stamp duty will be deducted from the amount paid or payable to Optionholder who accepts the Option Offer.

- (g) The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. If the Share Offer is withdrawn (where permitted) or lapses, the Option Offer will be withdrawn or lapse too. In such case, all letter(s) of grant and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) received by the company secretary of the Company will be returned to the Optionholders who have accept the Option Offer by ordinary post at the Optionholders' own risk as soon as possible but in any event within ten (10) days after the Share Offer has lapsed.

## **2. ACCEPTANCE PERIOD AND REVISIONS**

Unless the Mandatory General Offer is revised or extended with the consent of the Executive, the Forms of Acceptance must be received by the Registrar and/or the company secretary of the Company by 4:00 p.m. on the first Closing Date in accordance with the instructions printed thereon. The Mandatory General Offer is conditional upon the Offeror having received valid acceptances in respect of the Share Offer which, together with the Shares already acquired by the Purchaser, the Offeror and parties acting in concert with any of them before or during the Offer Period, will result in the Purchaser, the Offeror and any parties acting in concert with any of them holding more than 50% of the voting rights of the Company. Pursuant to the Takeovers Code, where the Mandatory General Offer becomes or is declared unconditional, the Mandatory General Offer will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Mandatory General Offer becomes or is declared unconditional.

If the Mandatory General Offer is extended, the announcement of such extension will state the next Closing Date or if the Mandatory General Offer is unconditional as to acceptances, the announcement will contain a statement that the Mandatory General Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to the Independent Shareholders and Optionholders before the Mandatory General Offer is closed and an announcement must be published. If, in the course of the Mandatory General Offer, the Offeror revises the terms of the Mandatory General Offer, all Independent Shareholders and Optionholders, whether or not they have already accepted the Mandatory General Offer, will be entitled to accept the revised Mandatory General Offer under the revised terms. The revised Mandatory General Offer must be kept open for at least 14 days following the date on which the revised offer document(s) are posted and shall not close earlier than the Closing Date.

If the Closing Date is extended, any reference in this Composite Document and in the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Mandatory General Offer as so extended.

However, the Mandatory General Offer will not be extended beyond the first Closing Date unless the Mandatory General Offer becomes unconditional and the Mandatory General Offer would then remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code. The Purchaser and the Offeror will also not increase the Share Offer Price. Shareholders, Optionholders and potential investors of the Company should be aware that, following the making of this statement, the Purchaser and the Offeror do not reserve the right to increase the Share Offer Price.

Any acceptance of the relevant revised Mandatory General Offer shall be irrevocable unless and until the Independent Shareholders and Optionholders who accept the Mandatory General Offer become entitled to withdraw their acceptance under the paragraph headed “5. Right of Withdrawal” of this Appendix below and duly do so.

### 3. EXERCISE OF SHARE OPTIONS

Any Optionholder who wishes to accept the Share Offer may (i) exercise his/her/its Share Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the Share Options together with a cheque for payment of the subscription monies and the letter(s) of grant for the Share Options to the Company, or in any other methods of exercising the Share Options acceptable to the Company, before the earlier of (a) Mandatory General Offer close, or (b) the expiry date of twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional; and (ii) at the same time, or in any event no later than 4:00 p.m. on the Closing Date, complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to the Company for exercising the Share Options. Exercise of the Share Options is subject to the respective terms and conditions of the scheme rules of the Share Option Scheme and the terms attaching to the grant of the relevant Share Options. Delivery of the completed and signed **WHITE** Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the Share Options but will only be deemed to be an irrevocable authority to the Purchaser, the Offeror and/or UBS and/or any of their respective agent(s) or such other person(s) as they may direct to collect from the Company or the Registrar on his/her/its behalf the relevant Share certificate(s) when issued on exercise of the Share Options as if it/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance. If the Optionholder fails to exercise his/her/its Share Options as aforesaid and in accordance with the terms and conditions of the scheme rules of the Share Option Scheme, there is no guarantee that the Company may issue the relevant Share certificate in respect of the Shares allotted pursuant to his/her/its exercise of the Share Option(s) to such Optionholder in time for he/she/it to accept the Share Offer as a Shareholder of such Shares under the terms of the Share Offer.



**4. ANNOUNCEMENTS**

By 6:00 p.m. on the first Closing Date (or such later time and/or date as the Executive agrees), the Purchaser and the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry or unconditionality of the Mandatory General Offer. The Offeror must post an announcement on the Stock Exchange's website no later than 7:00 p.m. on the first Closing Date stating, amongst other information required under the Takeovers Code, the results of the Mandatory General Offer and whether the Mandatory General Offer has been revised or extended, has expired or has become or been declared unconditional.

The announcement will state the following:

- (a) the total number of Shares and rights over Shares for which acceptances of the Share Offer and Share Options for which acceptance of the Option Offer have been received;
- (b) the total number of Shares, rights over Shares and Share Options held, controlled or directed by the Purchaser, the Offeror or parties acting in concert with any of them before the Offer Period; and
- (c) the total number of Shares, rights over Shares and Share Options acquired or agreed to be acquired during the Offer Period by the Purchaser, the Offeror or parties acting in concert with any of them.

The announcement must include details of any relevant securities (as defined in the Takeovers Code) in the Company which the Purchaser, the Offeror or any parties acting in concert with any of them have borrowed or lent, save for any borrowed Shares which have been either on-lent or sold. The announcement will also specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

In computing the total number of Shares and Share Options represented by acceptances, only valid acceptances that are complete which have been received by the Registrar (as regards the Share Offer) or the company secretary of the Company (as regards the Option Offer) no later than 4:00 p.m. on the first Closing Date, shall be included.

As required under the Takeovers Code, all announcements in relation to the Mandatory General Offer which the Executive and the Stock Exchange have confirmed that they have no further comments thereon must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

**5. RIGHT OF WITHDRAWAL**

The Mandatory General Offer is conditional upon fulfilment of the Condition set out in the “LETTER FROM UBS” in this Composite Document. Acceptance of the Mandatory General Offer tendered by Shareholders and the Optionholders, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the sub-paragraphs (a) and (b) below:

- (a) in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Mandatory General Offer shall be entitled to withdraw his/her/its acceptance after 21 days from the first Closing Date (being 13 December 2019) and if the Mandatory General Offer has not by then become unconditional as to acceptances. An acceptor of the Mandatory General Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar (in relation to the Share Offer) or the company secretary of the Company (in relation to the Option Offer); or
- (b) in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Purchaser or the Offeror are unable to comply with any of the requirements of making announcements relating to the Mandatory General Offer as described under the paragraph headed “4. Announcements” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

In such case, when the Shareholders and/or Optionholders withdraw their acceptance(s), the Purchaser and the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s), certificate(s) and/or letter(s) of grant for the Share Options, and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Forms of Acceptance to the relevant Shareholder(s) and the Optionholder(s) at their own risks. Save as aforesaid, acceptances of the Mandatory General Offer shall be irrevocable and not capable of being withdrawn.

**6. SETTLEMENT OF THE MANDATORY GENERAL OFFER****The Share Offer**

Subject to the Mandatory General Offer becoming or being declared unconditional in all respects and provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title and/or transfer receipt(s) (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar no later than the latest time for acceptance, a cheque for the amount due to each accepting Shareholder less seller's ad valorem stamp duty in respect of the Offer Shares tendered by it/him/her under the Share Offer will be despatched to such Shareholder by ordinary post at its/his/her own risk as soon as possible but in any event within seven (7) Business Days following the later of (i) the date of receipt by the Registrar of all relevant documents which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code; and (ii) the date on which the Mandatory General Offer becomes or is declared unconditional in all respects.

Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

No fractions of a cent will be payable and the amount of consideration payable to an Independent Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

**The Option Offer**

Subject to the Mandatory General Offer becoming or being declared unconditional in all respects and provided that a valid **PINK** Form of Option Offer Acceptance and the relevant certificate(s) and letter(s) of grant for the Share Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the company secretary of the Company no later than the latest time for acceptance, a cheque for the amount due to each accepting holder of Share Options in respect of the Share Options tendered by it/him/her under the Option Offer will be despatched to such holder of Share Options by ordinary post at its/his/her own risk as soon as possible but in any event within seven (7) Business Days following the later of (i) the date on which all the relevant documents are received by the company secretary of the Company to render such acceptance complete and valid; and (ii) the date on which the Mandatory General Offer becomes or is declared unconditional in all respects.

Settlement of the consideration to which any accepting Optionholder is entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Optionholder.

No fractions of a cent will be payable and the amount of consideration payable to an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.

## **7. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

The Mandatory General Offer will be made available to all the Independent Shareholders and Optionholders, including the Overseas Shareholders and the Overseas Optionholders. The availability of the Mandatory General Offer to any Overseas Shareholders and Overseas Optionholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders and Overseas Optionholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders and Overseas Optionholders who wish to accept the Share Offer and/or the Option Offer (as the case may be) to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Mandatory General Offer (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes and duties due by such Overseas Shareholders and Overseas Optionholders in respect of the acceptance of the Mandatory General Offer in such jurisdictions).

Any acceptance by any Overseas Shareholders and Overseas Optionholders will be deemed to constitute a representation and warranty from such Overseas Shareholders and Overseas Optionholders to the Offeror that such Overseas Shareholders and Overseas Optionholders have observed and are permitted under all applicable laws and regulations to receive and accept the Mandatory General Offer and any revision thereof, and that such Overseas Shareholders and Overseas Optionholders have obtained all requisite governmental, exchange control or other consents and have made all requisite regulations and filing in compliance with all necessary formalities and regulatory or legal requirements and have paid all transfer or other taxes and duties or other required payments due from such Overseas Shareholders and Overseas Optionholders in connection with such acceptance in such jurisdiction, and the such acceptance shall be valid and binding in accordance with all applicable laws and regulations. The Overseas Shareholders and Overseas Optionholders should consult their professional advisers if in doubt.

**8. TAX IMPLICATIONS**

Independent Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Mandatory General Offer. None of the Purchaser, the Offeror, parties acting in concert with each of them, the Company, UBS or Somerley Capital and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Mandatory General Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Mandatory General Offer.

**9. GENERAL**

- (a) All communications, notices, Form(s) of Acceptance, Share certificate(s), letter(s) of grant for the Share Options, transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Mandatory General Offer to be delivered by or sent to or from the Independent Shareholders and Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Purchaser, the Offeror, parties acting in concert with any of them, the Company or UBS and any of their respective directors nor the Registrar or other parties involved in the Mandatory General Offer or any of their respective agents accept any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form(s) of Acceptance form(s) part of the terms and conditions of the Mandatory General Offer.
- (c) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Mandatory General Offer are made will not invalidate the Mandatory General Offer in any way.
- (d) The Mandatory General Offer are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an authority to the Purchaser, the Offeror, UBS or such person or persons as the Purchaser and the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Mandatory General Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares and the Share Options in respect of which such person or persons has/have accepted the Mandatory General Offer.

- (f) By accepting the Mandatory General Offer, provided that valid Forms of Acceptances and the relevant Share certificate(s) and/or letter(s) of grant for the Share Options and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar (in respect of the Share Offer) and the company secretary of the Company (in respect of the Option Offer), (i) the Independent Shareholders will sell their Shares to the Offeror free from all liens, claims, encumbrances and all third party rights and with all rights attached thereto as at the date of this Composite Document, including the right to receive in full all dividends and other distributions, if any, declared, paid or made on or after the date of this Composite Document,;or (ii) the Optionholders will cancel their tendered Share Options and all rights attached thereto with effect from the date on which the Option Offer is made, being the date of the despatch of this Composite Document (as the case maybe). The making of the Mandatory General Offer to a person with a registered address in a jurisdiction outside Hong Kong or who is a citizen, resident or national of a jurisdiction outside Hong Kong may be affected by the applicable laws of the relevant jurisdiction. Overseas Shareholders and Overseas Optionholders with registered addresses in jurisdictions outside Hong Kong or who are citizens, residents or nationals of a jurisdiction outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions.
- (g) Acceptance of the Mandatory General Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares or Share Options in respect of which as indicated in the Form(s) of Acceptance is the aggregate number of Shares or Share Options held by such nominee for such beneficial owner who is accepting the Mandatory General Offer.
- (h) Any Independent Shareholder or Optionholder accepting the Share Offer and/or the Option Offer, respectively, will be responsible for payment of any other transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.
- (i) Reference to the Mandatory General Offer in this Composite Document and in the Form(s) of Acceptance shall include any extension or revision thereof.
- (j) All acceptances, instructions, authorities and undertakings given by the Independent Shareholders and/or Optionholders in the Form(s) of Acceptance shall be irrevocable except as permitted under the Takeovers Code.
- (k) The English text of this Composite Document and the Form(s) of Acceptance shall prevail over their respective Chinese text for the purpose of interpretation.

**10. NOMINEE REGISTRATION**

To ensure equality of treatment of all Independent Shareholders and Optionholders, those Independent Shareholders and/or Optionholders who hold Shares and/or Share Options as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. In order for beneficial owners of Shares and/or Share Options whose investments are registered in the names of nominees to accept the Mandatory General Offer, it is essential that they provide instructions of their intentions with regard to the Mandatory General Offer to their nominees.

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated financial results of the Group for each of the years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the unaudited consolidated financial results of the Group for the six months ended 30 June 2019, as extracted from the relevant published annual reports of the Company for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the Company's interim report for the six months ended 30 June 2019, respectively.

	For the six months ended 30 June 2019 (unaudited) HK\$'000	For the year ended 31 December		
		2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	3,518,176	7,302,951	5,912,479	4,265,667
Profit before tax	115,117	282,308	251,885	192,699
Income tax expense	(16,445)	(61,149)	(53,379)	(41,008)
Profit/(Loss) attributable to				
– Owners of the Company	98,295	223,135	198,648	151,775
– Non-controlling interests	377	(1,976)	(142)	(84)
Comprehensive income for the period attributable to				
– Owners of the Company	82,629	192,540	286,056	123,114
– Non-controlling interests	75	(2,486)	(130)	(93)
Earnings per share attributable to ordinary equity holders				
– Basic	HK37.68 cents	HK87.24 cents	HK78.96 cents	HK62.12 cents
– Diluted	HK36.55 cents	HK84.61 cents	HK76.71 cents	HK61.38 cents
Total dividends	Nil	80,542	93,867	62,291
Dividends per share	Nil	HK30 cents	HK35 cents	HK25 cents

The Group had no items of any income or expense that are material for each of the financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

The auditors of the Company for the three years ended 31 December 2016, 2017 and 2018 were Ernst & Young. Their opinions on the consolidated financial statements of the Group for each of the three years ended 31 December 2016, 2017 and 2018 were unqualified.



## 2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018

The Company is required to set out or refer to in this Composite Document the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2016, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2016 Financial Statements**”); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2017, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2017 Financial Statements**”); and (iii) audited consolidated financial statements of the Group for the year ended 31 December 2018, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2018 Financial Statements**”).

The 2016 Financial Statements are set out from page 76 to 167 in the 2016 Annual Report which was published on 19 April 2017. The 2016 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (<http://www.tonlyele.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0419/lt20170419297.pdf>

The 2017 Financial Statements are set out from page 81 to 171 in the 2017 Annual Report which was published on 29 March 2018. The 2017 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (<http://www.tonlyele.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0329/lt201803291441.pdf>

The 2018 Financial Statements are set out from page 89 to 223 in the 2018 Annual Report which was published on 4 April 2019. The 2018 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.com>) and the Company (<http://www.tonlyele.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0404/lt20190404547.pdf>

The 2016 Financial Statements, 2017 Financial Statements and 2018 Financial Statements (but not any other parts of the 2016 Annual Report, 2017 Annual Report and 2018 Annual Report, in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

**3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2019**

The Company is required to set out or refer to in this Composite Document the consolidated statement of profit or loss and the consolidated statement of financial position as shown in the unaudited financial results of the Group for the six months ended 30 June 2019, and significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (“**2019 Interim Financial Statements**”).

The 2019 Interim Financial Statements are set out from page 3 to 16 in the 2019 Interim Report which was published on 4 September 2019. The 2019 Interim Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.tonlyele.com/>), and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0904/ltn20190904379.pdf>

The 2019 Interim Financial Statements (but not any other parts of the 2019 Interim Report) are incorporated by reference into this Composite Document and form part of this Composite Document.

**4. INDEBTEDNESS OF THE GROUP****Borrowings**

As at the close of business of 30 September 2019, the bank borrowings of the Group were HK\$232.8 million.

**Capital commitments and contingent liabilities**

As at 30 September 2019, the Group had capital commitments of approximately HK\$107.9 million (31 December 2018: HK\$48.1 million). The Group did not have any material contingent liabilities as at 30 September 2019.

**Pledge of assets**

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 30 September 2019.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 30 September 2019 up to and including the Latest Practicable Date.

## 5. MATERIAL CHANGE

Save as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

### (1) Increase in unaudited consolidated net profit attributable to owners of the parent for the six months ended 30 June 2019

As disclosed in the Company's 2019 interim report (the "**Interim Report**"), for the six months ended 30 June 2019, the Group recorded (i) revenue amounted to approximately HK\$3,518 million, representing an increase of approximately 26% compared with the same period last year, which was mainly driven by the Group's audio products, headphones and ancillary product businesses; and (ii) net profit attributable to owners of the parent of approximately HK\$98 million, representing an increase of approximately 15% compared with the same period last year. The increase in net profit was mainly attributable to the increase in revenue mentioned above. Further details are set out in the Interim Report.

### (2) The acquisition (the "**Acquisition**") of 49% of the issued share capital of Huizhou Nikko Optoelectronics Co., Ltd. (the "**Target Company**")

As disclosed in the Company's announcement dated 20 June 2019 and the Interim Report, on 20 June 2019, Guangdong Regency Optics-electron Co., Ltd. ("**Guangdong Regency**"), a subsidiary of the Company, entered into an equity transfer agreement for the Acquisition at consideration of RMB32,590,000 (out of which RMB25,590,000 was satisfied by allotment and issuance of 10,680,000 new ordinary shares of Guangdong Regency). Completion of the Acquisition took place on 10 July 2019. Upon completion, the Target Company has become a wholly-owned subsidiary of Guangdong Regency. Further details regarding the Acquisition are set out in the Company's announcement dated 20 June 2019 and 10 July 2019.

**(3) The Restructuring and the Mandatory General Offer**

As set out in the Composite Document, immediately before the Restructuring, the Vendor held 100% of the issued share capital of the Offeror, which in turn held 130,741,170 Shares, representing approximately 48.70% of the then issued share capital of the Company. Upon the Restructuring Completion, the Purchaser holds the entire issued capital of the Offeror. Due to the Restructuring, the Purchaser and parties acting in concert with it are, pursuant to directions provided by the Executive, required to make a mandatory general offer for all the Offer Shares pursuant to Note 8 of Rule 26.1 of the Takeovers Code and to make an appropriate offer to the Optionholders for all outstanding Share Options (other than those held by persons acting in concert with the Purchaser and/or the Offeror) in compliance with Rule 13 of the Takeovers Code by way of cancellation of the Share Options. The Offeror, a wholly-owned subsidiary of the Purchaser upon the Restructuring Completion, implements the Mandatory General Offer. Further details regarding the Restructuring and the Mandatory General Offer are set out in the Joint Announcement and the “Letter from UBS” contained in this Composite Document.

**1. RESPONSIBILITY STATEMENT**

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Group and the Mandatory General Offer.

The Directors jointly and severally accept full responsibility for the accuracy of the information (in relation to the information relating the Group only) contained in this Composite Document and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document have been arrived (in relation to opinions expressed by the Directors only) at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

**2. SHARE CAPITAL**

The Shares are listed and traded on the Main Board of the Stock Exchange. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange. As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

	<i>HK\$</i>
<i>Authorised:</i>	500,000,000
<i>Issued and fully paid or credited as fully paid:</i>	<u>268,746,877</u>

Other than the Shares, there are no other classes of securities in the share capital of the Company in issue. All the Shares rank *pari passu* in all respects as regards rights to dividends, voting and capital. Since 31 December 2018 up to the Latest Practicable Date, 272,457 Shares have been issued by the Company, mainly as a result of the exercise of Share Options by the relevant Optionholders. Save for the 32,883,516 outstanding Share Options as at the Latest Practicable Date, the Company does not have any other outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares. The following is the list of outstanding Share Options:

Date of grant	Exercise price (HK\$ per Share)	Number of outstanding Share Options		Exercisable period	Number of underlying Shares
		Exercisable	Not exercisable		
30/12/2016	4.05	5,504,532	–	Note 1	5,504,532
22/09/2017	9.60	9,368,996	–	Note 2	9,368,966
21/05/2018	7.84	8,578,288	9,431,730	Note 3	18,010,018

Notes:

- (1) For Share Options granted to the employees of the Group, 50% of the Share Options granted on 30 December 2016 are exercisable commencing from 31 May 2017 to 31 December 2019, and the remaining 50% are exercisable commencing from 31 May 2018 to 31 December 2019.

For the Share Options granted to the employees of TCL Corporation and/or its subsidiaries excluding the employees of the Group, approximately one-third of such Share Options are exercisable commencing from 31 December 2016, a further approximately one-third are exercisable commencing from 31 December 2017 and the remaining approximately one-third are exercisable commencing from 31 December 2018 up to 31 December 2022.

- (2) For Share Options granted to the employees of the Group, the Share Options granted on 22 September 2017 are exercisable commencing from 15 May 2018 to 31 December 2020.

For the Share Options granted to the directors and management of the Group and the employees of TCL Corporation and/or its subsidiaries excluding the employees of the Group, 50% of the share options are exercisable commencing from 15 May 2018 to 31 December 2020, and the remaining 50% are exercisable commencing from 15 May 2019 up to 31 December 2020.

- (3) For Share Options granted to the employees of the Group, the Share Options granted on 21 May 2018 are exercisable commencing from 15 May 2019 to 31 December 2020.

For Share Options granted to the directors and senior management of the Group, approximately 13% of the Share Options are exercisable commencing from 15 May 2019, approximately 30% of the Share Options are exercisable commencing from 15 May 2020, approximately 37% of the Share Options are exercisable commencing from 15 May 2021, and the remaining of approximately 20% are exercisable commencing from 15 May 2022 up to 31 December 2024.

For the Share Options granted to the employees of TCL Corporation and/or its subsidiaries excluding the employees of the Group, approximately one-third of such Share Options are exercisable commencing from 15 June 2018, a further approximately one-third are exercisable commencing from 15 June 2019 and the remaining approximately one-third are exercisable commencing from 15 June 2020 up to 31 December 2022.

### 3. MARKET PRICES

The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on: (i) the last Business Day preceding the date of the Joint Announcement; (ii) the date of the Joint Announcement; (iii) the Latest Practicable Date; and (iv) the last Business Day of each of the calendar months during the Relevant Period:

Date	Closing Price (HK\$)
30 April 2019	6.87
31 May 2019	6.02
28 June 2019	4.84
31 July 2019	5.78
30 August 2019	5.98
30 September 2019 (also the Business Day immediately prior to the date of the Joint Announcement)	5.50
2 October 2019 (Date of the Joint Announcement)	5.69
31 October 2019	5.86
20 November 2019 (Latest Practicable Date)	5.87

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$7.10 per Share on 23 April 2019 and HK\$4.84 per Share on 28 June 2019, respectively.

## 4. DISCLOSURE OF INTERESTS

## (a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had, or were deemed to have, interests and short positions in the Shares, underlying Shares and debentures of the Company or shares, underlying shares and debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, or which are required to be disclosed under the Takeovers Code:

(i) *Interests in Shares of the Company*

Director	Nature of interest		Other (Note 3)	Under equity derivatives (Note 4)	Total number of Shares	Percentage of the total issued share capital of the Company (%) (Note 5)
	Personal	Corporate				
SONG Yonghong	1,332,733	13,399,268 (Note 1)	–	2,556,032	17,288,033	6.43%
Yu Guanghui	1,803,564	11,869,339 (Note 2)	–	3,313,957	16,986,860	6.32%
REN Xuenong	797,485	–	–	1,459,622	2,257,107	0.84%
LIAO Qian	72,676	–	5,070	657,274	735,020	0.27%
LEONG Yue Wing	94,200	–	–	400,000	494,200	0.18%
POON Chiu Kwok	20,000	–	–	400,000	420,000	0.16%
LI Qi	20,000	–	–	400,000	420,000	0.16%

## Notes:

- For the purpose of the SFO, as at the Latest Practicable Date, other than the personal interests and the other interests as stated in the above table, Mr. SONG Yonghong (“Mr. SONG”) was deemed to be interested in the 13,399,268 Shares held by Run Fu Holdings Limited, which was owned as to 100% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG held 37% effective interest.



2. For the purpose of the SFO, as at the Latest Practicable Date, other than the personal interests and the other interests as stated in the above table, Mr. YU Guanghui (“Mr. YU”) was deemed to be interested in 11,869,339 Shares held by Vast Bright Investment Limited which was wholly owned by Mr. YU.
3. These other interests are Awarded Shares to the relevant Directors of the Company which remained unvested as at the Latest Practicable Date according to the Company’s Restricted Share Award Scheme.
4. As at the Latest Practicable Date, these equity derivatives were outstanding Share Options granted to the relevant Directors under the Share Option Scheme.
5. Such percentage was calculated based on the total number of Shares and underlying Shares in which each of the Directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares as at the Latest Practicable Date, being 268,746,877 Shares.

**(ii) Interests in shares of associated corporations of the Company – Long Positions**

*TCL Electronics*

Director	Nature of interest		Other (Note 6)	Under equity derivatives (Note 7)	Total number of Shares	Percentage of the total issued share capital of the Company (%) (Note 8)
	Personal	Family				
LEONG Yue Wing	494,672	–	–	–	494,672	0.02
LIAO Qian	86,740	–	22,178	353,206	462,124	0.02

*Guangdong Regency*

Director	Nature of interest		Other	Under equity derivatives	Total number of Shares	Percentage of the total issued share capital of the Company (%) (Note 9)
	Personal	Family				
REN Xuenong	799,000	–	–	–	799,000	1.64
SONG Yonghong	–	800,000	–	–	800,000	1.64
YU Guanghui	1,600,000	–	–	–	1,600,000	3.29

*Notes:*

6. These other interests are restricted shares granted to the relevant Directors of the Company which remained unvested as at the Latest Practicable Date according to the restricted share award scheme of TCL Electronics.

7. As at the Latest Practicable Date, these equity derivatives were outstanding share options granted to the relevant Directors under the share option scheme adopted by TCL Electronics in accordance with Chapter 17 of the Listing Rules.
8. Such percentage was calculated based on the total number of shares or underlying shares of TCL Electronics in which the relevant Director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of TCL Electronics as at the Latest Practicable Date based on the information available to the Company.
9. Such percentage was calculated based on the total number of shares or underlying shares of Guangdong Regency in which the relevant Director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of Guangdong Regency as at the Latest Practicable Date based on the information available to the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company and shares, underlying shares and debentures of its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, or which are required to be disclosed under the Takeovers Code.

**(b) Substantial shareholders and other person's interests and short positions in the Shares and underlying Shares**

As at Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors) had interests or short positions in the Shares and underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company:

Name of Substantial Shareholder	Nature of interest	Number of Shares interested in or deemed to be in interested in	Percentage of the total issued share capital of the Company (%) (Note 2)
The Purchaser	Interest of controlled corporation	130,741,170 (Note 1)	48.65

*Notes:*

- For the purpose of SFO, the Purchaser was deemed to be interested in the 130,741,170 Shares through its controlled corporation, the Offeror (its direct wholly-owned subsidiary).
- Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares as at the Latest Practicable Date, being 268,746,877 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was aware of any person (other than a Director) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company.

**(c) Other interests**

As at the Latest Practicable Date:

- (i) save from UBS's interests in the Company under exempt principal trader or exempt fund manager status, no subsidiary of the Company, nor any pension fund of the Group, any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of "associate" under the Takeovers Code, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
- (ii) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had been entered into between the Company or any person who was presumed to be acting in concert with Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert" under the Takeovers Code or is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code and any other person;
- (iii) no fund manager connected with the Company manages on a discretionary basis any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
- (iv) except for Mr. POON Chiu Kwok and Mr. LI Qi, who intend to accept the Option Offer with respect to their Share Options (with exercise price of HK\$4.05), no other Director intended to accept the Mandatory General Offer in respect of the Shares and the Share Options held by him/her, directly or indirectly as they would like to keep their Shares and Shares Options in order to benefit from their potential future value, and certain Directors intend to exercise their Share Options (with the exercise price of HK\$4.05) that are exercisable and they confirmed they will not accept the Share Offer in respect of the Shares that will be obtained as a result of the exercise of such Share Options; and
- (v) neither the Company nor any of its Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

**5. SHAREHOLDINGS AND DEALINGS IN SHARES OF THE PURCHASER AND THE OFFEROR**

During the Relevant Period, other than indirect interests of Mr. LIAO Qian, a non-executive Director, in the Offeror and the Restructuring as disclosed in "LETTER FROM THE BOARD" of this Composite Document, none of the Company nor any of its Directors had any interest in the shares of the Purchaser and the Offeror, and no such person (including the Company) had dealt in the shares of the Purchaser and the Offeror.

As at the Latest Practicable Date, the Purchaser had a total of 6,450,000,000 ordinary shares in issue and the Offeror had a total of 1,541,971,690 ordinary shares in issue. Save for the aforesaid, the Purchaser and the Offeror had no other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

## 6. DEALINGS IN THE SHARES

During the Relevant Period:

- (a) save as disclosed below, none of the Directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Name of the Director	Nature of Dealing	Dealing Date	Number of Shares Vested/ Cancelled	Unit Price of Shares
YU Guanghui	Cancellation of Share Options	15 May 2019	925,166	N/A
YU Guanghui	Cancellation of Awarded Shares	15 May 2019	236,012	N/A
SONG Yonghong	Cancellation of Share Options	15 May 2019	709,294	N/A
SONG Yonghong	Cancellation of Awarded Shares	15 May 2019	180,942	N/A
REN Xuenong	Cancellation of Share Options	15 May 2019	367,864	N/A
REN Xuenong	Cancellation of Awarded Shares	15 May 2019	93,843	N/A
YU Guanghui	Vesting of Awarded Shares	15 November 2019	250,896	N/A
SONG Yonghong	Vesting of Awarded Shares	15 November 2019	192,354	N/A
REN Xuenong	Vesting of Awarded Shares	15 November 2019	100,358	N/A
POON Chiu Kwok	Vesting of Awarded Shares	15 November 2019	10,000	N/A
LI Qi	Vesting of Awarded Shares	15 November 2019	10,000	N/A
LEONG Yue Wing	Vesting of Awarded Shares	15 November 2019	10,000	N/A
LIAO Qian	Vesting of Awarded Shares	15 November 2019	30,070	N/A

- (b) save from UBS's dealings under exempt principal trader or exempt fund manager status, no subsidiary of the Company, nor any pension fund of the Group, any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of the Company by virtue of in class (2) of the definition of "associate" under the Takeovers Code, had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;

- (c) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares; and
- (d) no fund manager connected with the Company manages on a discretionary basis, had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

#### **7. ARRANGEMENTS IN CONNECTION WITH THE MANDATORY GENERAL OFFER**

As at the Latest Practicable Date,

- (a) no benefit (other than statutory compensation) had been given or would be given to any Director as compensation for the loss of office or otherwise in connection with the Mandatory General Offer;
- (b) no material contract had been entered into by the Purchaser and/or the Offeror in which any Director had a material personal interest; and
- (c) save for the Restructuring Agreement, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Mandatory General Offer or otherwise connected with the Mandatory General Offer.

#### **8. MATERIAL CONTRACTS**

Save as disclosed below, no member of the Group entered into any material contract (not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Group) within the period commencing two years before the commencement of the Offer Period (i.e., the date of the Joint Announcement dated 2 October 2019), and up to and including the Latest Practicable Date:

- (a) the master financial services (2018 renewal) agreement dated 18 October 2018 entered into among the Company, Finance Company (HK), Finance Company and the Vendor for a term from 1 January 2019 to 31 December 2021 in relation to the money deposit services with annual caps of HK\$1,100 million in 2019, HK\$1,265 million in 2020 and HK\$1,454.75 million in 2021, financing services, other financial services with annual caps of HK\$1,815,000 for each of three years from 2019 to 2021 and promotion services with annual caps of HK\$2,700,000 for each of three years from 2019 to 2021 provided by Finance Company, Finance Company (HK) and/or other associates of the Vendor to the Group;

- (b) the master financial services (2019 renewal) agreement dated 31 October 2019 entered into among the Company, the Purchaser and Finance Company (HK) for a term from 1 January 2020 to 31 December 2022 in relation to the money deposit services with annual caps of HK\$720 million in 2020, HK\$840 million in 2021 and HK\$900 million in 2022, financing services and other financial services with annual caps of HK\$3.6 million in 2020, HK\$4.2 million in 2021 and HK\$4.5 million in 2022 provided by Finance Company (HK) and/or other associates of the Purchaser to the Group;
- (c) the technology support services and trade names licence (2018 renewal) agreement entered into between the Company and the Vendor on 18 October 2018 for a term from 1 January 2019 to 31 December 2021 in relation to the non-exclusive, non-licensable and non-transferable licence grant by the Vendor for the Group to use (i) the general technology support services provided by TCL Group; and (ii) “TCL” trade name and other trade names from time to time used by TCL Group for a licence fee to be calculated at a rate of 0.15% of the revenue of the Group which is subject to downward revision as shall be mutually agreed by the parties;
- (d) the master lease (tenant) (2018 renewal) agreement entered into between the Company and the Vendor on 18 October 2018 for a term from 1 January 2019 to 31 December 2021 in relation to the lease of premises by the Group from members of the TCL Group and/or associate(s) of the Vendor at a rental to be determined with reference to the prevailing market rate;
- (e) the master rental (2019) agreement dated 25 April 2019 entered into between the Company and the Offeror for a term from 25 April 2019 to 31 December 2019, pursuant to which the Group and the Offeror (including its subsidiaries and its associates) agreed to rent, lease and/or license, share and/or make available the use of certain properties and vehicles which the lessor owns or otherwise has the right to rent, lease and/or license, share and/or make available the use to the other party at a monthly rent/license fee, payable to member(s) of another with the cap of HK\$30 million for the period from 25 April 2019 to 31 December 2019;
- (f) the master rental (2019 renewal) agreement dated 31 October 2019 entered into between the Company and the Purchaser for a term from 1 January 2020 to 31 December 2022, pursuant to which the Group and the Purchaser (including its subsidiaries and its associates) agreed to rent, lease and/or license, share and/or make available the use of certain properties and vehicles which the lessor owns or otherwise has the right to rent, lease and/or license, share and/or make available the use to the other party at a monthly rent/license fee, payable to member(s) of another with annual caps of HK\$19,871,000 in 2020, HK\$17,949,000 in 2021 and HK\$16,038,000 in 2022;

- (g) the share transfer agreement dated 9 November 2018 entered into among (i) TCL Technology Electronics (Huizhou) Co., Ltd.\* (TCL通力電子(惠州)有限公司) (“**TCL Technology**”), an indirect subsidiary of the Company; (ii) Mr. Weng Xiaoyu (“**Mr. Weng**”); and (iii) Guangdong Regency, pursuant to which TCL Technology has agreed to purchase, and Mr. Weng has agreed to sell, 11,430,000 shares in Guangdong Regency, representing approximately 30.08% of the total number of issued shares of Guangdong Regency at that time, at the consideration of RMB29,040,000;
- (h) the master administrative services agreement dated 9 March 2018 entered into between (i) Guangdong Tonly Precise Component Co., Ltd.\* (廣東通力精密結構件有限公司) (“**Guangdong Tonly Precise**”), an indirect subsidiary of the Company; and (ii) Dongguan Chengda Hardware Products Co., Ltd.\* (東莞呈達五金製品有限公司) (“**Dongguan Chengda**”) for a term from 9 March 2018 to 31 December 2020, pursuant to which Guangdong Tonly Precise may from time to time engage Dongguan Chengda to provide certain administrative services (including rental, procuring water and electricity supply, catering, security, cleaning, greening and parking services) with annual caps of HK\$20,940,000 in 2018, HK\$27,220,000 in 2019 and HK\$32,660,000 in 2020 subject to the terms and conditions thereof;
- (i) the master management services agreement dated 9 March 2018 entered into between the Company and the Vendor for the term from 9 March 2018 to 31 December 2020, pursuant to which members of the Group may from time to time engage members of the TCL Group for provision of management services for certain specific construction project(s) from time to time according to its business needs with annual caps of HK\$5,475,074 in 2018, HK\$3,581,899 in 2019 and HK\$1,719,288 in 2020; and
- (j) the equity transfer agreement dated 20 June 2019 entered among Guangdong Regency, an indirect subsidiary of the Company and Mr. Ling Gaode (“**Mr. Ling**”), Mr. Hu Qingde (“**Mr. Hu**”) and Mr. Deng Gaofeng (“**Mr. Deng**”), pursuant to which Guangdong Regency conditionally agreed to purchase, and Mr. Ling, Mr. Hu and Mr. Deng agreed to sell, 8,946,000, 3,993,000 and 1,761,000 shares of the Huizhou Nikko Optoelectronics Co., Ltd.\* (惠州尼日科光電有限公司) respectively at total consideration of RMB32,590,000, which is satisfied by Guangdong Regency by way of (i) the payment of the cash consideration of RMB7,000,000; and (ii) the allotment and issuance of an aggregate of 10,680,000 shares by Guangdong Regency to Mr. Ling, Mr. Hu and Mr. Deng.

## 9. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within six months prior to the commencement of the Offer Period (i.e., the date of the Joint Announcement dated 2 October 2019), (ii) are continuous contracts with a notice period of 12 months or more, or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.



**10. EXPERTS' QUALIFICATIONS AND CONSENTS**

In addition to the Purchaser and Offeror's experts listed in paragraph 4 of Appendix IV, the following are the qualifications of Somerley Capital and Ernst & Young, who have been named in this Composite Document and given their opinion or advice which are contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Somerley Capital	A corporation licensed by the SFC to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Ernst & Young	Auditors

Each of Somerley Capital and Ernst & Young has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and with references to its names in the form and context in which they respectively appear.

**11. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was pending or known to the Board to be threatened by or against any member of the Group.

**12. GENERAL**

The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal office in Hong Kong is at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong. The Company Secretary of the Company is Ms. CHOY Fung Yee, Solicitor, Hong Kong.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m., Monday to Friday, both days inclusive, at (i) the principal office of the Company in Hong Kong at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong; (ii) the website of the Company at <http://www.tonlyele.com/>; and (iii) the website of SFC at [www.sfc.hk](http://www.sfc.hk) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company containing the audited financial statements of the Group for the three years ended 31 December 2016, 2017 and 2018;
- (c) the interim report of the Company for the six months ended 30 June 2019;
- (d) the letter from the Board, the text of which is set out in this Composite Document;
- (e) the letter from the Independent Board Committee, the text of which is set out in this Composite Document;
- (f) the letter from the Independent Financial Adviser, the text of which is set out in this Composite Document;
- (g) the IFA letter (for the updated appraisal report), the text of which is set out in Appendix VII of this Composite Document;
- (h) the auditors' letter from Ernst & Young (for the updated appraisal report), the text of which is set out in Appendix VIII of this Composite Document;
- (i) the IFA letter (for the appraisal report), the text of which is set out in Appendix XIII of this Composite Document;
- (j) the auditors' letter from Ernst & Young (for the appraisal report), the text of which is set out in Appendix XIV of this Composite Document;
- (k) the notice to Optionholders and Grantees, the sample of which is set out in Appendix XV of this Composite Document;
- (l) the material contracts referred to in the paragraph headed "8. MATERIAL CONTRACTS" in this Appendix III; and
- (m) the written consents from Somerley Capital and Ernst & Young referred to in the paragraph headed "10. EXPERTS' QUALIFICATIONS AND CONSENTS" in this Appendix III.

**1. RESPONSIBILITY STATEMENT**

The directors of the Purchaser and the Offeror jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Group) contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions (other than those expressed by the Directors) expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

**2. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY**

As at the Latest Practicable Date, the Purchaser, through the Offeror, was interested in 130,741,170 Shares, which represented approximately 48.65% of the issued share capital of the Company. Save as disclosed above, the Purchaser and the Offeror confirm that:

- (a) As at the Latest Practicable Date, save as disclosed in the section headed “Purchaser’s and Offeror’s Interests in Securities of the Company” in “LETTER FROM UBS” of this Composite Document, none of the Purchaser, the Offeror, the directors of the Purchaser and the Offeror, nor parties acting in concert with any of them owned or controlled any other interest in the Shares, options, warrants, derivatives or securities which are convertible into Shares as at the Latest Practicable Date.
- (b) Save as disclosed in the section headed “Purchaser’s and Offeror’s Interests in Securities of the Company” in “LETTER FROM UBS” and Appendix X of this Composite Document, none of the Purchaser and the Offeror, their directors, nor parties acting in concert with any of them had dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.
- (c) As at the Latest Practicable Date, none of the Purchaser, the Offeror and/or the parties acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of Takeovers Code with any person.
- (d) As at the Latest Practicable Date, no person had irrevocably committed himself to accept or not to accept the Mandatory General Offer.
- (e) No arrangement of any kind referred to in Note 8 to Rule 22 of the Takeovers Code exists between a person on the one hand and the Purchaser, the Offeror or any party acting in concert with any of them on the other during the Relevant Period.

- (f) During the Relevant Period and up to and including the Latest Practicable Date, none of the Purchaser, the Offeror, nor any party acting in concert with any of them had borrowed or lent any Shares or convertible securities, warrants, options or derivatives of the Company.
- (g) No Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by any fund managers connected with the Purchaser, the Offeror or any party acting in concert with any of them, and no such person had dealt in any Shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

**3. OTHER ARRANGEMENTS IN RELATION TO THE MANDATORY GENERAL OFFER**

As at the Latest Practicable Date:

- (a) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Purchaser, the Offeror and parties acting in concert with any of them and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependent on the Mandatory General Offer;
- (b) no material contracts had been entered into by the Purchaser and/or the Offeror in which any Director has a material personal interest;
- (c) there was no agreement or arrangement to which the Purchaser, the Offeror and parties acting in concert with any of them is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Mandatory General Offer;
- (d) there was no agreement, arrangement or understanding between the Purchaser, the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be purchased by the Offeror (or any of their respective wholly-owned subsidiaries) upon completion of the Mandatory General Offer;
- (e) the Purchaser and the Offeror had not entered into any agreement, arrangement, or understanding in relation to and/or will not transfer, charge or pledge any securities in the Company acquired pursuant to the Mandatory General Offer to any other person;
- (f) no benefit is or will be paid to any Directors as compensation for loss of office or otherwise in connection with the Mandatory General Offer; and

- (g) there were no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares (or other relevant securities of the Company) or the shares of the Purchaser and the Offeror (or other relevant securities of the Purchaser and the Offeror) which might be material to the Mandatory General Offer.

#### 4. EXPERTS' QUALIFICATIONS AND CONSENTS

In addition to the Company's experts listed in paragraph 10 of Appendix III, the following are the qualifications of the experts who have given opinion and advice, which is contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
UBS	UBS AG (acting through its Hong Kong Branch), a registered institution under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the financial adviser to the Purchaser, Offeror in relation to the Mandatory General Offer. UBS AG is incorporated in Switzerland with limited liability
PRC Appraiser	an appraisal institution with securities and futures related business evaluation qualification in the PRC
PRC Appraiser (Shenzhen)	a group company of the PRC Appraiser and an appraisal institution with assets and projects evaluation qualification in the PRC

As at the Latest Practicable Date, each of UBS, the PRC Appraiser and the PRC Appraiser (Shenzhen) has given and has not withdrawn its respective written consent to the issue of this Composite Document with the inclusion in this Composite Document of the text of its respective letter, reports or opinions, as the case may be, and references to its name in the form and context in which it respectively appears.

**5. MISCELLANEOUS**

As at the Latest Practicable Date:

- (i) The registered office and correspondence address of the Purchaser was situated at 22/F, TCL Science and Technology Building, No. 17 Huifeng Third Road, Zhong Kai Gaoxin District, Huizhou City, Guangdong Province, PRC.
- (ii) The address of Mr. LI Dongsheng was 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.
- (iii) The address of Ms. DU Juan was Room 204, Pazhou Street Public Collective Housing, Number 14 Mo Die Sha Road, Hai Zhu District, Guangzhou, PRC.
- (iv) The address of Mr. MI Xin was No. 610, 7/F, Court 16, Cuiwei Road, Haidian District, Beijing, PRC.
- (v) The address of Mr. LIU Lefei was 10/F, Jinbao Tower, 89 Jinbao Street, Dongcheng District, Beijing, PRC.
- (vi) The address of Mr. ZOU Wenchao was Apt 602, 6/F, Hongcheng Business Building, 3 Huabian Bei Road, Huicheng District, Huizhou City, Guangdong Province, PRC.
- (vii) The registered office and correspondence address of the Offeror was situated at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.
- (viii) The address of Mr. DU Yuanhua was Flat A, 12/F, Tower 11, Discovery Park, Tsuen Wan, New Territories, Hong Kong.
- (ix) The address of Ms. XIONG Yan was Room A, 7/F, Block 9, Double Cove-Summit, 8 Wu Kai Sha Road, Ma On Shan, New Territories, Hong Kong.
- (x) The registered office of UBS was situated at 2 International Finance Centre, 52/F, 8 Finance Street, Central, Hong Kong.
- (xi) The registered office and correspondence address of the PRC Appraiser was situated at Floor F4, Kaichen World Trade Centre East Block, No. 28 Fu Xing Men Nei Road, Xi Cheng District, Beijing, the PRC.
- (xii) The registered office and correspondence address of the PRC Appraiser (Shenzhen) was situated at 16/F, Qing Hai Building, No. 7043 Bei Huan Road, Futian District, Shenzhen, the PRC.

(xiii) The English text of this Composite Document shall prevail over the Chinese text in the case of inconsistency.

## **6. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m., Monday to Friday, at (i) the principal place of business in Hong Kong of the Company at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong; (ii) on the website of SFC at [www.sfc.hk](http://www.sfc.hk); and (iii) the website of the Company at <http://www.tonlyele.com/>, from the date of this Composite Document up to and including the Closing Date:

- (i) the memorandum and articles of association of the Offeror;
- (ii) the Restructuring Agreement;
- (iii) the letter from UBS, the text of which is set out in this Composite Document;
- (iv) full version of the Appraisal Report (資產評估報告) for the Offeror dated 3 December 2018 issued by the PRC Appraiser with documents listed in the schedule list, extract regarding the appraised value of the Company as of 30 June 2018 is set out in Appendix XI of this Composite Document;
- (v) the Verified Opinions from the PRC Appraiser in response to enquiries raised by Shenzhen Stock Exchange on the Restructuring (中聯資產評估集團有限公司對深圳證券交易所《關於對TCL集團股份有限公司的重組問詢函》評估問題的回復的核查意見) published at the website of the Shenzhen Stock Exchange on 22 December 2018, extract regarding the appraised value of the Company as of 30 June 2018 is set out in Appendix XI of this Composite Document;
- (vi) the UBS letter (for the appraisal report), the text of which is set out in Appendix XII of this Composite Document;
- (vii) full version of the updated Appraisal Report dated 1 November 2019 from PRC Appraiser (Shenzhen) with documents listed in the schedule list, the main content of the updated Appraisal Report is set out in Appendix V of this Composite Document;
- (viii) the UBS letter (for the updated appraisal report), the text of which is set out in Appendix VI of this Composite Document; and
- (ix) the written consent from UBS, the PRC Appraiser and the PRC Appraiser (Shenzhen), as referred to in the paragraph headed “EXPERTS’ QUALIFICATIONS AND CONSENTS” in this Appendix.

Original text of the main content of the updated appraisal report:

TCL實業控股股份有限公司擬了解  
通力電子控股有限公司股東全部權益價值項目  
估值報告

深中聯評咨字[2019]第42號

摘要

深圳中聯資產評估有限公司受TCL實業控股股份有限公司的委託，對通力電子控股有限公司（標的公司）股東全部權益在估值基準日的市場價值進行了估值。

估值對象是通力電子控股有限公司股東全部權益，估值範圍是通力電子控股有限公司申報的合併報表的全部資產及負債，包括流動資產、非流動資產及相關負債。

估值基準日為2019年6月30日。

本次估值的價值類型為市場價值。

本次估值以持續使用和公開市場為前提，結合估值對象的實際情況，綜合考慮各種影響因素，採用收益法對通力電子控股有限公司進行整體評估，並以收益法評估結果作為本次估值結論。

基於產權持有人及企業管理層對未來發展趨勢的判斷及經營規劃落實的前提下，通力電子控股有限公司股東全部權益（合併報表歸母所有者權益）在估值基準日2019年6月30日的市場價值為143,560.24萬元。

參照國內的相關規定，本估值報告結論在基準日後一年內有效。我們對比了標的公司截至2019年9月30日的重要運營和財務數據，經分析後認為，本估值報告結論與標的公司2019年9月30日股東全部權益現時價值無重大差異。

在使用本估值結論時，特別提請報告使用者使用本報告時注意報告中所載明的特殊事項以及期後重大事項。

以上內容摘自估值報告正文，欲了解本估值項目的詳細情況和合理理解估值結論，應當閱讀估值報告全文。



TCL實業控股股份有限公司擬了解  
通力電子控股有限公司股東全部權益價值項目  
估值報告

深中聯評咨字[2019]第42號

**TCL實業控股股份有限公司：**

深圳中聯資產評估有限公司接受 貴公司的委託，參考法律、行政法規的規定，堅持獨立、客觀和公正的原則，採用收益法，按照必要的估值程序，為 貴公司擬了解2019年6月30日通力電子控股有限公司股東全部權益價值事宜，對涉及的通力電子控股有限公司股東全部權益於估值基準日的市場價值進行了估值。現將估值情況報告如下：

**一、 委託人、估值對像和其他報告使用者**

本評估項目委託人為TCL實業控股股份有限公司，估值對像為通力電子控股有限公司。委託人及估值對像有關情況介紹如下：

**(一) 委託人**

公司名稱：	TCL實業控股股份有限公司（以下簡稱「TCL控股」）
註冊地址：	惠州仲愷高新區惠風三路17號TCL科技大廈22層
法定代表人：	李東生
統一社會信用代碼：	91441300MA529HEL43
註冊資本：	人民幣322,500萬元
公司類型：	其他股份有限公司（非上市）
設立日期：	2018年9月17日
經營期限：	2018年9月17日至無固定期限

經營範圍： 股權投資，不動產租賃，會務服務，軟件開發，研發、生產、銷售：通訊設備、音視頻產品、LCD電視產品、空調、洗衣機、家用電器，提供市場推廣服務。（依法須經批准的項目，經相關部門批准後方可開展經營活動）

(二) 估值對像概況

公司名稱： 通力電子控股有限公司（以下簡稱「通力電子」）

註冊地址： P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands

辦公地址： 香港新界沙田科學園科技大道東22號22E大樓8樓

董事長： 廖騫

商業登記號： 61636797-000-06-15-A

註冊資本： 50,000萬港元（截止2019年6月30日）

成立日期： 2013年2月8日

上市地點： 香港交易所

股票代碼： 01249.HK

1. 公司歷史沿革

(1) 2013年2月，設立

2013年2月8日，通力電子在開曼群島註冊成立，法定股本為50,000.00港元，每股面值1港元，已發行股本1.00港元，由唯一股東Mapcal Limited實繳。設立時，通力電子的股權結構如下：

序號	股東名稱	實繳出資額 (港元)	持股比例 (%)
1	Mapcal Limited	1.00	100.00
	合計	<u>1.00</u>	<u>100.00</u>

(2) 2013年8月，上市

2013年8月15日，通力電子通過介紹上市的方式於香港交易所主板上市。上市後，通力電子的股權結構如下：

序號	股東名稱	實繳出資額 (萬港元)	持股比例 (%)
1	TCL實業	8,160.94	61.21
2	公眾股東	5,170.68	38.79
	合計	<u>13,331.62</u>	<u>100.00</u>

(3) 最近3年及一期，通力電子股權及股本變動

2016年，通力電子共發行股本194,560股。

2017年，由於激勵對像行使期權以及獎勵性股票生效，通力電子共發行股本19,029,445股，其中期權行使增加13,323,641股，獎勵性股票生效增加5,705,804股。

2018年，由於激勵對像行使期權，通力電子共發行股本282,349股。

2019年1-6月，由於激勵對像行使期權，通力電子共發行股本173,949股。

截止估值基準日，通力電子股權結構如下：

股東名稱	出資額 (港元)	出資比例 (%)
T.C.L.實業控股(香港) 有限公司	130,741,170.00	48.67
公眾股東	<u>137,907,199.00</u>	<u>51.33</u>
合計	<u><u>268,648,369.00</u></u>	<u><u>100.00</u></u>

## 2、 公司簡介

通力電子控股有限公司主要從事音頻、視頻、電聲及智能家居類產品的ODM業務，為全球消費電子一線品牌企業提供研發、生產及銷售優質音視頻產品和無線智能互聯產品的服務。通力電子與國際、國內多家消費電子和互聯網品牌企業建立了合作關係，將各類產品通過客戶銷往全球市場。通力電子擁有一支800多人的研發團隊，擁有技術預研、音視頻產品研發、聲學產品研發、軟件開發、IoT產品開發等能力；目前通力電子在深圳、惠州、西安等地設立了研發中心，擁有各類生產線和專業測試設備；在廣東惠州、東莞、廣西北海等多地建立了製造基地，並計劃在海外進行產能佈局。通力電子未來將專注於聲學技術和新媒體、智能互聯網技術的開發和應用，快速實現高性價比的規模製造，為合作夥伴提供一站式的音視頻、電聲、智能化等產品整體解決方案。

3、 **經營範圍**：從事音頻、視頻、電聲及智能家居類產品的ODM業務。

4. 資產及財務狀況

截止2019年6月30日，通力電子合併報表賬面資產總額416,617.38萬元，負債267,219.53萬元，淨資產149,397.85萬元，歸母淨資產142,660.87萬元。2019年1-6月，實現營業收入328,976.64萬元，淨利潤8,445.59萬元，歸母淨利潤8,439.12萬元。通力電子三年一期合併資產負債及經營狀況見下表，合併會計報表經會計師事務所審閱。

通力電子三年一期資產、負債及財務狀況

單位：人民幣萬元

項目	2016年 12月31日	2017年 12月31日	2018年 12月31日	2019年 6月30日
總資產	286,574.20	356,209.86	408,222.47	416,617.38
負債	179,411.98	226,833.92	259,099.25	267,219.53
淨資產	107,162.21	129,375.95	149,123.22	149,397.85
歸母淨資產	104,155.76	123,844.80	142,569.99	142,660.87
項目	2016年度	2017年度	2018年度	2019年1-6月
營業收入	417,576.31	563,559.50	669,377.33	328,976.64
利潤總額	18,500.62	23,844.83	25,391.10	9,957.40
淨利潤	14,479.94	18,734.17	19,980.03	8,445.59
歸屬母公司淨利潤	13,659.50	17,859.23	18,858	8,439.12
審計機構	未審	未審	未審	安永華明 會計師事務所 (特殊普通 合夥)審閱

(三) 委託人、估值委託合同約定的其他報告使用者

本估值報告的使用者為委託人、TCL集團股份有限公司及T.C.L.實業控股(香港)有限公司以及其他有必要知悉信息的前述使用人的僱員、會計師、律師、財務顧問及其它中介機構。

除國家法律法規另有規定外，任何未經評估機構和委託人確認的機構或個人不能由於得到估值報告而成為估值報告使用者。

(四) 委託人與估值對象之間的關係

委託人間接控制標的公司，是標的公司的間接持股股東。

二、 估值目的

本次估值目的是反映通力電子股東全部權益於估值基準日的市場價值，為TCL實業控股股份有限公司了解2019年6月30日通力電子股東全部權益價值提供估值意見。

三、 估值對象和估值範圍

估值對象為通力電子合併報表歸母所有者權益。估值範圍是通力電子申報的合併報表的全部資產及相關負債，截止2019年6月30日，通力電子合併報表賬面資產總額416,617.38萬元，負債267,219.53萬元，淨資產149,397.85萬元，歸母淨資產142,660.87萬元，少數股東權益6,736.98萬元。具體包括流動資產321,244.56萬元；非流動資產95,372.82萬元；流動負債247,618.87萬元，非流動負債19,600.66萬元。

上述資產與負債賬面值摘自通力電子經審閱的合併報表。

委託人及估值對象確認委託估值範圍與本次估值目的一致。

(一) 委估主要資產情況

納入估值範圍內的主要資產有貨幣資金、交易性金融資產、應收賬款、存貨、在建工程、固定資產、無形資產等。實物資產主要資產為存貨、固定資產、在建設備等。

(二) 主要子公司架構圖

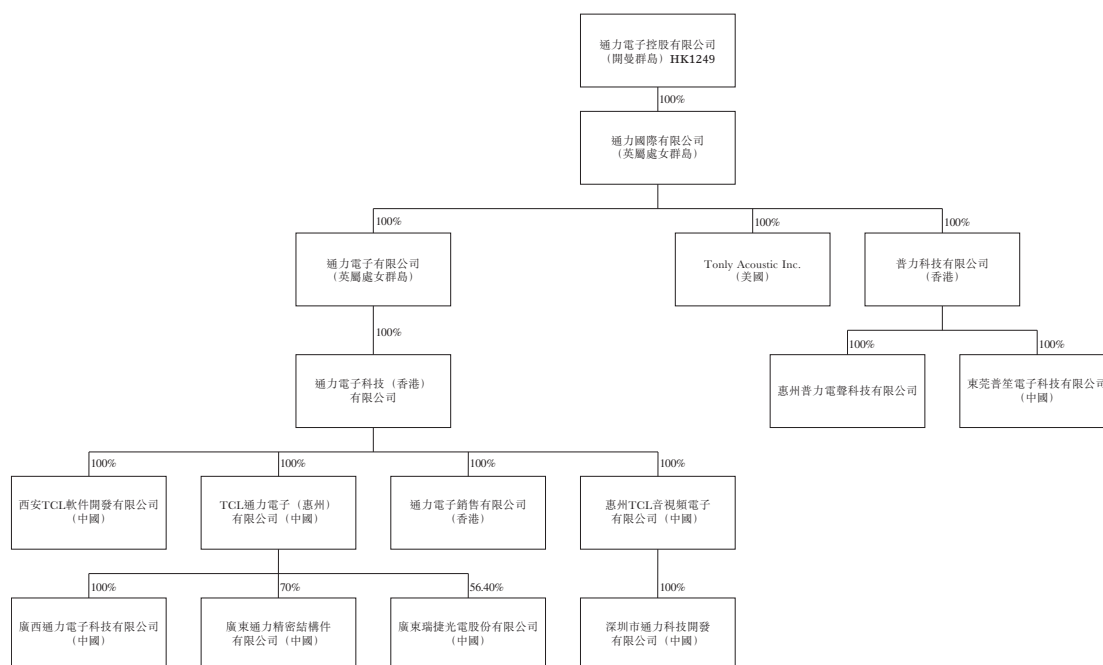


圖3-1通力電子股權投資架構圖



(三) 企業申報的賬面記錄或者未記錄的無形資產情況

截止估值基準日2019年6月30日，估值對象及下屬子公司申報評估的無形資產包括土地使用權、專利技術、軟件著作權和外購軟件。

納入本次估值範圍的土地使用權共3宗，基本情況如下表：

土地使用權基本情況表

序號	宗地號	土地使用權人	土地位置	取得日期	土地用途	終止日期	面積 (平方米)
1	惠府國用(2010)字第130214500號	TCL通力電子(惠州)有限公司	惠州仲愷高新區37號小區	2010/9/7	工業用地	2060/12/30	69,195.2
2	惠府國用(2013)字第13021450776號	TCL通力電子(惠州)有限公司	惠州仲愷高新區38號小區	2013/12/26	城鎮住宅用地	2081/11/21	12,931.8
3	惠府國用(2015)字第13021450061號	TCL通力電子(惠州)有限公司	惠州仲愷高新區41號小區	2015/4/17	工業用地	2065/3/24	79,878

納入本次估值範圍內的無形資產—其他均為估值對象所有，主要是外購的辦公軟件、財務軟件等。

上述資產均為賬面記錄無形資產。

截止估值基準日，通力電子及各子公司申報的賬面未記錄的無形資產包括已授權專利權共578項，著作權共12項，商標7項，具體分佈情況如下：

表3-5各子公司所持專利數量統計表

序號	專利權人	國內發明型 專利數量	國內實用新型 專利數量	國內外觀設計 專利數量
1	TCL通力電子(惠州)有限公司	95	421	26
2	TCL通力電子(惠州)有限公司 深圳原動科技有限公司	0	1	0
3	TCL通力電子(惠州)有限公司 TCL集團股份有限公司	2	8	0
4	廣東瑞捷光電股份有限公司	5	20	0








本次估值範圍內通力電子及子公司申報的賬面未記錄的著作權共12項，全部由TCL通力電子(惠州)有限公司持有。

表3-6著作權情況統計表

序號	歸屬方	名稱	歸屬文件 名稱	登記號
1	TCL通力電子(惠州) 有限公司	TCL通力電子發射台站 監控系統應用軟件	監控軟件	2016SR179531
2	TCL通力電子(惠州) 有限公司	TCL應急廣播系統 管理平台軟件	應急廣播	2016SR337303
3	TCL通力電子(惠州) 有限公司	TCL GPRS網管軟件	網管軟件	2017SR312089

序號	歸屬方	名稱	歸屬文件 名稱	登記號
4	TCL通力電子(惠州) 有限公司	TCL NMS網管系統	網管系統	2017SR312090
5	TCL通力電子(惠州) 有限公司	TCL電話短信接駁軟件	接駁軟件	2017SR312091
6	TCL通力電子(惠州) 有限公司	TCL調頻收擴機軟件	收擴機軟件	2017SR404012
7	TCL通力電子(惠州) 有限公司	TCL調頻音柱軟件	音柱軟件	2017SR404032
8	TCL通力電子(惠州) 有限公司	TCL應急廣播適配調頻 編碼調製一體機軟件	適配軟件	2017SR404046
9	TCL通力電子(惠州) 有限公司	P	美術作品	國作登字 -2018-F- 00536028
10	TCL通力電子(惠州) 有限公司	PULLY1	美術作品	國作登字 -2018-F- 00536030
11	TCL通力電子(惠州) 有限公司	PULLY2	美術作品	國作登字 -2018-F- 00536029
12	TCL通力電子(惠州) 有限公司	PULLY3	美術作品	國作登字 -2018-F- 00536031

本次估值範圍內通力電子及子公司申報的賬面未記錄已註冊商標7項，具體情況如下：

序號	商標名稱	圖樣	商標註冊人	註冊號	類別	取得時間	註冊有效期
1	通力		TCL通力電子(惠州)有限公司	12920113	9	2015-03-28	2025-03-27
2	TONENIC		TCL通力電子(惠州)有限公司	17348910	9	2016-08-14	2026-08-13
3	XVALLEY		TCL通力電子(惠州)有限公司	17348911	9	2016-08-14	2026-08-13
4	T		TCL通力電子(惠州)有限公司	12328365	9	2014-09-07	2024-09-06
5	T		TCL通力電子(惠州)有限公司	12328405	35	2015-03-21	2025-03-20
6	漫聽		TCL通力電子(惠州)有限公司	17927987	38	2016-10-28	2026-10-27
7	REGENCY		廣東瑞捷光電股份有限公司	9341408	9	2012-06-07	2022-06-06

#### (四) 企業申報的表外資產的類型、數量

委託方及估值對像確認，截止估值基準日2019年6月30日，除上述申報的未在賬面記錄的專利權、著作權和商標權，企業申報評估的資產全部為企業賬面記錄的資產，未申報其他表外資產。

#### (五) 引用其他機構出具的報告的結論所涉及的資產類型、數量和賬面金額

本次估值報告未引用其他機構報告內容。

### 四、 價值類型及其定義

依據本次估值目的，確定本次估值的價值類型為市場價值。

市場價值是指自願買方和自願賣方在各自理性行事且未受任何強迫的情況下，估值對像在估值基準日進行正常公平交易的價值估計數額。

五、 估值基準日

本項目估值基準日是2019年6月30日。

六、 估值依據

本次估值參考的資產權屬依據，及評定估算時採用的取價依據和其他參考資料等，具體如下：

(一) 資產權屬依據

1. 土地和房屋相關權屬證書；
2. 《專利證書》；
3. 《計算機軟件著作權登記證書》；
4. 《商標註冊證》；
5. 重要資產購置合同或憑證。

(二) 取價依據

1. 《中華人民共和國企業所得稅法》（中華人民共和國第十二屆全國人民代表大會常務委員會第二十六次會議於2017年2月24日第通過）；
2. 《中華人民共和國企業所得稅法實施條例》（2007年11月28日國務院第197次常務會議通過）；
3. 《中華人民共和國增值稅暫行條例》（2017年中華人民共和國國務院令第691號公佈）；
4. 《關於深化增值稅改革有關政策的公告》（財政部稅務總局海關總署公告2019年第39號）；
5. 委託人和估值對象提供的未來收益預測資料；
6. 估值對象提供的2016年、2017年、2018年通力電子模擬財務報表；
7. 估值對象提供的安永華明會計師事務所（特殊普通合夥）審閱的2019年6月30日通力電子財務報表；

8. 國家發佈和通力電子當前執行的有關稅收條例和法規及通力電子提供的稅收優惠文件；
9. 估值基準日執行的匯率。

(三) 主要參考資料

1. 《資產評估常用方法與參數手冊》(機械工業出版社2011版)；
2. wind資訊金融終端；
3. 《投資估價》([美]Damodaran著,[加]林謙譯,清華大學出版社)；
4. 價值評估:公司價值的衡量與管理(第3版)》([美]Copeland,T.等著,郝紹倫,謝關平譯,電子工業出版社)；
5. 其他參考資料。

七、 估值方法

(一) 估值方法的選擇

企業價值評估可以採用收益法、市場法、資產基礎法三種方法。收益法是企業整體資產預期獲利能力的量化與現值化,強調的是企業的整體預期盈利能力。市場法是以現實市場上的參照物來評價估值對象的現行公平市場價值,它具有估值數據直接取材於市場,估值結果說服力強的特點。資產基礎法是指在合理評估企業各項資產價值和負債的基礎上確定估值對象價值的思路。

並根據本項目的特點,選取收益法作為本次估值方法。

## (二) 收益法介紹

### 1、概述

根據國家管理部門的有關規定以及國際和國內類似交易評估慣例，本次估值確定按照收益途徑、採用現金流折現方法(DCF)估算通力電子的權益資本價值。

現金流折現方法是通過將企業未來預期淨現金流量折算為現值，評估資產價值的一種方法。其基本思路是通過估算資產在未來預期的淨現金流量和採用適宜的折現率折算成現時價值，得出評估值。其適用的基本條件是：企業具備持續經營的基礎和條件，經營與收益之間存有較穩定的對應關係，並且未來收益和風險能夠預測及可量化。使用現金流折現法的最大難度在於未來預期現金流的預測，以及數據採集和處理的客觀性和可靠性等。當對未來預期現金流的預測較為客觀公正、折現率的選取較為合理時，其估值結果具有較好的客觀性。

### 2、基本估值思路

根據盡職調查情況以及估值對象資產構成和主營業務特點，通力電子合併報表中的各法人主體分別為音箱、耳機等音視頻產品的生產、研發、銷售服務，可視同為同一利潤主體，故本次估值的基本思路是以估值對象經審計的通力電子合併報表為基礎估算其權益資本價值，即首先按收益途徑採用現金流折現方法(DCF)，估算估值對象的經營性資產的價值，再加上其基準日的其他非經營性或溢餘性資產的價值，來得到估值對象的企業價值，並由企業價值經扣減付息債務價值後，來得出估值對象的股東全部權益價值。

本次收益法估值的基本思路是：

- (1) 對納入報表範圍的資產和主營業務，按照最近幾年的歷史經營狀況的變化趨勢和業務類型估算預期收益估算預期淨現金流量，並折現得到經營性資產的價值；
- (2) 對納入報表範圍，但在預期收益（淨現金流量）估算中未予考慮的諸如基準日存在的現金類資產（負債）等類資產，定義為基準日存在的溢餘性或非經營性資產（負債），單獨估算其價值；
- (3) 由上述計算得出的經營性資產價值加溢餘性資產或非經營性資產價值，並扣減企業應承擔的付息債務價值後得到估值對象的股東全部權益價值。

### 3、 估值模型

#### (1) 基本模型

本次估值的基本模型為：

$$P = E - M \quad (1)$$

式中：

P： 歸屬於母公司所有者權益評估價值；

E： 所有者權益評估價值；

M： 少數股東權益評估價值；

$$M = \text{所有者權益評估價值} \times \text{少數股東權益比例} \quad (2)$$

少數股東權益比例=少數股東權益價值賬面價值／（少數股東權益賬面價值+母公司所有者權益賬面價值）。



其中：

$$E = B - D \quad (3)$$

B： 估值對象的企業價值；

$$B = P + \sum C_i \quad (4)$$

P： 估值對象的經營性資產價值；

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n} \quad (5)$$

式中：

R<sub>i</sub>： 估值對象合併口徑未來第i年的預期收益（自由現金流量）；

R<sub>n</sub>： 估值對象合併口徑永續期的預期收益（自由現金流量）；

r： 折現率；

n： 估值對象的未來經營期。

ΣC<sub>i</sub>： 基準日存在的非經營性、溢餘資產的價值。

$$C_i = C_1 + C_2 + C_3 + C_4 \quad (6)$$

式中：

C<sub>1</sub>： 預期收益（自由現金流量）中未體現投資收益的全資、控股或參股投資價值；

C<sub>2</sub>： 基準日現金類資產（負債）價值；

C<sub>3</sub>： 預期收益（自由現金流量）中未計及收益的在建工程價值；

C<sub>4</sub>： 基準日呆滯或閒置設備、房產等資產價值；

D： 估值對象付息債務價值。

## (2) 收益指標

本次估值，使用企業自由現金流作為經營性資產的收益指標，其基本定義為：

$$R = \text{淨利潤} + \text{折舊攤銷} + \text{扣稅後付息債務利息} - \text{追加資本} \quad (7)$$

式中：

$$\text{淨利潤} = \text{營業收入} - \text{營業成本} - \text{銷售税金及附加} - \text{期間費用} \quad (8)$$

(營業費用+管理費用+財務費用) - 所得稅

折舊攤銷 = 成本和費用 (營業費用及管理費用) 中的折舊攤銷

扣稅後付息債務利息 = 長短期付息債務利息合計 × (1 - 所得稅率)

$$\text{追加資本} = \text{資產更新投資} + \text{營運資本增加額} + \text{新增長期資產投資} \quad (9)$$

其中：

$$\text{資產更新投資} = \text{房屋建築物更新} + \text{機器設備更新} + \text{其他自動化設備 (電子、運輸等) 更新} + \text{無形資產更新} \quad (10)$$

$$\text{營運資金增加額} = \text{當期營運資金} - \text{上期營運資金} \quad (11)$$

其中：

$$\text{營運資金} = \text{現金保有量} + \text{存貨} + \text{應收款項} - \text{應付款項} + \text{期末留抵增值稅} \quad (12)$$

本次估值基於企業的具體情況，假設為保持企業的正常經營，所需的最低現金保有量為企業37天的付現成本費用。

$$\begin{aligned} \text{年付現成本總額} &= \text{銷售成本總額} + \text{期間費用總額} + \text{税金} - \\ &\text{非付現成本總額} \end{aligned} \quad (12-1)$$

$$\text{存貨周轉率} = \text{付現成本} / \text{期末存貨} \quad (12-2)$$

$$\text{應收款項周轉率} = \text{銷售收入} / \text{期末應收款項} \quad (12-3)$$

$$\text{應付款項周轉率} = \text{付現成本} / \text{期末應付款項} \quad (12-4)$$

$$\begin{aligned} \text{應收款項} &= \text{應收票據} + \text{應收賬款} - \text{預收款項} + \text{其他應收款} \\ &(\text{扣減非經營性其他應收款後}) \end{aligned} \quad (12-5)$$

$$\begin{aligned} \text{應付款項} &= \text{應付票據} + \text{應付賬款} - \text{預付款項} + \text{應付職工薪} \\ &\text{酬} + \text{應交稅費} + \text{其他應付款} (\text{扣減非經營性其他應付款後}) \end{aligned} \quad (12-6)$$

$$\begin{aligned} \text{期末留抵增值稅} &= \text{期初可抵扣增值稅} + \text{增值稅進項稅} - \text{增} \\ &\text{值稅銷項稅} - \text{增值稅出口退稅} - \text{進口設備退稅} \end{aligned} \quad (12-7)$$

$$\begin{aligned} \text{新增長期資產投資} &= \text{新增固定資產投資} + \text{新增無形或其他} \\ &\text{長期資產} \end{aligned} \quad (13)$$

根據企業的經營歷史以及未來市場發展等，估算其未來預期的自由現金流量，並假設其在預測期後仍可經營一個較長的永續期，在永續期內估值對象的預期收益等額於其預測期最後一年的自由現金流量。將未來經營期內的自由現金流量進行折現處理並加和，測算得到企業經營性資產價值。

## (3) 折現率

本次估值採用加權平均資本資產成本模型(WACC)確定折現率 $r$

$$r = r_d \times w_d + r_e \times w_e \quad (14)$$

式中：

$w_d$ ：估值對象的債務比率；

$$w_d = \frac{D}{(E + D)} \quad (15)$$

$w_e$ ：估值對象的股權資本比率；

$$w_e = \frac{E}{(E + D)} \quad (16)$$

$r_e$ ：權益資本成本，按資本資產定價模型(CAPM)確定權益資本成本 $r_e$ ；

$$r_e = r_f \times \beta_e \times (r_m - r_f) + \varepsilon \quad (17)$$

式中：

$r_f$ ：無風險報酬率；

$r_m$ ：市場預期報酬率；

$\varepsilon$ ：估值對象的特性風險調整係數；

$\beta_e$ ：估值對象權益資本的預期市場風險係數；

$$\beta_e = \beta_u \times \left(1 + (1 - t) \times \frac{D}{E}\right) \quad (18)$$

$\beta_u$ ：可比公司的預期無槓桿市場風險係數；

$$\beta_u = \frac{\beta_i}{1 + (1 - t) \frac{D_i}{E_i}} \quad (19)$$

$\beta_i$ ：可比公司股票（資產）的預期市場平均風險係數；

$$\beta_i = 34\%K + 66\%\beta_x \quad (20)$$

$D_i$ 、 $E_i$ ：分別為可比公司的付息債務與權益資本。

(4) 預測期的確定

企業已經正常運行，運營狀況比較穩定，故預測期取5年1期，即2019年7月~2024年底，2025年起收入保持穩定。

(5) 收益期的確定

企業通過正常的固定資產等長期資產更新，是可以保持長時間的運行的，故收益期按永續確定。

## 八、 估值程序實施過程和情況

整個估值工作分四個階段進行：

### (一) 準備階段

- 1、 委託人與評估機構就本次估值的目的、估值基準日、估值範圍等問題協商一致。
- 2、 對委估資產進行了詳細了解，佈置資產評估工作，協助企業進行委估資產申報工作，收集資產評估所需文件資料等。

### (二) 現場階段

項目組現場評估主要工作如下：

- 1、 對委託人、估值對像和相關當事人進行訪談。聽取委託人及估值對像有關人員介紹企業總體情況和委估資產的歷史及現狀，了解企業的財務制度、經營狀況、固定資產技術狀態等情況。
- 2、 對企業提供的資產清查評估申報明細表進行審核、鑒別，並與企業有關財務記錄數據進行核對，對發現的問題協同企業做出調整。

- 3、 對估值對象提供的收益預測（預測性財務信息）進行核查驗證。
- 4、 根據資產清查評估申報明細表，對固定資產進行了全面核實，對流動資產中的存貨類實物資產進行了抽查盤點。
- 5、 對主要設備，查閱了技術資料、竣工驗收資料、了解設備管理制度；對通用設備，主要通過市場調研和查詢有關資料，收集價格資料；對房屋建築物，了解管理制度和維護、改建、擴建情況，收集相關資料。
- 6、 查閱收集委估資產的產權證明文件，對企業提供的權屬資料進行查驗。
- 7、 對估值範圍內的資產及負債，在核實的基礎上做出初步評估測算。

### （三） 評估匯總階段

對各類資產評估及負債審核的初步結果進行分析匯總，對估值結果進行必要的調整、修改和完善。

### （四） 提交報告階段

在上述工作基礎上，起草初步估值報告，初步審核後與委託人就估值結果交換意見。在獨立分析相關意見後，按評估機構內部審核制度和程序進行修正調整，最後出具估值報告。

## 九、 估值假設

本次估值中，評估人員遵循了以下估值假設：

### （一） 一般假設

#### 1、 交易假設

交易假設是假定所有待評估資產已經處在交易的過程中，評估師根據待評估資產的交易條件等模擬市場進行估價。交易假設是估值得以進行的一個最基本的前提假設。

## 2、 公開市場假設

公開市場假設，是假定在市場上交易的資產，或擬在市場上交易的資產，資產交易雙方彼此地位平等，彼此都有獲取足夠市場信息的機會和時間，以便於對資產的功能、用途及其交易價格等作出理智的判斷。公開市場假設以資產在市場上可以公開買賣為基礎。

## 3、 資產持續使用假設

資產持續使用假設是指評估時需根據被評估資產按目前的用途和使用的方式、規模、頻度、環境等情況繼續使用，或者在有所改變的基礎上使用，相應確定估值方法、參數和依據。

### (二) 特殊假設

- 1、 假設估值基準日後估值對象持續經營；
- 2、 假設估值報告日後估值對象所處國家和地區的政治、經濟和社會環境無重大變化；
- 3、 假設估值報告日後評估實體所處國家和地區的宏觀經濟政策、產業政策和區域發展政策除公眾已獲知的變化外，無其他重大變化；
- 4、 假設與估值對象相關的賦稅基準及稅率、政策性徵收費用等估值報告日後，除公眾已獲知的變化外，不發生重大變化；
- 5、 假設截止估值報告日，在本報告披露的涉訴事項及或有事項外，估值對象及其下屬子公司不存在影響其期後經營或估值結果的涉訴事項及或有事項。
- 6、 假設估值報告日後估值對象的管理層是負責的、穩定的，且有能力擔當其職務；
- 7、 假設估值對象遵守相關的法律法規，不會出現影響公司發展和收益實現的重大違規事項；

- 8、 假設估值基準日後估值對像採用的會計政策和編寫估值報告時所採用的會計政策在重要方面保持一致；
- 9、 委託方及估值對像提供的基礎資料和財務資料真實、準確、完整；
- 10、 假設估值報告日後估值對像在現有管理方式和管理水平的基礎上，其經營範圍、經營方式除估值報告中披露事項外不發生重大變化；
- 11、 假設估值對像在未來預測期內的資產構成，主營業務的結構，收入與成本的構成以及銷售策略和成本控制等仍保持其基準日前後的狀態持續，並隨經營規模的變化而同步變動；
- 12、 假設估值對像在未來預測期內的國內銷售比例佔銷售總收入的比例不變，國外銷售部分根據海關的出口退稅政策，出口產品的原材料進口免征關稅及增值稅；
- 13、 在未來的經營期內，估值對象的各項期間費用的構成不會在現有基礎上發生大幅的變化，並隨經營規模的變化而同步變動。本次估值報告中所指的財務費用是企業在生產經營過程中，為籌集正常經營或建設性資金而發生的融資成本費用。鑒於企業的貨幣資金或其銀行存款等在生產經營過程中頻繁變化或變化較大，評估時不考慮存款產生的利息收入，也不考慮付息債務之外的其他不確定性損益；
- 14、 估值對像計劃2019年下半年開始越南工廠的建設，越南工廠計劃總投資約12000萬元，於2020年建成。越南工廠建成後，現惠州租賃廠房內的部分機器設備將搬遷至越南工廠，租賃的廠房（移動通信D區1.8萬平方米）將不再續租；



- 15、 估值對像為補充公司流動性，基準日短期借款規模26,000萬元，公司計劃於2019年底歸還至21,000萬元，2020年歸還至15,000萬元規模，並在2020年後一直保持15,000萬元的借款規模，未來融資成本參考貸款基礎利率(LPR)；
- 16、 估值範圍僅以委託方及估值對像提供的評估申報表為準，未考慮委託方及估值對像提供清單以外可能存在的或有資產及或有負債；
- 17、 假設估值報告日後無不可抗力對估值對像造成重大不利影響。

當上述條件發生變化時，估值結果一般會失效。

## 十、 估值結論

### (一) 估值結論

基於產權持有人及企業管理層對未來發展趨勢的判斷及經營規劃落實的前提下，採用收益法，按照必要的估值程序，對通力電子股東全部權益（合併報表範圍歸母所有者權益）在估值基準日2019年6月30日的市場價值進行了估值，具體估值結論如下：

通力電子在估值基準日2019年6月30日歸母淨資產賬面價值142,660.87萬元，估值143,560.24萬元，估值增值899.37萬元，增值率0.63%。

參照國內的相關規定，本估值報告結論在基準日後一年內有效。我們對比了標的公司截至2019年9月30日的重要運營和財務數據，經分析後認為，本估值報告結論與標的公司2019年9月30日股東全部權益現時價值無重大差異。

(二) 估值結論與賬面價值比較變動情況及原因

採用收益法評估得出的估值基準日2019年6月30日的估值結論與賬面價值變動情況如下：

通力電子在估值基準日2019年6月30日的歸母淨資產賬面價值142,660.87萬元，評估值143,560.24萬元，評估增值899.37萬元，增值率0.63%。

增值原因是通力電子在音頻產品研發與製造工藝能力位於行業前列，擁有較強的市場競爭力。管理層基於歷史經營情況對通力電子未來的業務發展有較好預期，因此評估略有增值。

十一、 特別事項說明

(一) 權屬等主要資料不完整或者存在瑕疵的情形

- 1、 截止估值報告日，通力電子申報範圍內有4項房屋建築物未辦理相關產權登記，房屋具體情況如下表：

通力電子未辦理房產證房屋建築物明細表

序號	權證 編號	權利人	建築物名稱	結構	建成年月	計量 單位	建築面積/ 容積
1	無	TCL通力電子(惠州)有限公司	38*項目8號樓 員工宿舍	框架	2014/12/25	平方米	10562.30
2	無	TCL通力電子(惠州)有限公司	38*項目12號宿舍樓	框架	2015/7/30	平方米	24612.82
3	無	TCL通力電子(惠州)有限公司	41*新工廠	框架	2017/3/31	平方米	45199.21
4	無	TCL通力電子(惠州)有限公司	41*新工廠二期	框架	2019/5/1	平方米	93431

企業承諾上述房屋建築物屬於其所有，由於企業原因相關產權登記手續沒有辦理，因該部分資產權屬可能造成的糾紛與評估機構及相關評估人員無關。

本次估值以企業申報面積進行評估，如未來產權登記的面積與企業申報面積有差異，需進行相應調整。特提請報告使用者關注。

除上述事項外，本報告未發現其他產權瑕疵事項。

## (二) 未決事項、法律糾紛等不確定因素

截止估值報告日，根據企業申報，通力電子涉及的重要未決事項、法律糾紛等如下：

### 通力電子涉訴事項進展說明

序號	原告名稱	案件性質	發案時間	案情概況	涉案金額	案件最新進展
1	TCL通力電子(惠州)有限公司	定作合同糾紛	2016-5	TCL通力電子(惠州)有限公司於2014年8月與樂升世紀(北京)科技有限公司簽訂遊戲機頂盒供貨《框架協議》，同時樂升向TCL通力電子(惠州)有限公司下達50000台不可撤銷訂單。2015年1月，樂升與TCL通力電子(惠州)有限公司就新的產品訂單達成一致意見，並下訂單10000台。後樂升未能如約完整履行前述訂單採購，造成TCL通力電子(惠州)有限公司呆料、物料折價轉賣、倉儲費等損失，遂起糾紛。	358.72萬元 (人民幣)	已完成3次開庭，呆滯物料審計及公證工作已完成，待律師提交審計報告及公證書給法官跟進後續庭審；已替換財產保全擔保為保函。
2	TCL通力電子(惠州)有限公司	憑樣品買賣合同糾紛	2018-4	TCL通力電子(惠州)有限公司於2016年12月19日與樂視致新電子科技(天津)有限公司簽訂《採購框架協議》，內容為樂視有意向TCL通力電子(惠州)有限公司採購/加工產品，TCL通力電子(惠州)有限公司同意按採購協議向樂視提供產品。框架協議下一共執行有LHT-V16S、LHT-V16SPro以及ATMOS三個項目，樂視在前述項目中向TCL通力電子(惠州)有限公司下發訂單，但是未能完整履約，造成TCL通力電子(惠州)有限公司呆料等損失。同時，為履約合同義務，TCL通力電子(惠州)有限公司產生了模具費、研發費等多項費用。因樂視違約，雙方遂起糾紛。	2,479.96萬元 (人民幣)	<ol style="list-style-type: none"> <li>1. 已收到財產保全裁定(2018)津執保116號，但因該賬戶信息不符及有多家法院輪候查封，銀行賬戶凍結未成果，須後續跟進(提供被告新的財產線索)；</li> <li>2. 2018年7月27日，收到天津二中的民事裁定書，裁定駁回樂視的管轄權異議申請。</li> <li>3. 2018年8月13日，從原告方律師處得悉樂視已針對裁定上訴。</li> </ol>

企業未對上述未決事項、法律糾紛計提相關的預計負債。本次估值未考慮上述涉訴事項對估值結論的影響。特提請報告使用者關注。

### (三) 重要的利用專家工作及相關報告情況

本次估值未引用其他機構報告內容。

### (四) 重大期後事項

- 1、 估值基準日後，人民幣兌美元、歐元、日元、港元等主要外幣匯率均出現了一定程度的波動。本次估值未考慮估值基準日後的匯率波動對估值結果的影響。特提請報告使用者關注。
- 2、 根據通力電子2019年7月10日公告，通力電子的下屬子公司廣東瑞捷發行股份收購惠州尼日科光電有限公司49%股權，惠州尼日科光電有限公司成為廣東瑞捷之全資子公司。TCL通力持有廣東瑞捷的股權被稀釋為44.02%。本次估值未考慮上述估值基準日後股權變化對估值結果的影響。

### (五) 其他需要說明的事項

- 1、 由於通力電子及其長期股權投資單位的客戶及工廠分佈在世界不同國家和地區，其業務交易會涉及不同的貨幣，由於各國匯率變動具有不確定性，不同種類貨幣的匯率波動可能給其未來運營帶來匯兌風險。特提請報告使用者關注。
- 2、 評估師和評估機構的責任是對本報告所述估值目的下的資產價值量做出專業判斷，並不涉及到評估師和評估機構對該項估值目的所對應的經濟行為做出任何判斷。評估工作在很大程度上，依賴於委託方及估值對象提供的有關資料。因此，評估工作是以委託方及估值對象提供的有關資產所有權文件、證件及會計憑證，有關法律文件的真實合法為前提。
- 3、 本次估值範圍及採用的由估值對象提供的數據、報表及有關資料，委託方及估值對象對其提供資料的真實性、完整性負責。

- 4、 估值報告中涉及的有關權屬證明文件及相關資料由估值對像提供，委託方及估值對像對其真實性、合法性承擔法律責任。
- 5、 在估值基準日以後，如果資產數量及作價標準發生變化時，應按以下原則處理：
  - (1) 當資產數量發生變化時，應根據原估值方法對資產數額進行相應調整；
  - (2) 當資產價格標準發生變化、且對估值結果產生明顯影響時，委託人應及時聘請有資格的資產評估機構重新確定資產價值；
  - (3) 對估值基準日後，資產數量、價格標準的變化，委託人在資產實際作價時應給予充分考慮，進行相應調整。
- 6、 評估機構獲得的被評估企業盈利預測是本估值報告收益法的基礎。評估師對被評估企業盈利預測進行了必要的調查、分析、判斷，經過與被評估企業管理層及其主要股東多次討論，被評估企業進一步修正、完善後，評估機構採信了被評估企業盈利預測的相關數據。評估機構對被評估企業盈利預測的利用，不是對被評估企業未來盈利能力的保證。
- 7、 本次估值結論建立在估值對像產權持有人及其管理層對企業未來發展趨勢的準確判斷及相關規劃落實的基礎上，如企業未來實際經營狀況與經營規劃發生偏差，且產權持有人及其時任管理層未採取有效措施彌補偏差，估值結論將會失效。

## 十二、 估值報告使用限制說明

### (一) 使用範圍

- 1、 本估值報告只能由估值報告載明的估值報告使用者使用。估值報告的使用權歸委託方所有，未經委託方許可，本評估機構不會隨意向他人公開；
- 2、 本估值報告只能用於本報告載明的估值目的和用途；

- (二) 委託人或者其他估值報告使用人未按照法律、行政法規規定和估值報告載明的使用範圍使用估值報告的，資產評估機構及其資產評估師不承擔責任；
- (三) 除委託人、資產評估委託合同中約定的其他估值報告使用人和法律、行政法規規定的估值報告使用人之外，其他任何機構和個人不能成為估值報告的使用人；
- (四) 估值報告使用人應當正確理解估值結論，估值結論不同於估值對象可實現價格，估值結論不應當被認為是對估值對象可實現價格的保證。

### 十三、 估值報告日

估值報告日為二〇一九年十一月一日。

(此頁無正文)

深圳中聯資產評估有限公司

估值人員：

估值人員：

二〇一九年十一月一日

附件目錄

1. 通力電子估值基準日的財務報表（副本）；
2. 委託人和估值對像法人營業執照（副本）；
3. 委託人及估值對像承諾函；
4. 深圳中聯資產評估有限公司變更備案公告（副本）；
5. 深圳中聯資產評估有限公司企業法人營業執照（副本）。



English translation of the main content of the updated appraisal report:

**Valuation Report**  
**on**  
the Entire Shareholder's Equity in Tonly Electronics Holdings Limited  
for  
the Information of TCL Industrial Holdings Co., Ltd.

No. SZLPZZ [2019] 42

**Summary**

As engaged by TCL Industrial Holdings Co., Ltd., Shenzhen China United Assets Appraisal Group Co., Ltd. carried out an evaluation on the market value of the entire shareholder's equity in Tonly Electronics Holdings Limited, the subject company, as at the valuation benchmark date.

The subject of valuation was the equity value attributable to common shareholders of Tonly Electronics Holdings Limited, whereas the scope of valuation covered all assets and liabilities in the consolidated statement of Tonly Electronics Holdings Limited, including its current assets, non-current assets and corresponding liabilities.

The valuation benchmark date is 30 June 2019.

The value presented herein is a market value.

For the purpose of this valuation, on the basis of continuing use and open market, we took into account specific conditions of the valuated entity as well as other relevant factors, adopted the income approach for overall evaluation of Tonly Electronics Holdings Limited, and derived our conclusion from the result under the income approach.

Based on the property owner's and the management's judgment on the trend of future development of the valuated entity, and the execution of its operational plan, the market value of the entire shareholder's equity in Tonly Electronics Holdings Limited (i.e. owner's equity attributable to the parent in the consolidated statements) is RMB1,435,602,400 as at the valuation benchmark date of 30 June 2019.

According to the relevant regulations in the PRC, the conclusion of this Valuation Report will be effective within one year from the benchmark date. After making a comparison to the major operational and financial data of the subject company as of 30 September 2019 and upon relevant analysis, we confirmed that there is no material change to the value of Tonly Electronics Holdings Limited as of 30 September 2019 from the valuation benchmark date of this valuation conclusion, being 30 June 2019.

Particular attention is drawn to special matters and significant subsequent events in using the conclusion hereunder.

**The above contents are summarized from the full texts of the Valuation Report and details and basis of the valuation are set out in the full texts of the Valuation Report.**

**Valuation Report**  
**on**  
the Entire Shareholder's Equity in Tonly Electronics Holdings Limited  
for  
the Information of TCL Industrial Holdings Co., Ltd.

No. SZLPZZ [2019] 42

**To TCL Industrial Holdings Co., Ltd.,**

As engaged by you, by reference to laws and administrative regulations, on the principle of independence, objectivity and impartiality, and following necessary valuation procedures, Shenzhen China United Assets Appraisal Group Co., Ltd., has used the income approach to appraise the market value of the entire shareholder's equity in Tonly Electronics Holdings Limited as at the valuation benchmark date of 30 June 2019 for your information. We hereby report our valuation as follows:

**I. APPOINTOR, SUBJECT OF VALUATION AND OTHER USERS OF THE REPORT**

The Appointor is TCL Industrial Holdings Co., Ltd. and the subject of valuation is Tonly Electronics Holdings Limited, with their details as follows:

**(I) Appointor**

Company name:	TCL Industrial Holdings Co., Ltd. ("TCL Holdings")
Registered address:	22/F, TCL Technology Tower, 17 Hui Feng San Road, Zhongkai High-tech Park, Huizhou
Legal representative:	Li Dongsheng
Unified Social Credit Identifier:	91441300MA529HEL43
Registered capital:	RMB3,225 million
Business type:	other stock limited company (unlisted)
Established on:	17 September 2018
Business term:	from 17 September 2018 to an indefinite date

Business scope: equity investment; real estate leasing; conference services; software development; research and development, production and sales of communications equipment, audio and video products, LCD TV products, air conditioners, washing machines, household appliances; and providing market promotion services. (For items subject to approval according to the law, business activities can only be carried out until approval by relevant authorities)

**(II) Subject of Valuation**

Company name: Tonly Electronics Holdings Limited (“Tonly Electronics”)

Registered address: P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands

Business address: 8/F, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong

Chairman: Liao Qian

Business registration number: 61636797-000-06-15-A

Registered capital: HK\$500 million (as of 30 June 2019)

Established on: 8 February 2013

Listed on: HKEx

Stock code: 01249.HK

**1. History**

*(1) Established in February 2013*

On 8 February 2013, Tonly Electronics was registered in Cayman Islands, with authorized capital of HK\$50,000.00 at the face value of HK\$1 per share, and the issued share capital of HK\$1.00 paid in by the sole shareholder Mapcal Limited. At the time of establishment, Tonly Electronics' equity structure is set forth as follows:

No.	Shareholder Name	Paid-in Capital (HK\$)	Shareholding Percentage (%)
1	Mapcal Limited	<u>1.00</u>	<u>100.00</u>
<b>Total</b>		<b><u>1.00</u></b>	<b><u>100.00</u></b>

*(2) Listed in August 2013*

On 15 August 2013, Tonly Electronics obtained a listing on the HKEx Main Board by way of introduction. Tonly Electronics' equity structure upon listing is set forth as follows:

No.	Shareholder Name	Paid-in Capital (HK\$'000)	Shareholding Percentage (%)
1	TCL Industrial	81,609.4	61.21
2	Public shareholders	<u>51,706.8</u>	<u>38.79</u>
<b>Total</b>		<b><u>133,316.2</u></b>	<b><u>100.00</u></b>

*(3) Changes in equity and share capital in Tonly Electronics during the recent 3 years and 6-month period*

In 2016, Tonly Electronics issued 194,560 shares.

In 2017, due to the exercise of options under the ESOP and the grant of stock bonus, Tonly Electronics issued 19,029,445 shares, including 13,323,641 shares for the former and 5,705,804 shares for the latter.

In 2018, due to the exercise of options under the ESOP, Tonly Electronics issued 282,349 shares in total.

During the 6-month period ended 30 June 2019, due to the exercise of options under the ESOP, Tonly Electronics issued 173,949 shares in total.

Tonly Electronics' shareholding structure as of the valuation benchmark date is set forth as follows:

<b>Shareholder Name</b>	<b>Capital Contribution (HK\$)</b>	<b>Percentage of Capital Contribution (%)</b>
T.C.L. Industrial Holdings (H.K.) Limited	130,741,170.00	48.67
Public shareholders	<u>137,907,199.00</u>	<u>51.33</u>
Total	<u><u>268,648,369.00</u></u>	<u><u>100.00</u></u>

**2.    *Company profile***

Tonly Electronics Holdings Limited is mainly engaged in ODM of audio, video, electroacoustic and smart home products, providing research and development, production and sales service of high-quality audio and video products and wireless smart interconnection products for top global consumer electronics brands. Tonly Electronics has established cooperation with many international and domestic consumer electronics and Internet brand enterprises to sell various products to the global market. With a R&D team of more than 800 people, Tonly Electronics has the capabilities of technology pre-research, audio and video product R&D, acoustic product R&D, software development and IoT product development. Currently, Tonly Electronics has set up research and development centers in Shenzhen, Huizhou, Xi'an and other cities, with various production lines and professional testing equipment. Manufacturing bases have been set up in Huizhou and Dongguan of Guangdong Province, and Beihai of Guangxi Province, and plans are being made for building overseas production capacity. Tonly Electronics will focus on the development and application of acoustic technology, new media and smart Internet technology in the future, rapidly realize cost-effective manufacturing in large scale, and provide partners with one-stop integrated solutions for audio, video, electroacoustic and smart products.

**3.    *Business scope:*** ODM of audio, video, electroacoustic and smart home products.

**4. Assets and financial position**

As per the consolidated statement as at 30 June 2019, Tonly Electronics had a nominal value of total assets of RMB4,166,173,800, liabilities of RMB2,672,195,300, net assets of RMB1,493,978,500 and net assets attributable to the parent of RMB1,426,608,700. During the 6-month period ended 30 June 2019, Tonly Electronics realized revenue of RMB3,289,766,400, net profit of RMB84,455,900 and net profit attributable to the parent of RMB84,391,200. Tonly Electronic's consolidated assets and liabilities and operating conditions as at 31 December 2016, 2017 and 2018 and 30 June 2019 are set forth in the following table and the consolidated financial statements for the period was audited by the accounting firm.

**Assets and liabilities and financial conditions of Tonly Electronics  
for the three historical years and one historical period (pro-forma consolidated)**

<i>In RMB'000</i>				
Item	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
Total assets	2,865,742.0	3,562,098.6	4,082,224.7	4,166,173.8
Liabilities	1,794,119.8	2,268,339.2	2,590,992.5	2,672,195.3
Net assets	1,071,622.1	1,293,759.5	1,491,232.2	1,493,978.5
Net assets attributable to the parent	1,041,557.6	1,238,448.0	1,425,699.9	1,426,608.7
Item	2016	2017	2018	6-month period ended 30 June 2019
Revenue	4,175,763.1	5,635,595.0	6,693,773.3	3,289,766.4
Total profit	185,006.2	238,448.3	253,911.0	99,574.0
Net profit	144,799.4	187,341.7	199,800.3	84,455.9
Net profit attributable to the parent	136,595.0	178,592.3	18,858	84,391.2
Auditor	Unaudited	Unaudited	Unaudited	Reviewed by Ernst & Young Hua Ming LLP

**(III) Appointor and other users of the Report as agreed in the valuation engagement contract**

Users of this Report include the Appointor, TCL Corporation, T.C.L. Industrial Holdings (H.K.) Limited and their respective employees, accountants, lawyers, financial advisors and other intermediaries on a need-to-know basis.

Except as otherwise specified by laws and regulations of the State, no entity or individual not acknowledged by the valuation firm and the Appointor could become a user of this Report by receiving this Report.

**(IV) The relationship between the Appointor and the subject of valuation**

The Appointor, which indirectly controls the subject company, is an indirect shareholder of the subject company.

**II. PURPOSE OF VALUATION**

The valuation is intended to reflect on the market value of the entire shareholder's equity in Tonly Electronics as at the valuation benchmark date and offer valuation opinion to TCL Industrial Holdings Co., Ltd for understanding the entire shareholder's equity of Tonly Electronics Holdings Limited as at 30 June 2019.

**III. SUBJECT AND SCOPE OF VALUATION**

The subject of valuation is the equity attributable to the common shareholders in the consolidated statements of Tonly Electronics. The scope of valuation covers all assets and corresponding liabilities in the consolidated statements of Tonly Electronics as at 30 June 2019, which presented that Tonly Electronics had total assets of RMB4,166,173,800, liabilities of RMB2,672,195,300, net assets of RMB1,493,978,500, net assets attributable to the parent of RMB1,426,608,700 and minority interest of RMB67,369,800. Specifically, current assets were RMB3,212,445,600, non-current assets RMB953,728,200, current liabilities RMB2,476,188,700 and non-current liabilities of RMB196,006,600.

The above book values of assets and liabilities are extracted from the audited consolidated statements of Tonly Electronics.

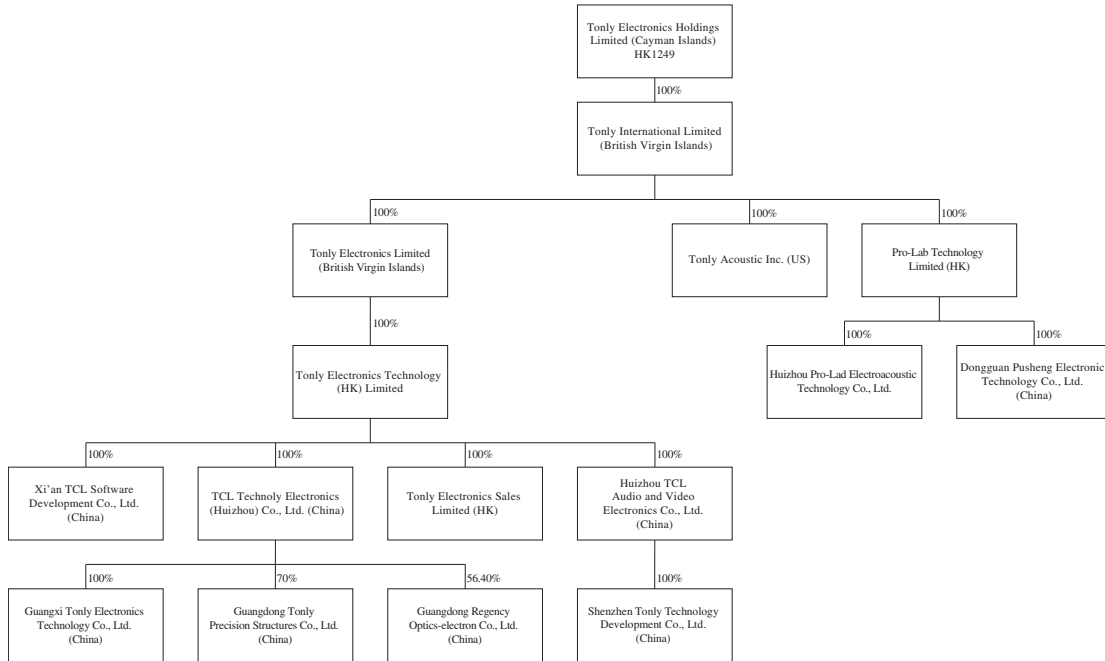
The Appointor and the valuated entity confirmed that the scope of valuation is consistent with the purpose of valuation.



**(I) Major valued assets**

The scope of valuation covers the following major assets: monetary assets, trading financial assets, accounts receivable, inventory, construction in progress, fixed assets, and intangible assets. Tangible assets mainly include inventory, fixed assets and equipment in progress.

**(II) Group Chart of Tonly Electronics**



**Figure3-1: Tonly Electronics' Shareholding Structure**

**(III) Booked or unbooked intangible assets reported by the enterprise**

For the purpose of this valuation, the valuated entity and its subsidiaries reported intangible assets including land use rights, patented technologies, software copyrights and outsourced software as of the valuation benchmark date of 30 June 2019.

The land use rights covered hereunder involve three plots of land with details set forth in the following table:

**Details of Land Use Rights**

No.	Parcel No.	Right Owner	Location	Acquired on	Use	Expiry Date	Area (m <sup>2</sup> )
1	Hui Fu Guo Yong (2010) Zi No.130214500	TCL Technoly Electronics (Huizhou) Co., Ltd.	Plot No. 37, Zhongkai High-tech Park, Huizhou	7 Sep 2010	Industrial land	30 Dec 2060	69,195.2
2	Hui Fu Guo Yong (2013) Zi No.13021450776	TCL Technoly Electronics (Huizhou) Co., Ltd.	Plot No. 38, Zhongkai High-tech Park, Huizhou	26 Dec 2013	Urban residential land	21 Nov 2081	12,931.8
3	Hui Fu Guo Yong (2015) Zi No.13021450061	TCL Technoly Electronics (Huizhou) Co., Ltd.	Plot No. 41, Zhongkai High-tech Park, Huizhou	17 Apr 2015	Industrial land	24 Mar 2065	79,878

Aside from that, other intangible assets covered hereunder are owned by the valuated entity and mainly involve office software and financial software acquired from external parties.

All of the above assets are booked as intangible assets.

As of the valuation benchmark date, Tonly Electronics and its subsidiaries reported unbooked intangible assets including 578 authorized patents, 12 copyrights and 7 trademarks, with details as follows:

**Table 3-5 Number of Patents Held by Subsidiaries**

No.	Patentee	Number of domestic invention patents	Number of domestic utility model patents	Number of domestic design patents
1	TCL Technoly Electronics (Huizhou) Co., Ltd.	95	421	26
2	TCL Technoly Electronics (Huizhou) Co., Ltd. Shenzhen Crazybaby Technology Co., Ltd.	0	1	0
3	TCL Technoly Electronics (Huizhou) Co., Ltd. TCL Corporation	2	8	0
4	Guangdong Regency Optics-electron Co., Ltd.	5	20	0

For the purpose of this valuation, Tonly Electronics and its subsidiaries reported 12 unbooked copyrights, all of which are held by TCL Technoly Electronics (Huizhou) Co., Ltd..

**Table 3-6: Details of Copyrights**

No.	Copyright Owner	Name	Title Document Name	Registration No.
1	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL Technoly Electronic Transmitting Station Monitoring System Application Software	Monitoring software	2016SR179531
2	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL Emergency Broadcasting System Management Platform Software	Emergency broadcast	2016SR337303
3	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL GPRS network management software	Network management software	2017SR312089

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**APPENDIX V      THE UPDATED APPRAISAL REPORT DATED 1 NOVEMBER 2019**


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<b>No.</b>	<b>Copyright Owner</b>	<b>Name</b>	<b>Title Document Name</b>	<b>Registration No.</b>
4	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL NMS network management system	Network management system	2017SR312090
5	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL phone and short message connection software	Connection software	2017SR312091
6	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL FM transceiver software	transceiver software	2017SR404012
7	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL FM sound column software	Sound column software	2017SR404032
8	TCL Technoly Electronics (Huizhou) Co., Ltd.	TCL Emergency Broadcasting Adapted to FM Coding and Modulation Machine Software	Adapting software	2017SR404046
9	TCL Technoly Electronics (Huizhou) Co., Ltd.	P	Art works	Guo Zuo Deng Zi-2018-F- 00536028
10	TCL Technoly Electronics (Huizhou) Co., Ltd.	PULLY1	Art works	Guo Zuo Deng Zi -2018-F- 00536030
11	TCL Technoly Electronics (Huizhou) Co., Ltd.	PULLY2	Art works	Guo Zuo Deng Zi -2018-F- 00536029
12	TCL Technoly Electronics (Huizhou) Co., Ltd.	PULLY3	Art works	Guo Zuo Deng Zi -2018-F- 00536031

For the purpose of this valuation, Tonly Electronics and its subsidiaries reported 7 unbooked registered trademarks, with details as follows:

No.	Trademark	Pattern	Registrant	Registration No.	Category	Effective from	Expiry Date
1	通力		TCL Technoly Electronics (Huizhou) Co., Ltd.	12920113	9	28 Mar 2015	27 Mar 2025
2	TONENIC		TCL Technoly Electronics (Huizhou) Co., Ltd.	17348910	9	14 Aug 2016	13 Aug 2026
3	XVALLEY		TCL Technoly Electronics (Huizhou) Co., Ltd.	17348911	9	14 Aug 2016	13 Aug 2026
4	T		TCL Technoly Electronics (Huizhou) Co., Ltd.	12328365	9	7 Sep 2014	6 Sep 2024
5	T		TCL Technoly Electronics (Huizhou) Co., Ltd.	12328405	35	21 Mar 2015	20 Mar 2025
6	漫聽		TCL Technoly Electronics (Huizhou) Co., Ltd.	17927987	38	28 Oct 2016	27 Oct 2026
7	REGENCY		Guangdong Regency Optics-electron Co., Ltd.	9341408	9	7 Jun 2012	6 June 2022

**(IV) Category and quantity of Off B/S assets reported by the enterprise**

The Appointor and the valuated entity confirmed that, as of the valuation benchmark date of 30 June 2019, except the above unbooked patents, copyrights and trademarks, Tonly Electronics had reported all booked assets and had not reported any other off balance sheet asset for the purpose of this valuation.

**(V) Category, quantity and book value of assets involved in the reference to report issued by other valuation firm**

For the purpose of this valuation, no reference is made to the report of any other valuation firm.

**IV. CATEGORY AND DEFINITION OF VALUE**

For the purpose of this valuation, the value presented is a market value.

Market value is the estimated amount of money for which the valuated entity should change hands on the valuation benchmark date between a willing buyer and a willing seller in an arm's length transaction, wherein the parties each acted reasonably and without compulsion.

**V. VALUATION BENCHMARK DATE**

The valuation benchmark date is 30 June 2019.

**VI. BASIS OF VALUATION**

The basis of this valuation, being title certificates as well as pricing basis and other references in our appraisal and estimation, is detailed as follows:

**(I) Title certificates**

1. Land and housing related title certificates;
2. Patent Certificates;
3. Computer Software Copyright Registration Certificates;
4. Trademark Registration Certificates;
5. Contracts or vouchers for the purchase of important assets.

**(II) Pricing basis**

1. The Enterprise Income Tax Law of the People's Republic of China (adopted at the 26th meeting of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 24 February 2017);
2. Regulations of the People's Republic of China on the Implementation of the Enterprise Income Tax Law (Adopted at the 197th Executive Meeting of the State Council on 28 November 2007);
3. Provisional Regulations of the People's Republic of China on Value Added Tax (Promulgated by Decree No. 691 of the State Council of the People's Republic of China in 2017);
4. Announcement on Policies Concerning Deepening VAT Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs);
5. Future income forecast provided by the Appointor and the valuated entity;
6. Pro forma financial statements of Tonly Electronics for 2016, 2017 and 2018 provided by the valuated entity;
7. Financial statements of Tonly Electronics as at 30 June 2019 audited by Ernst & Young Hua Ming LLP and provided by the valuated entity;

8. The relevant tax regulations and laws issued by the State and currently applicable to Tonly Electronics and tax preferential treatment documents provided by Tonly Electronics;
9. Exchange rates prevailing on the valuation benchmark date.

**(III) Major references**

1. Manual of Common Methods and Parameters for Asset Valuation (2011 Edition, Mechanical Industry Press);
2. Wind financial information terminal;
3. Investment Valuation (written by Damodaran [American], translated by Lin Qian [Canadian], Tsinghua University Publishing House);
4. Value Assessment: Measurement and Management of Company Value (3rd Edition) (written by Copeland, T. [American] et al., translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);
5. Other references.

**VII. VALUATION APPROACH**

**(I) Selection of valuation approaches**

Income, market and asset-based approaches can be adopted for enterprise valuation. The income approach is to quantify and discount the expected profit of the total assets of a company, emphasizing the overall expected profitability of such company. The Market Approach appraises the asset at prevailing fair market value of similar assets transacted in the market, and its result appears more persuasive as it is derived directly from market inputs. The Asset-based Approach assess the value of the valuated entity based on reasonable valuation of its assets and liabilities.

For the purpose of this valuation, the income approach has been adopted based on characteristics of this project.

**(II) Income approach****1. Overview**

According to “Practice Guidelines for Asset Appraisal – Enterprise Value” and the international and domestic appraisal practice on similar transaction, it is determined that this valuation of the value of the equity capital of Tonly Electronics will be conducted in accordance with the income approach and discounted cash flow method (DCF).

The discounted cash flow method is a method of appraising the asset value by discounting the expected future net cash flow of an enterprise into present value. The basic concept is that the appraised value is obtained by estimating the future expected net cash flow of the assets, and discounting it into the present value at a proper discount rate. The basic conditions of application are: the enterprise has the foundation and conditions for continuous operation, and there is stable correlation between the operation and the income, and the future income and risks can be forecasted and quantified. The greatest difficulty in using the discounted cash flow method lies in the forecast of expected future cash flow, the objectivity and reliability of data collection and processing. When the forecast of future expected cash flow is relatively objective and fair and a reasonable discount rate is adopted, the appraisal results would be more objective.

**2. General concept of this valuation**

Based on the results of due diligence and the assets composition and characteristics of the main businesses of the valuated entity, the legal entities in the consolidated statements of Tonly Electronics were production, research and development and after-sales of audio and video products including speakers and earphones, which should be regarded as the same profit subject. Therefore, the general concept of this valuation was conducted by estimating the equity value of the valuated entity based on the audited consolidated statements of Tonly Electronics. To begin with, the value of the operating assets of the valued entity was valued using the income approach and discounted cash flow method (DCF), plus the value of other non-operating or surplus assets as at the benchmark date, to derive the corporate value of the valuated entity. Then, the interest-bearing debts were deducted from the corporate value to arrive at the value of the entire shareholder’s equity of the valuated entity.



General concept of this valuation based on income approach:

- (1) In respect of the assets and main businesses included in the scope of the statements, the expected income and expected net cash flow were estimated based on the trend of historical operating conditions in recent years and the types of businesses, and discounted to obtain the value of the operating assets;
- (2) Assets included in the scope of the statements but not taken into account in the estimation of expected income (net cash flow), such as cash assets (liabilities) as at the benchmark date were defined as surplus or non-operating assets (liabilities) which existed at the benchmark date, and their values were valued separately;
- (3) The value of the entire shareholders' equity of the valuated entity was arrived at by adding the value of the operating assets and of the surplus or non-operating assets derived as mentioned above, and deducting the interest-bearing debts due from the entity.

### **3. Valuation model**

#### *(1) Basic model*

The basic model for this valuation is as follows:

$$P = E - M \tag{1}$$

Where:

P: Appraised value of the owner's equity attributable to the parent shareholders;

E: Appraised value of the shareholders' equity;

M: Appraised value of the Minority interest;

$$M = \text{Appraised value of the shareholders' equity} \times \text{percentage of minority interests} \tag{2}$$

Percentage of minority interest = book value of minority interest / (book value of minority interest + book value of owner's equity of parent company)

Where:

$$E = B - D \quad (3)$$

B: Corporate value of the valuated entity;

$$B = P + \sum C_i \quad (4)$$

P: Value of the operating assets of the valuated entity;

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n} \quad (5)$$

Where:

$R_i$ : The expected income (free cash flow) of the valuated entity in the  $i^{\text{th}}$  year in the future on a consolidated basis

$R_n$ : The expected income (free cash flow) of the valuated entity in a sustainable period on a consolidated basis;

r: Discount rate;

n: The future operating term of the valuated entity.

$\sum C_i$ : The value of non-operating and surplus assets that exist as at the benchmark date.

$$C_i = C_1 + C_2 + C_3 + C_4 \quad (6)$$

Where:

$C_1$ : Value of wholly-owned, controlling or non-controlling investments that do not reflect investment income in the expected revenue (free cash flow);

$C_2$ : Value of cash assets (liabilities) as at the benchmark date;

$C_3$ : Value of construction in progress, which income was not taken into account in the expected revenue (free cash flow)

$C_4$ : Value of assets including bad or idle equipment and properties as at the benchmark date;

D: Value of interest-bearing debts of the valuated entity.

(2) *Income metrics*

In this valuation, the company's free cash flow was used as an income indicator of its operating assets, which is basically defined as follows

$$R = \text{net profit} + \text{depreciation and amortization} + \text{interest on interest-bearing debt net of tax} - \text{additional capital} \quad (7)$$

Where:

$$\begin{aligned} \text{Net profit} = & \text{revenue} - \text{operating cost} - \text{sales tax and surcharges} \\ & - \text{expenses for the period (operational expenses} + \text{administrative} \\ & \text{expenses} + \text{finance cost)} - \text{income tax} \end{aligned} \quad (8)$$

Depreciation and amortization = depreciation and amortization in costs and expenses (operational expenses and administrative expenses)

Interest on interest-bearing debts net of tax = total interests on long-term and short-term interest-bearing debts x (1 – income tax rate)

$$\begin{aligned} \text{Additional capital} = & \text{investment in assets replacement} + \\ & \text{incremental working capital} + \text{additional investment in long-} \\ & \text{term assets} \end{aligned} \quad (9)$$

Where:

$$\begin{aligned} \text{Investment in assets replacement} = & \text{renewal of buildings} + \\ & \text{replacement of machines and equipment} + \text{replacement of other} \\ & \text{automation equipment (electronics, transportation and etc.)} + \\ & \text{renewal of intangible assets} \end{aligned} \quad (10)$$

$$\begin{aligned} \text{Incremental working capital} = & \text{current working capital} - \text{previous} \\ & \text{working capital} \end{aligned} \quad (11)$$

Where:

$$\begin{aligned} \text{Working capital} = & \text{cash reserves} + \text{inventories} + \text{receivables} - \\ & \text{payables} + \text{retained value-added tax at the end of the period} \end{aligned} \quad (12)$$

For the purpose of this valuation, it is assumed that the minimum cash reserve required for maintaining its usual course of business is 37-day out-of-pocket expenses based on its specific conditions.

Total annual out-of-pocket costs = total COGS + total expenses + taxes – total non-out-of-pocket costs (12-1)

Inventory turnover = out-of-pocket costs/closing balance of inventories (12-2)

Receivable turnover = revenue of sales/closing balance of receivables (12-3)

Payable turnover = out-of-pocket costs/closing balance of payables (12-4)

Receivables = notes receivable + accounts receivable – receipts in advance + other receivables (after non-recurring other receivables) (12-5)

Payables = notes payable + accounts payable – prepayments + payroll payable + taxes payable + other payables (after non-recurring other payables) (12-6)

Retained value-added tax at the end of the period = deductible value-added tax at the beginning of the period + input VAT- output VAT- VAT rebates for export -tax rebates for imported equipment (12-7)

Additional investment in long-term assets = additional investment in fixed assets + additional intangible or other long-term assets (13)

The expected future free cash flow of the entity was estimated according to its operating history and future market development, assuming that it would continue to operate as a going concern for a longer sustainable period after the forecast period, and the expected revenue of the valuated entity in the sustainable period would be equal to the free cash flow for the final year of the forecast period. The value of the operating assets of the entity was calculated by discounting and adding the free cash flow which would be generated in the future operating term.

(3) *Discount rate*

This valuation adopted the weighted average cost of capital model (WACC) to determine the discount rate  $r$

$$r = r_d \times w_d + r_e \times w_e \quad (14)$$

Where:

$W_d$ : Debt ratio of the valuated entity;

$$W_d = \frac{D}{(E + D)} \quad (15)$$

$W_e$ : Equity to capital ratio of the valuated entity;

$$W_e = \frac{E}{(E + D)} \quad (16)$$

$r_e$ : Cost of equity capital, as determined based on the Capital Asset Pricing Model (CAPM);

$$r_e = r_f \times \beta_e \times (r_m - r_f) + \varepsilon \quad (17)$$

Where:

$r_f$ : Risk-free rate of return;

$r_m$ : Market expected return rate;

$\varepsilon$ : Specific risk-adjusted factor of the valuated entity;

$\beta_e$ : Expected market risk factor of equity capital of the valuated entity;

$$\beta_e = \beta_u \times (1 + (1 - t) \times \frac{D}{E}) \quad (18)$$

$\beta_u$ : expected unlevered market risk factor of the comparable company;

$$\beta_u = \frac{\beta_t}{1 + (1 - t) \frac{D_i}{E_i}} \quad (19)$$

$\beta_t$ : expected average market risk factor of equity(assets) of the comparable company;

$$\beta_t = 34\%K + 66\%\beta_x \quad (20)$$

$D_i$  and  $E_i$ : interest-bearing debts and equity capital of the comparable company.

(4) *Determination of forecast period*

As the entity had been operating normally with relatively stable business conditions, the forecast period was defined as 5 years and 1 period, that is, from July 2019 to the end of 2024. The revenue would remain stable starting from 2025 onwards.

(5) *Determination of yielding period*

As the entity would be able to operate as a going concern in the long run through normal replacement of long-term assets including fixed assets, the yielding period was determined on a perpetual basis.

### **VIII. IMPLEMENTATION PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES**

The valuation process was divided into four stages:

**(I) Preparatory stage**

1. The Appointor and the valuation firm reached agreements on the purpose, benchmark date and scope of this valuation.
2. We got a detailed understanding of the valuated assets, arranged the valuation assignment, helped the enterprise report the valuated assets, and collected documents and materials required for the asset valuation.

**(II) On-site stage**

The major on-site evaluation works of the project team were as follows:

1. Interviewed the Appointor, the valuated entity and relevant personnel. Listened to relevant personnel of the Appointor and the valuated entity for overall conditions of the enterprise and the history and current conditions of the valuated assets, and understood the financial system, operation status and technical status of the fixed assets of the enterprise.
2. Reviewed and identified assets on the valuation application form provided by the enterprise, and checked with relevant data in the financial record, and coordinated with the enterprise to make adjustments in respect of problems found.

3. Checked and verified the income forecast (predictive financial information) provided by the valuated entity.
4. According to the valuation application form, verified fixed assets and performed stocktaking on tangible assets of inventories in the current assets.
5. For major equipment, reviewed technical data and final acceptance data, and understood the management system of equipment; for general-purpose equipment, collected price information mainly through market research and data inquiry; for houses and buildings, understood their management system and maintenance, renovation and expansion, and collected relevant information.
6. Checked and collected title certificates of the valuated assets, and examined title documents provided by the enterprise.
7. On a preliminary basis, appraised and assessed verified assets and liabilities included in the scope of valuation.

### **(III) Concluding stage**

We analyzed and summarized preliminary results of appraising relevant assets and liabilities, and made adjustment, revision and improvement to the valuation result as appropriate.

### **(IV) Reporting stage**

On the basis of the above work, we drafted the preliminary Valuation Report and exchanged opinions with the Appointor on the valuation result after preliminary appraisal. After independent analysis of relevant opinions, we made revisions and adjustments according to Internal Audit System and Procedures of the Valuation Firm, and ultimately issued the Valuation Report.

## **IX. ASSUMPTIONS FOR VALUATION**

For the purpose of this valuation, our team members used the following assumptions.

### **(I) General assumptions**

#### **1. Transaction assumption**

It is assumed that the valuated assets are already in the process of transaction and the valuer is assessing them on a simulated market (including trading terms). Transaction assumption is a primary assumption for the valuation to proceed.

**2.    *Open market assumption***

It is assumed that in respect of an asset transacted or proposed to be transacted on the market, the buyer and the seller stand on an arm's length, have the opportunity and time to obtain sufficient market information in order to make informed judgement on the function, usage and transaction price of the asset. The premise of open market assumption is that the asset can be openly traded on the market.

**3.    *Continuing use assumption***

Under the continuing use assumption, it's necessary to determine the approach, parameters and basis of valuation assuming that the valuated asset would remain in use for such purpose, in such manner, on such scale, and in such frequency and environment as it is currently being used or with changes on some level.

**(II) Special assumptions**

1. The valuated entity would continue to operate as a going concern after the valuation benchmark date;
2. There would be no significant change in the political, economic and social conditions of the countries and regions where the valuated entity is located after the valuation benchmark date;
3. There would be no significant change, other than those as known to the public, in the macro-economic, industrial and regional development policies of the countries and regions where the valuated entity is located after the valuation benchmark date;
4. There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the valuated entity after the valuation benchmark date;
5. As of the valuation benchmark date, the valuated entity and its subsidiaries did not have any litigations and contingencies that might affect their subsequent operations or valuation results, except for those as disclosed herein;
6. The management of the valuated entity would be responsible, stable, and competent after the valuation benchmark date;
7. The valuated entity would comply with relevant laws and regulations, and there would be no material non-compliance matters that might affect the company's development and realization of revenue;



8. The accounting policies adopted by the valuated entity after the valuation benchmark date would be consistent with those used in the preparation of the Valuation Report in all material aspects;
9. The basic information and financial information provided by the Appointor and the valuated entity were true, accurate and complete;
10. There would be no significant change in the business scope and business model of the valuated entity after the valuation benchmark date, other than those as disclosed in the Valuation Report, on the basis of the existing management method and level;
11. The asset composition, the structure of main business, the revenue and cost structure, marketing strategy and cost control of the valuated entity during the future forecast period would remain consistent with those before and after the benchmark date, and would change in accordance with the scale of its operations;
12. The proportion of domestic sales revenue of the valuated entity to the total sales revenue would remain unchanged during the future forecast period. For overseas sales, exported products would be exempted from duties and value-added tax on the import of raw materials according to the export tax rebate policy of the Customs;
13. During the future operation periods, the expense structure for respective periods of the valuated entity would not be materially different from the existing one, and would change in accordance to its operations scale. The financial expenses as referred to in this Valuation Report represent the finance cost incurred by the entity to fund its normal operation or construction during its production and operation. In view of frequent or significant changes in the monetary funds or bank deposits of an entity during its production and operation, the interest income from deposits was not taken into account in the valuation, and neither were contingent profit or loss other than interest-bearing liabilities;
14. The valuated entity planned to start construction of the factory in Vietnam in the second half of 2019 with a total investment of RMB120 million, which will be completed in 2020. Upon completion, some of the machines and equipment currently in the Huizhou leased factories will be relocated to the Vietnam factory and the lease for the leased factory (Mobile Communication Zone D with an area of 18,000 m<sup>2</sup>) will be terminated;

15. In order to supplement liquidity, the valuated entity acquired short-term borrowings in the amount of RMB260 million as at the valuation benchmark date. It planned to repay by the end of 2019 such amount until RMB210 million is outstanding and by the end of 2020 such amount until RMB150 million is outstanding and it would maintain indebtedness of RMB150 million from 2020 onwards. The future finance cost is in reference to loan prime rate (LPR);
16. The valuation only covered the items as shown in the valuation application form provided by the Appointor and the valuated entity, and did not include contingent assets and contingent liabilities that might exist other than those as contained in the list provided by the Appointor and the valuated entity;
17. There would be no force majeure that would have a material adverse effect on the valuated entity after the valuation benchmark date.

If there should be any change of the above conditions, the valuation results would generally cease to be effective

## **X. CONCLUSIONS OF VALUATION**

### **(I) Conclusions of valuation**

Based on the equity rights owner's and the management's judgment on the trend of future development of the valuated entity, and the execution of its operational plan, following necessary valuation procedures, we valuated the market value of the entire shareholder's equity in Tonly Electronics (i.e. owner's equity attributable to the parent in its consolidated statement) as at the valuation benchmark date of 30 June 2019, with our conclusions as follows:

Net assets attributable to the common shareholders of Tonly Electronics as at the valuation benchmark date of 30 June 2019 had a book value of RMB1,426,608,700 and valuation of RMB1,435,602,400, representing an appreciation of RMB8,993,700 or an appreciation rate of 0.63%.

According to the relevant regulations in the PRC, the conclusion of this Valuation Report will be effective within one year from the benchmark date. After making a comparison to the major operational and financial data of the subject company as of 30 September 2019 and upon relevant analysis, we believe that there is no significant difference between the conclusion of this Valuation Report and the equity value attributable to common shareholders of the subject company as at 30 September 2019.

**(II) Difference between conclusion of the valuation and the book value and the reason**

The difference between the book value and the result derived from the income approach as at the valuation benchmark date of 30 June 2019 is presented as follows:

Net assets attributable to the parent of Tonly Electronics as at the valuation benchmark date of 30 June 2019 had a book value of RMB1,426,608,700 and an assessed value of RMB1,435,602,400, representing an appreciation of RMB8,993,700 or an appreciation rate of 0.63%.

The appreciation is owing to Tonly Electronics' relatively strong competitiveness, given its market-leading position in the areas of R&D and manufacturing process of audio products. The management is anticipating great potential for Tonly Electronics based on its operating history, which leads to a slight appreciation of the valuation.

**XI. SPECIAL MATTERS**

**(I) Incomplete or defective title documents or other important documents**

1. As of the date of this Report, Tonly Electronics reported 4 properties without title certificate, with details as follows:

**Details of Tonly Electronics' Properties with No Title Certificate**

No.	Title certificate No.	Title Holder	Building Name	Structure	Completed on	UoM	Floor area/ Volume
1	N/A	TCL Technoly Electronics (Huizhou) Co., Ltd.	Project 38 <sup>#</sup> , Employee Dormitory No. 8	Framework	2014/12/25	m <sup>2</sup>	10562.30
2	N/A	TCL Technoly Electronics (Huizhou) Co., Ltd.	Project 38 <sup>#</sup> , Dormitory No. 12	Framework	2015/7/30	m <sup>2</sup>	24612.82
3	N/A	TCL Technoly Electronics (Huizhou) Co., Ltd.	41 <sup>#</sup> New Plant	Framework	2017/3/31	m <sup>2</sup>	45199.21
4	N/A	TCL Technoly Electronics (Huizhou) Co., Ltd.	41 <sup>#</sup> New Plant Phase II	Framework	2019/5/1	m <sup>2</sup>	93431

The valuated entity undertakes that it has the ownership of the foregoing buildings, and has not completed title reregistration formalities for its own reason, and the valuation firm and its valuers will not be liable for any dispute arising from title of the buildings.

Attention is drawn to the fact that this valuation was based on the area reported by the entity and adjustments would be necessary in case of any difference between the reported area and the area indicated on the title certificates obtained in the future.

Except for the above issues, no other defect with title is identified for the purpose of this valuation.

**(II) Outstanding matters, litigations and other uncertainties**

As reported by the entity, Tonly Electronics was involved in the following important outstanding matters and litigations as of the date of this Report.

**Developments of Litigations involving Tonly Electronics**

No.	Plaintiff	Nature	Time of Occurrence	Case Summary	Subject Value	Latest Development
1	TCL Technoly Electronics (Huizhou) Co., Ltd.	Dispute over a custom manufacturing contract	May 2016	TCL Technoly Electronics (Huizhou) Co., Ltd. and XPEC Century (Beijing) Technology Co., Ltd. entered into the Framework Agreement for supplying gaming set-top boxes in August 2014, pursuant to which XPEC placed an irrevocable order for 50000 sets with TCL Technoly Electronics (Huizhou) Co., Ltd.. In January 2015, XPEC reached agreement with TCL Technoly Electronics (Huizhou) Co., Ltd. on the new order and placed an order for 10000 sets. However, XPEC failed to complete the purchase as agreed, as a result of which TCL Technoly Electronics (Huizhou) Co., Ltd. incurred losses including idle inventories, discounted sales of materials and warehousing expense. That was how the dispute arise.	RMB3,587,200	Three court sessions have been completed, idle materials have been audited and notarized, and court session would proceed after the lawyer submits the auditor's report and the notarial certificate to the judge. The guarantee of property preservation has been replaced with the letter of guarantee.
2	TCL Technoly Electronics (Huizhou) Co., Ltd.	Dispute over a contract for purchase and sale by sample	2018-4	TCL Technoly Electronics (Huizhou) Co., Ltd. and Le Shi Zhi Xin Electronic Technology (Tianjin) Ltd. entered into a framework agreement for purchase on 19 December 2016, pursuant to which Le Shi intended to ask TCL Technoly Electronics (Huizhou) Co., Ltd. to purchase/process products, and TCL Technoly Electronics (Huizhou) Co., Ltd. agreed to supply products to Le Shi. The framework agreement covered three items, LHT-V16S, LHT-V16SPro and ATMOS. Le Shi placed order with TCL Technoly Electronics (Huizhou) Co., Ltd. for the three items but failed to fully perform its obligations, resulting in loss of TCL Technoly Electronics (Huizhou) Co., Ltd. including idle inventories. In addition, in order to perform its obligations thereunder, TCL Technoly Electronics (Huizhou) Co., Ltd. incurred expenses including tooling cost and R&D expense. Due to default on Le Shi's part, dispute arose.	RMB24,799,600	<ol style="list-style-type: none"> <li>1. A property preservation ruling (2018) Jin Zhi Bao No. 116 has been received. However, due to the discrepancy of account information and the waiting list for seizure by several courts, the bank account has not been frozen yet, which must be followed up. (Provide new clues of the plaintiff's assets).</li> <li>2. On 27 July 2018, a civil ruling was received from Tianjin No. 2 Intermediary Court, ruling that Le Shi's application for objection to jurisdiction was rejected.</li> <li>3. On 13 August 2018, it was known from the plaintiff's that Le Shi had appealed against the ruling.</li> </ol>

Attention is drawn to the fact that the entity had not recognized estimated liabilities in respect of the above outstanding matters and litigations. For the purpose of this valuation, no consideration was given to the effect of the above matters and disputes.

**(III) Major work involving experts and relevant reports**

No reference is made to reports issued by other firms for the purpose of this valuation.

**(IV) Significant subsequent matters**

1. Attention is drawn to the fact that the exchange rate of RMB against USD, EUR, JPY, HKD and other major foreign currencies exhibited certain fluctuations after the valuation benchmark date, and in this Report, we did not consider the effect on the valuation result of such fluctuations happened after the valuation benchmark date. Users of this report should be aware of the above matters.
2. According to Tonly Electronics' announcement dated 10 July 2019, Guangdong Regency, a subsidiary of Tonly Electronics, issued shares to acquire 49% equity in Huizhou Nirike Optoelectronics Co., Ltd. (惠州尼日科光電有限公司), which in turn became a wholly-owned subsidiary of Guangdong Regency. TCL Technoly's equity in Guangdong Regency was diluted to 44.02%. The effect of the above equity change on the valuation result after valuation benchmark date was not considered for the purpose of this valuation.

**(V) Other important matters**

1. As Tonly Electronics and its investees of long-term equity investments have customers and factories in different countries and regions, their business and transactions involves different currencies. It is noted that their future operations are exposed to exchange risk arising from uncertainties in foreign exchange rates.
2. It's the responsibility of the valuer and the valuation firm to make professional judgement on the value of the valuated asset for the purpose stated herein, but they do not comment on the merits of any economic behaviors relating to the said purpose. The valuation largely relies on information supplied by the Appointor and the valuated entity. Therefore, this valuation is conditional upon the authenticity and legality of relevant title documents and certificates, accounting vouchers and legal documents supplied by the Appointor and the valuated entity.
3. The Appointor and the valuated entity are liable for the authenticity and completeness of data, statements and other relevant documents supplied by the valuated entity and used for purpose of this valuation.

4. Title certificates and other certifying documents involved in this Report are supplied by the valuated entity, and the Appointor and the valuated entity are legally liable for their authenticity and legality.
5. After the valuation benchmark date, changes in the quantity or pricing standards of the subject assets shall be treated as follows:
  - (1) In case of any change in quantity, the value of asset shall be adjusted accordingly using the original valuation approach;
  - (2) When the pricing standard of the asset changes, having significant effect on the valuation result, the Appointor shall promptly appoint a qualified valuation firm to reassess the value of the asset;
  - (3) When determining the asset price for an actual transaction, the Appointor shall give due consideration and make appropriate adjustment in light of changes in the quantity or pricing standard of the asset after the valuation benchmark date.
6. The profit forecast for the valuated entity supplied to the valuation firm forms the basis for the income valuation approach used hereunder. After necessary enquiries, analysis and judgements, and repeated discussions with management and major shareholders of the valuated entity, the valuated entity made revisions and supplements to the forecast as appropriate, and we ultimately adopted data in the profit forecast. By using the profitability forecast, the valuation firm does not provide guarantee of future profitability of the valuated entity.
7. The conclusion of this valuation is based on accurate judgment of the property owner and the management of the valuated entity on its future development as well as the execution of its operational plan. The conclusion of this valuation would become null and void if actual operations of the valuated entity deviates from its operational plan in the future, and the property owner and the then current management fail to take effective remedies.

## **XII. RESTRICTIONS ON USE OF THE REPORT**

### **(I) Scope of use**

1. This Valuation Report is for the sole use by users specified herein. The right to use the Valuation Report is vested in the Appointor, and we shall not disclose it to others without the consent of the Appointor;
2. This Valuation Report is used solely for the purpose and usage specified herein;

- (II) The valuation firm and its valuers shall not be liable if the Appointor or any other user uses this Report in violation of laws and administrative regulations or beyond the scope of use specified herein;
- (III) No entity or individual could use this Valuation Report except the Appointor, users specified in the Engagement Contract for Asset Valuation and other users specified in laws and administrative regulations;
- (IV) Users of this Valuation Report shall understand that the conclusion of valuation does not represent the realizable price of the valuated asset and does not constitute a guarantee for the realizable price of the valuated asset.

**XIII. REPORT DATE**

The date of this Valuation Report is 1 November 2019.

(No text on this page)

**Shenzhen China United Assets Appraisal Group Co., Ltd.**

**Valuer:**

**Valuer:**

1 November 2019



**Schedule List**

1. Financial Statements of Tonly Electronics as at the Valuation benchmark date (copy);
2. Business Licenses of the legal persons of the engaging entity and the Valued Entity (copy);
3. Letter of Undertakings issued by the engaging entity and the Valuated Entity;
4. Registration Announcement of Shenzhen China United Assets Appraisal Group Co., Ltd. (copy);
5. Business License of Shenzhen China United Assets Appraisal Group Co., Ltd. (copy).

**UBS AG**

Hong Kong Branch  
2 International Finance Centre  
52/F, 8 Finance Street  
Central, Hong Kong  
Tel. +852-2971-8888  
www.ubs.com

22 November 2019

The Board of Directors

T.C.L. Industries Holdings (H.K.) Limited

8/F, Building 22E, Phase 3, Hong Kong Science Park, Pak Shek Kok, NT, Hong Kong

The Board of Directors

TCL Industries Holdings Co., Ltd.

22/F, TCL Technology Building, 17 Huifeng 3rd Road, Zhongkai Hi-Tech District, Huizhou City, China

Dear Sirs,

We refer to the composite document dated 22 November 2019 jointly issued by TCL Industries Holdings Co., Ltd. (the “**Purchaser**”), T.C.L. Industries Holdings (H.K.) Limited (the “**Offeror**”) and Tonly Electronics Holdings Limited (the “**Company**”) (the “**Composite Document**”), of which this letter forms part, and the appraisal report dated 1 November 2019 prepared by Shenzhen China United Assets Appraisal Co., Ltd (深圳中聯資產評估有限公司)(the “**Appraisal Report**”). Shenzhen China United Assets Appraisal Co., Ltd (深圳中聯資產評估有限公司)(the “**PRC Appraiser**”) is an independent appraiser in respect of the valuation of the Company and the Offeror (which directly holds a controlling interest in the Company) (the “**Valuation**”).

The Appraisal Report is set out in Appendix V to the Composite Document.

We note that since the appraised value of the Company stated in the Appraisal Report was derived from the discounted future cash flows method, the Valuation constitutes a profit forecast under Rule 10 of the Takeovers Code (the “**Profit Forecast**”). Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings given to them in the Composite Document.

This letter is issued in compliance with the requirement under Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code. We have reviewed the Profit Forecast and discussed with the management of the Purchaser, the Offeror and the PRC Appraiser regarding the Profit Forecast, including, in particular, the valuation methodologies, the qualifications, the bases and assumptions adopted in the Appraisal Report, and the reasons thereof.

We have also considered the letter from Ernst & Young dated 22 November 2019 addressed to the Company regarding their opinion on whether, so far as the calculations are concerned, the discounted future cash flows have been properly compiled on the basis of the assumptions set out in the Appraisal Report.

We have not independently verified the computations leading to the Valuation. We have had no role or involvement and have not provided and will not provide any assessment of the value of the Company. We have assumed that all information, materials and representations provided to us by the Purchaser, the Offeror, the Company and the PRC Appraiser, including all information, materials, and representations referred to or contained in the Composite Document, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Composite Document and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, whether express or implied, is made by us on the accuracy, truth or completeness of such information, materials or representations. Accordingly, we accept no responsibility, whether expressly or implicitly, on the Valuation as set out in the Appraisal Report.

This letter also constitutes a report pursuant to Rule 11.1(b) of the Takeovers Code and sets out our assessment and review of the qualifications and experience of the PRC Appraiser, the key responsible valuers for the Appraisal Report, being Ms. Qian WANG and Mr. Lei WU. We have conducted reasonable checks and assessment of the relevant qualification, experience and expertise of the PRC Appraiser, Ms. Qian WANG and Mr. Lei WU, including, among other things, reviewing the professional licences and other supporting documents of the PRC Appraiser, Ms. Qian WANG and Mr. Lei WU, and discussing with representatives of the PRC Appraiser the qualifications and experience of Ms. Qian WANG, Mr. Lei WU and the PRC Appraiser and confirm that their qualifications and experience meet the applicable legal and regulatory requirements for issuing the Appraisal Report.

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**APPENDIX VI            UBS LETTER (FOR THE UPDATED APPRAISAL REPORT)**

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On the basis of the foregoing, and the calculations reviewed by Ernst & Young, we are of the opinion that the adoption of the income approach as the valuation methodology as well as the bases and assumptions adopted in the Appraisal Report have been made with due care and objectivity and on a reasonable basis, and that the Profit Forecast, for which the directors of the Offeror and the Purchaser are jointly and severally responsible, has been made with due care and consideration. We are also satisfied that Ms. Qian WANG, Mr. Lei WU and the PRC Appraiser are suitably qualified and experienced with sufficient current knowledge, skills and understanding necessary to undertake the Valuation competently.

Yours faithfully,

For and on behalf of

**UBS AG Hong Kong Branch**

**Samson LO**

*Managing Director*

**Jun LUO**

*Managing Director*

**SOMERLEY CAPITAL LIMITED**

20th Floor, China Building  
29 Queen's Road Central  
Hong Kong

22 November 2019

The board of directors  
Tonly Electronics Holdings Limited  
8th Floor, Building 22E  
22 Science Park East Avenue  
Hong Kong Science Park, Shatin  
New Territories, Hong Kong

Dear Sirs,

We refer to (a) the composite document (the “**Composite Document**”) jointly issued by TCL Industries Holdings Co., Ltd., T.C.L. Industries Holdings (H.K.) Limited and Tonly Electronics Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 22 November 2019 in relation to, among others, the mandatory conditional cash offers by UBS AG, Hong Kong Branch, on behalf of T.C.L. Industries Holdings (H.K.) Limited; and (b) the updated valuation (the “**Updated Valuation**”) of the market value of 100% equity interests of the Company as of 30 June 2019 prepared by Shenzhen China United Assets Appraisal Co., Ltd. (深圳中聯資產評估有限公司)(the “**Independent Valuer**”), details of which are set out in Appendix V to the Composite Document. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless otherwise specified.

As set out in Appendix V to the Composite Document, the appraised value of the Company has been derived from income approach which takes into account the future cash flow forecast of the Group. As such, the Updated Valuation is regarded as a profit forecast pursuant to Rule 10 of the Takeovers Code and Rule 14.61 of the Listing Rules and is required to be reported on (as set out below). Furthermore, our report on the qualifications and experience of the Independent Valuer to prepare the Updated Valuation is required under Rule 11.1(b) of the Takeovers Code and this letter also constitutes such report from us.

We have relied on the information and facts supplied, and the opinion expressed by the Purchaser, the Company and the Independent Valuer, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied nor verified the computations leading to the appraised value of the Company as detailed in Appendix V to the Composite Document.

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**APPENDIX VII            IFA LETTER (FOR THE UPDATED APPRAISAL REPORT)**

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Pursuant to the Corporate Finance Adviser Code of Conduct, we have, among others, reviewed the supporting documents relating to the Updated Valuation and discussed with the management of the Purchaser and the Company, and the Independent Valuer regarding the Updated Valuation, including, in particular, the valuation approach, key bases and assumptions, and the forecast upon which the Updated Valuation has been made (the “**Forecast**”). We have also considered the letter dated 22 November 2019 issued by Ernst & Young pursuant to Rule 10 of the Takeovers Code, the text of which is set out in Appendix VIII to the Composite Document.

With regard to the qualifications and experience of the Independent Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussing the same with the Independent Valuer, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Updated Valuation competently.

On the basis of the foregoing, we are satisfied that the Forecast, for which the Purchaser and the Company are responsible, has been made with due care and consideration. We concur with the Independent Valuer that the income approach is commonly used and is the appropriate method for deriving the appraised value of the Company, and the valuation methodologies as well as the bases and assumptions adopted in the Updated Valuation have been made by the Independent Valuer with due care and objectivity, and on a reasonable basis.

Yours faithfully,  
For and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Stephanie Chow**  
*Director*



**Ernst & Young**  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

安永會計師事務所  
香港中環添美道1號  
中信大廈22樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

22 November 2019

The Directors

Tonly Electronics Holdings Limited

8th Floor, Building 22E,

22 Science Park East Avenue,

Hong Kong Science Park,

Shatin, New Territories, Hong Kong

Dear Sirs,

**REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF TONLY ELECTRONICS HOLDINGS LIMITED (“Tonly Electronics”)**

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation prepared by Shenzhen China United Assets Appraisal Co., Ltd. dated 1 November 2019 in respect of Tonly Electronics as at 30 June 2019 is based. The valuation is disclosed in the composite document jointly issued by TCL Industries Holdings Co., Ltd., T.C.L. Industries Holdings (H.K.) Limited (“**T.C.L. Industries**”) and Tonly Electronics dated 22 November 2019 (the “**Composite Document**”) in connection with the T.C.L. Industries’ proposed mandatory conditional cash offers to acquire all the issued shares of Tonly Electronics and cancel all the outstanding share options of Tonly Electronics. The Forecast is required to be reported on under Rule 10 of the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission.

**DIRECTORS’ RESPONSIBILITIES**

The directors of Tonly Electronics (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the headed “Assumptions” in the Appendix V of the Composite Document.

**OUR INDEPENDENCE AND QUALITY CONTROL**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions made by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Tonly Electronics. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 10 of The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.



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**APPENDIX VIII AUDITORS' LETTER (FOR THE UPDATED APPRAISAL REPORT)**

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**OPINION**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

**1. Mr. LI Dongsheng**

<b>Number of Share Options held</b>	<b>Exercise price (HK\$)</b>	<b>Exercise period of the Share Options</b>
58,370		31 December 2016 to 31 December 2022
58,370	4.05	31 December 2017 to 31 December 2022
58,371		31 December 2018 to 31 December 2022
313,621		15 May 2018 to 31 December 2020
313,620	9.60	15 November 2019 to 31 December 2020
137,500		15 June 2018 to 15 June 2024
137,500		15 November 2019 to 15 June 2024
137,500	7.84	15 June 2020 to 15 June 2024

**2. Ms. ICHIKAWA Yuki**

<b>Number of Share Options held</b>	<b>Exercise price (HK\$)</b>	<b>Exercise period of the Share Options</b>
36,206		31 December 2016 to 31 December 2022
36,206	4.05	31 December 2017 to 31 December 2022
36,206		31 December 2018 to 31 December 2022
23,417		15 June 2018 to 15 June 2024
23,417	7.84	15 November 2019 to 15 June 2024
23,416		15 June 2020 to 15 June 2024

**3. Ms. XIONG Yan**

<b>Number of Share Options held</b>	<b>Exercise price (HK\$)</b>	<b>Exercise period of the Share Options</b>
3,538		31 December 2016 to 31 December 2022
3,538	4.05	31 December 2017 to 31 December 2022
3,537		31 December 2018 to 31 December 2022
6,750		15 June 2018 to 15 June 2024
6,750	7.84	15 November 2019 to 15 June 2024
6,750		15 June 2020 to 15 June 2024

**4. Mr. DU Yuanhua**

<b>Number of Share Options held</b>	<b>Exercise price (HK\$)</b>	<b>Exercise period of the Share Options</b>
12,598		31 December 2017 to 31 December 2022
12,598	4.05	31 December 2018 to 31 December 2022
11,125		15 June 2018 to 15 June 2024
11,125		15 November 2019 to 15 June 2024
11,125	7.84	15 June 2020 to 15 June 2024

**1. Mr. LI Dongsheng and his spouse*****Share Options and Awarded Shares***

Nature	Date of grant	Total number of Shares of the Company involved	Vesting Date	Total number of Shares of the Company vested on the vesting Date	Exercise price (HK\$)	Closing price of Awarded Shares on date of grant	Closing price of Awarded Shares on vesting date	Expiry date for exercise of Share Options	Share Options exercised (Note 1)
Share Options	30 December 2016	283,729	31 December 2016	94,576	4.05	N/A	N/A	31 Dec 2022	No
			31 December 2017	94,576	4.05	N/A	N/A	31 Dec 2022	No
			31 December 2018	94,577	4.05	N/A	N/A	31 Dec 2022	No
	22 September 2017	627,241	15 May 2018	313,621	9.60	N/A	N/A	31 Dec 2020	No
			15 November 2019	313,620	9.60	N/A	N/A	31 Dec 2020	No
	21 May 2018	482,750	15 June 2018	160,917	7.84	N/A	N/A	15 Jun 2024	No
15 November 2019			160,917	7.84	N/A	N/A	15 Jun 2024	No	
Awarded Shares	29 September 2016	76,912	31 December 2018	25,636	N/A	3.96	6.09	N/A	N/A
			21 May 2018	123,151	15 June 2018	41,051	N/A	7.84	8.17
				15 November 2019	41,051	N/A	7.84	5.86	N/A

(Note 2, 3)

**2. Ms. XIONG Yan*****Share Options and Awarded Shares***

Nature	Date of grant	Total number of Shares of the Company involved	Vesting Date	Total number of Shares of the Company vested on the vesting Date	Exercise price (HK\$)	Closing price of Awarded Shares on date of grant	Closing price of Awarded Shares on vesting date	Expiry date for exercise of Share Options	Share Options exercised (Note 1)
Share Options	30 December 2016	10,613	31 December 2016	3,538	4.05	N/A	N/A	31 Dec 2022	No
			31 December 2017	3,538	4.05	N/A	N/A	31 Dec 2022	No
			31 December 2018	3,537	4.05	N/A	N/A	31 Dec 2022	No
	21 May 2018	20,250	15 June 2018	6,750	7.84	N/A	N/A	15 Jun 2024	No
			15 November 2019	6,750	7.84	N/A	N/A	15 Jun 2024	No
	Awarded Shares	29 September 2016	2,877	31 December 2018	959	N/A	3.96	6.09	N/A
21 May 2018				5,166	15 June 2018	1,722	N/A	7.84	8.17
				15 November 2019	1,722	N/A	7.84	5.86	N/A

(Note 2)

## 3. Mr. DU Yuanhua

*Share Options and Awarded Shares*

Nature	Date of grant	Total number of Shares of the Company involved	Vesting Date	Total number of Shares of the Company vested on the vesting Date	Exercise price (HK\$)	Closing price of Awarded Shares on date of grant	Closing price of Awarded Shares on vesting date	Expiry date for exercise of Share Options	Share Options exercised (Note 1)
Share Options	30 December 2016	25,196	31 December 2017	12,598	4.05	N/A	N/A	31 Dec 2022	No
			31 December 2018	12,598	4.05	N/A	N/A	31 Dec 2022	No
	21 May 2018	33,375	15 June 2018	11,125	7.84	N/A	N/A	15 Jun 2024	No
			15 November 2019	11,125	7.84	N/A	N/A	15 Jun 2024	No
Awarded Shares	29 September 2016	10,245	31 December 2018	3,415	N/A	3.96	6.09	N/A	N/A
	21 May 2018	8,514	15 June 2018	2,838	N/A	7.84	8.17	N/A	N/A
			15 November 2019	2,838	N/A	7.84	5.86	N/A	N/A

(Note 2)

*Note 1:* The person has voluntarily locked the Share Options in his/her personal account and he/she will not exercise the exercisable Share Options.

*Note 2:* Such Shares were held on trust by the Trustee and have not been transferred to the personal account of the person.

*Note 3:* On 15 November 2019, 5,974 Awarded Shares held by Ms. ICHIKAWA Yuki were vested under the terms of the grant. As Ms. ICHIKAWA Yuki is a PRC resident, the Company was required to deduct 180 Shares thereof as PRC withholding tax.

**Original Extract:**

中聯資產評估集團有限公司受TCL集團股份有限公司的委託，TCL集團股份有限公司擬出售T.C.L.實業控股（香港）有限公司股權事宜，對所涉及的T.C.L.實業控股（香港）有限公司模擬報表範圍股東全部權益在評估基準日的市場價值進行了評估。

評估對象是T.C.L.實業控股（香港）有限公司模擬報表範圍股東全部權益，評估範圍為T.C.L.實業控股（香港）有限公司申報評估的基準日模擬報表範圍的全部資產和負債，包括流動資產、非流動資產及相關負債。

本次評估範圍內的一級長期股權投資共23項，均為長期股權投資。長期股權投資的被投資單位包括通力電子控股有限公司。

**通力電子**

**(1) 本次評估的基本情況**

中聯對通力電子100%的股權分別採用市場法和收益法進行了評估。截至評估基準日，採用收益法評估，通力電子的歸母淨資產賬面價值人民幣121,898.74萬元，評估值人民幣133,307.25萬元，評估增值人民幣11,408.50萬元，增值率9.36%；採用市場法評估，通力電子在評估基準日2018年6月30日的歸母淨資產賬面價值人民幣121,898.74萬元，評估值人民幣119,774.25萬元，評估減值人民幣2,124.49萬元，減值率1.74%。

一般而言，市場法是從整體市場的表現和未來的預期來評定企業的價值，而收益法是立足於企業本身的獲利能力來預測企業的價值，兩者是相輔相成的，市場法的結果是收益法結果的市場表現，收益法結果是市場法結果的堅實基礎。市場法結果與收益法結果差異的主要原因在於市場法是企業在某時點所反映的外部市場價格，其結果會受到市場投資環境、投機程度以及投資者信心等一系列因素影響而波動相對劇烈，而收益法則是在評估人員對企業歷史經營狀況進行專業分析的基礎上，對企業未來收益做出合理預測而得出的結論，相比市場法波動相對較小。

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根據管理層的預測，目前是一個產品結構調整階段，在傳統業務萎縮或消失的情況下，智能產品將成為公司收入的主要來源。市場法是參照同行上市公司的股價間接定價，評估結果受股市波動影響較大。

收益法是通過對被評估單位內在經營情況及外部市場經營環境進行全面分析後，結合被評估單位的歷史盈利情況、未來的業務發展預測等諸多因素後的價值判斷，評估結果更能體現企業股東權益價值。

故本次評估選用收益法評估結果作為通力電子全部股東權益的評估結果。

**(2) 基本假設**

- i. 假設評估基準日後被評估單位持續經營；
- ii. 假設評估基準日後被評估單位所處國家和地區的政治、經濟和社會環境無重大變化；
- iii. 假設評估基準日後評估實體所處國家和地區的宏觀經濟政策、產業政策和區域發展政策除公眾已獲知的變化外，無其他重大變化；
- iv. 假設與被評估單位相關的賦稅基準及稅率、政策性徵收費用等評估基準日後，除公眾已獲知的變化外，不發生重大變化；
- v. 假設截止評估基準日，在本報告披露的涉訴事項及或有事項外，被評估單位及其下屬子公司不存在影響其期後經營或評估結果的涉訴事項及或有事項；

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- vi. 假設評估基準日後被評估單位的管理層是負責的、穩定的，且有能力擔當其職務；公司產品在必要的研發投入下，技術保持領先；
- vii. 假設被評估單位遵守相關的法律法規，不會出現影響公司發展和收益實現的重大違規事項；
- viii. 假設評估基準日後被評估單位採用的會計政策和編寫評估報告時所採用的會計政策在重要方面保持一致；
- ix. 委託方及被評估單位提供的基礎資料和財務資料真實、準確、完整；
- x. 假設評估基準日後被評估單位在現有管理方式和管理水平的基礎上，其經營範圍、經營方式除評估報告中披露事項外不發生重大變化；
- xi. 假設評估對象在未來預測期內的資產構成，主營業務的結構，收入與成本的構成以及銷售策略和成本控制等仍保持其基準日前後的狀態持續，並隨經營規模的變化而同步變動；
- xii. 假設評估對象在未來預測期內的國內銷售比例佔銷售總收入的比例不變，國外銷售部分根據海關的出口退稅政策，出口產品的原材料進口免征關稅及增值稅；
- xiii. 在未來的經營期內，評估對象的各項期間費用的構成不會在現有基礎上發生大幅的變化，並隨經營規模的變化而同步變動。本評估所指的財務費用是企業在生產經營過程中，為籌集正常經營或建設性資金而發生的融資成本費用。鑒於企業的貨幣資金或其銀行存款等在生產經營過程中頻繁變化或變化較大，評估時不考慮存款產生的利息收入，也不考慮付息債務之外的其他不確定性損益；



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- xiv. 評估範圍僅以委託方及被評估單位提供的評估申報表為準，未考慮委託方及被評估單位提供清單以外可能存在的或有資產及或有負債；
- xv. 假設評估基準日後無不可抗力對被評估單位造成重大不利影響；
- xvi. 本次評估測算各項參數取值未考慮通貨膨脹因素。

當上述條件發生變化時，評估結果一般會失效。

**(3) 本次評估的評估方法**

根據國家管理部門的有關規定以及《資產評估執業準則—企業價值》，國際和國內類似交易評估慣例，本次評估同時確定按照收益法（現金流折現方法）、市場法估算通力電子的權益資本價值。

現金流折現方法是通過將企業未來預期淨現金流量折算為現值，評估資產價值的一種方法。其基本思路是通過估算資產在未來預期的淨現金流量和採用適宜的折現率折算成現時價值，得出評估值。其適用的基本條件是：企業具備持續經營的基礎和條件，經營與收益之間存有較穩定的對應關係，並且未來收益和風險能夠預測及可量化。使用現金流折現法的最大難度在於未來預期現金流的預測，以及數據採集和處理的客觀性和可靠性等。當對未來預期現金流的預測較為客觀公正、折現率的選取較為合理時，其估值結果具有較好的客觀性。

市場法是通過選取同行業可比上市公司，對被評估企業及各可比公司在盈利能力、運營能力、償債能力、成長能力等方面的差異進行分析調整並考慮流動性折扣後，確定被評估企業股東全部權益於評估基準日的市場價值。

(4) 收益法評估情況

i. 基本評估思路

根據本次評估盡職調查情況以及評估對象資產構成和主營業務特點，通力電子合併報表中的各法人主體的主營業務分別為音箱、耳機等音視頻產品的生產、研發、銷售服務，可視同為同一利潤主體，故本次評估的基本思路是以評估對象經審計的通力電子合併報表為基礎估算其權益資本價值，即首先按收益途徑採用現金流折現方法(DCF)，估算評估對象的經營性資產的價值，再加上其基準日的其他非經營性或溢余性資產的價值，來得到評估對象的企業價值，並由企業價值經扣減付息債務價值後，來得出評估對象的股東全部權益價值。

本次評估的基本評估思路是：

- A. 對納入報表範圍的資產和主營業務，按照最近幾年的歷史經營狀況的變化趨勢和業務類型估算預期淨現金流量，並折現得到經營性資產的價值；
- B. 對納入報表範圍，但在預期收益（淨現金流量）估算中未予考慮的諸如基準日存在的現金類資產（負債）等類資產，定義為基準日存在的溢余性或非經營性資產（負債），單獨估算其價值；
- C. 由上述計算得出的經營性資產價值加溢余性資產或非經營性資產價值，並扣減企業應承擔的付息債務價值後得到評估對象的股東全部權益價值。

ii. 評估模型

A. 基本模型

本次評估的基本模型為

$$P = E - M$$

式中：

P: 歸屬於母公司所有者權益評估價值；

E: 所有者權益評估價值；

M: 少數股東權益評估價值；

M = 所有者權益評估價值 x 少數股東權益比例

少數股東權益比例 = 少數股東權益價值賬面價值 / (少數股東權益賬面價值 + 母公司所有者權益賬面價值)。

其中：

$$E = B - D$$

B: 評估對象的企業價值；

$$B = P + \sum C_i$$

P: 評估對象的經營性資產價值；

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n}$$

式中：

R<sub>i</sub>: 評估對象模擬合併口徑未來第i年的預期收益（自由現金流量）；

R<sub>n</sub>: 評估對象模擬合併口徑永續期的預期收益（自由現金流量）；

r: 折現率；

n: 評估對象的未來經營期。

ΣC<sub>i</sub>: 基準日存在的非經營性、溢餘資產的價值。

$$C_i = C_1 + C_2 + C_3 + C_4$$

式中：

C<sub>1</sub>: 預期收益（自由現金流量）中未體現投資收益的全資、控股或參股投資價值；

C<sub>2</sub>: 基準日現金類資產（負債）價值；

C<sub>3</sub>: 預期收益（自由現金流量）中未計及收益的在建工程價值；

C<sub>4</sub>: 基準日呆滯或閒置設備、房產等資產價值；

D: 評估對象付息債務價值。

B. 收益指標

本次評估，使用企業自由現金流作為經營性資產的收益指標，其基本定義為：

$$R = \text{淨利潤} + \text{折舊攤銷} + \text{扣稅後付息債務利息} - \text{追加資本}$$

式中：

$$\text{淨利潤} = \text{營業收入} - \text{營業成本} - \text{銷售税金及附加} - \text{期間費用} (\text{營業費用} + \text{管理費用} + \text{財務費用}) - \text{所得稅}$$

$$\text{折舊攤銷} = \text{成本和費用} (\text{營業費用及管理費用}) \text{中的折舊攤銷}$$

$$\text{扣稅後付息債務利息} = \text{長短期付息債務利息合計} \times (1 - \text{所得稅率})$$

$$\text{追加資本} = \text{資產更新投資} + \text{營運資本增加額} + \text{新增長期資產投資}$$

其中：

$$\text{資產更新投資} = \text{房屋建築物更新} + \text{機器設備更新} + \text{其他自動化設備} \\ (\text{電子、運輸等}) \text{更新} + \text{無形資產更新}$$

$$\text{營運資金增加額} = \text{當期營運資金} - \text{上期營運資金}$$

其中：

營運資金 = 現金保有量 + 存貨 + 應收款項 - 應付款項

新增長期資產投資 = 新增固定資產投資 + 新增無形或其他長期資產

根據企業的經營歷史以及未來市場發展等，估算其未來預期的自由現金流量，並假設其在預測期後仍可經營一個較長的永續期，在永續期內評估對象的預期收益等額於其預測期最後一年的自由現金流量。將未來經營期內的自由現金流量進行折現處理並加和，測算得到企業經營性資產價值。

C. 折現率

本次評估採用加權平均資本成本模型(WACC)確定折現率 $r$

$$r = r_d \times W_d + r_e \times W_e$$

式中：

$W_d$ ：評估對象的債務比率；

$$W_d = \frac{D}{(E + D)}$$

$W_e$ ：評估對象的股權資本比率；

$$W_e = \frac{E}{(E + D)}$$

$r_e$ ：權益資本成本，按資本資產定價模型(CAPM)確定權益資本成本 $r_e$ ；

$$r_e = r_f \times \beta_e \times (r_m - r_f) + \varepsilon$$

式中：

$r_f$ ： 無風險報酬率；

$r_m$ ： 市場預期報酬率；

$\varepsilon$ ： 評估對象的特性風險調整係數；

$\beta_e$ ： 評估對象權益資本的預期市場風險係數；

D. 預測期的確定

企業已經正常運行，運營狀況比較穩定，故預測期取5年1期，即2018年7月~2023年，2024年起收入保持穩定。

E. 收益期的確定

企業通過正常的固定資產等長期資產更新，是可以保持長時間的運行的，故收益期按永續確定。

(5) 市場法評估情況

市場法是通過選取同行業可比上市公司，對被評估企業及各可比公司在盈利能力、運營能力、償債能力、成長能力等方面的差異進行分析調整並考慮流動性折扣後確定被評估企業股東全部權益於評估基準日的市場價值。

A. 可比上市公司的選取

通力電子主營業務生產及銷售音視頻產品以及提供研發服務，屬於消費電子行業，H股有類似業務的上市公司，因此本次評估選擇了14家主營業務類似的上市公司作為可比公司。

B. 通力電子與可比公司間的比較量化

本次評估從盈利能力、發展能力、營運能力及償付能力四個方面來評價企業的績效。具體選取以下10個指標作為評價體系中的可比指標：a、盈利能力：營業利潤率、總資產報酬率、淨資產收益率；b、發展能力：營業收入增長率、總資產增長率；c、營運能力：總資產周轉率、應收賬款周轉率、存貨周轉率；d、償付能力：流動比率、速動比率。

C. 價值比率的確定

在市場法評估中所採用的價值比率一般有市盈率(PE)、市淨率(PB)、市銷率(PS)、企業價值與折舊息稅前利潤比率(EV/EBITA)、企業價值與稅後經營收益比率(EVIAT)等。在上述五個指標中，企業價值與折舊息稅前利潤比率(EV/EBITA)、企業價值與稅後經營收益比率(EVIAT)側重企業整體價值的判斷；而市盈率(PE)、市淨率(PB)、市銷率(PS)側重股東權益價值的判斷，以合理確定評估對象的價值為目的，適合選取市盈率(PE)、市淨率(PB)、市銷率(PS)作為價值比率。

根據被評估企業的特點，評估人員在確定價值比率時綜合考慮了盈利能力、融資結構以及折舊攤銷政策等因素，結合被評估單位的實際情況，公司成立時間較長，歷史年度均有較穩定的收入及利潤，盈利狀況良好，本次評估選擇市盈率(PE)為價值比率。



D. 計算比准價值比率

本次按照盈利能力、償債能力、營運能力、發展能力各佔權重25%計算，得到各可比案例的價值比例調整係數，然後乘以可比案例中對應的市盈率得到各可比案例的比准市盈率，對各企業比准市盈率求平均得到被評估企業的市盈率。剔除比准市盈率的最高值與最低值後，可比公司中最終計算的比准市盈率平均值為7。

E. 計算通力電子扣除流動性折扣前股東全部權益的價值

由於選用的市盈率為LYR，對應最新一期年報數據，故乘以被評估企業2017年的歸屬於母公司所有者的淨利潤，由此得出通力電子歸屬於母公司所有者權益的價值。

(1) 評估對象扣除流動性折扣前歸屬於母公司所有者權益的價值：

$$\begin{aligned} & \text{扣除流動性折扣前歸屬於母公司所有者權益的價值} = \text{歸屬於母公司所有者的} \\ & \text{淨利潤} \times \text{市盈率價值比率} \\ & = 17,170.78 \times 7 \\ & = \text{人民幣}120,195.45\text{萬元} \end{aligned}$$

F. 確定流動性折扣

由於被評估單位與本次選用的可比公司均為上市公司，其股份具有很強的流動性，不需考慮流動性折扣。故流動性折扣 = 0%。

G. 歸屬於母公司所有者權益價值計算

$$\begin{aligned} & \text{歸屬於母公司所有者權益價值} = \text{扣除流動性折扣前歸屬於母公司所有者權益的} \\ & \text{價值} \times (1 - \text{流動性折扣}) \\ & = 120,195.45 \times (1 - 0\%) \\ & = \text{人民幣}120,195.45\text{萬元} \end{aligned}$$

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H.    計算歸屬於母公司股東權益價值。

2018年6月30日合併資產負債表顯示，母公司少數股東權益佔所有者權益的比例為0.350%。

$$\begin{aligned} \text{歸屬於母公司股東權益價值} &= \text{股東全部權益價值} \times (1 - \text{少數股東權益佔所有者} \\ &\text{權益比例}) \\ &= 120,195.45 \times (1 - 0.350\%) \\ &= \text{人民幣}119,774.25\text{萬元} \end{aligned}$$

採用市場法評估，被評估單位的歸屬於母公司所有者權益價值為人民幣119,774.25萬元。

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**English translation of the Extract:**

As engaged by TCL Corporation, China United Assets Appraisal Group Co., Ltd. carried out an evaluation on the market value of the entire shareholder's equity of T.C.L. Industries Holdings (H.K.) Limited in its pro forma statements as at the valuation reference date in relation to the proposed disposal of the equity of T.C.L. Industries Holdings (H.K.) Limited by TCL Corporation.

The subject of the valuation was the entire shareholder's equity in the pro forma statements of T.C.L. Industries Holdings (H.K.) Limited whereas the scope of valuation covered all assets and liabilities in the pro forma statement of T.C.L. Industries Holdings (H.K.) Limited, including its current assets, non-current assets and corresponding liabilities, as at the valuation reference date on which the valuation was submitted.

There was a total of 23 long-term primary equity investments within the scope of this valuation, are of which all long-term equity investments, among which include Tonly Electronics Holdings Limited.

**Tonly Electronics**

**(1) Profile of the Valuation**

China United adopted the market approach and the income approach respectively for the valuation of 100% equity interests in Tonly Electronics. As of the valuation reference date, based on the valuation under the income approach, the net asset value of Tonly Electronics attributable to its parent was RMB1,218,987,400 and the valuation amount was RMB1,333,072,500, representing a valuation appreciation of RMB114,085,000 and an appreciation rate of 9.36%. As of the valuation reference date, being 30 June 2018, based on the valuation under the market approach, the net asset value of Tonly Electronics attributable to its parent was RMB1,218,987,400 and the valuation amount was RMB1,197,742,500, representing a valuation depreciation of RMB21,244,900 and a depreciation rate of 1.74%.

In general, the market approach is to evaluate the value of an enterprise based on the overall market performance and future forecast, while the income approach is to estimate the value of an enterprise based on the profitability of the enterprise itself. Both methods complement each other. The results from the market approach are the market performance of the results from the income approach whereas the results from the income approach are a solid foundation for the results from the market approach. The difference between the results from the market approach and results from the income approach is mainly because the market approach is the external market price reflected by an enterprise at a certain point in time, the results of which are affected by a series of factors including investment environment in the market, level of speculation and confidence of investors, and the fluctuation is relatively large, whereas income approach is a conclusion drawn by a reasonable estimation on the future income of an enterprise based on the valuer's professional analysis on the historic operating status of the enterprise, the fluctuation of which is relatively small as compared with market approach.

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According to the management forecast, it is currently a stage of product structure adjustment. As the traditional businesses are shrinking or disappearing, smart products will become the major source of income for the company. As the market approach is an indirect pricing with reference to the share price of listed companies in the same industry, the valuation results are highly influenced by the fluctuation of the stock market.

The income approach is a value judgement based on comprehensive analysis on the internal operation status and the external market operation environment of the valuated entity, as combined with various factors including the income history and estimation of future business development of the valuated entity. Its valuation results can better reflect the value of shareholders' equity of the enterprise.

As such, the valuation results from the income approach are used in this valuation as the valuation results of the entire shareholders' equity of Tonly Electronics.

**(2)    *Basic Assumptions***

- i.     The valuated entity would continue to operate as a going concern after the valuation reference date;
- ii.    There would be no significant change in the political, economic and social conditions of the countries and regions where the valuated entity is located after the valuation reference date;
- iii.   There would be no significant change, other than those as known to the public, in the macro-economic, industrial and regional development policies of the countries and regions where the valuated entity is located after the valuation reference date;
- iv.    There would be no significant change, other than those as known to the public, in the basis and rates of taxation and policy levies in relation to the valuated entity after the valuation reference date;
- v.     As of the valuation reference date, the valuated entity and its subsidiaries did not have any litigations and contingencies that might affect their subsequent operations or valuation results, except for those as disclosed herein;

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- vi. The management of the valuated entity would be responsible, stable, and competent after the valuation reference date; and the products of the company could maintain a leading position in terms of technologies used, with necessary investment in research and development;
- vii. The valuated entity would comply with relevant laws and regulations, and there would be no material non-compliance matters that might affect the company's development and realization of revenue;
- viii. The accounting policies adopted by the valuated entity after the valuation reference date would be consistent with those used in the preparation of the valuation report in all material aspects;
- ix. The basic information and financial information provided by the appointor and the valuated entity were true, accurate and complete;
- x. There would be no significant change in the business scope and business model of the valuated entity after the valuation reference date, other than those as disclosed in the valuation report, on the basis of the existing management method and level;
- xi. The asset composition, the structure of main business, the revenue and cost structure, marketing strategy and cost control of the valuated entity during the future forecast period would remain consistent with those before and after the reference date, and would change in accordance with the scale of its operations;
- xii. The proportion of domestic sales revenue of the valuated entity to the total sales revenue would remain unchanged during the future forecast period. For overseas sales, exported products would be exempted from duties and value-added tax on the import of raw materials according to the export tax rebate policy of the Customs;
- xiii. During the future operation periods, the expense structure for respective periods of the valuated entity would not be materially different from the existing one, and would change in accordance to its operations scale. The financial expenses as referred to by this valuation represent the finance cost incurred by the entity to fund its normal operation or construction during its production and operation. In view of frequent or significant changes in the monetary funds or bank deposits of an entity during its production and operation, the interest income from deposits was not taken into account in the valuation, and neither were contingent profit or loss other than interest-bearing liabilities;

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- xiv. The valuation only covered the items as shown in the valuation application form provided by the appointor and the valuated entity, and does not include contingent assets and contingent liabilities that might exist other than those as contained in the list provided by the appointor and the valuated entity;
- xv. No force majeure that would have a material adverse effect on the valuated entity after the valuation reference date;
- xvi. Inflation was not taken into account in the estimation of the inputs for this valuation.

If there should be any change of the above conditions, the valuation results would generally cease to be effective.

**(3)    *Valuation method for this valuation***

According to the relevant provisions stipulated by the state administration authorities and the “Asset Valuation Practicing Code – Value of Enterprise”, and the international and domestic appraisal practice on similar transaction, it is determined that this valuation of the value of the equity capital of Tonly Electronics will be conducted in accordance with the income approach (discounted cash flow method) and the market approach.

The discounted cash flow method is a method of appraising the asset value by discounting the expected future net cash flow of an enterprise into present value. The basic concept is that the appraised value is obtained by estimating the future expected net cash flow of the assets, and discount into the present value at a proper discount rate. The basic conditions of application are: the enterprise has the foundation and conditions for continuous operation, and there is stable correlation between the operation and the income, and the future income and risks can be forecasted and quantified. The greatest difficulty in using the discounted cash flow method lies in the forecast of expected future cash flow, the objectivity and reliability of data collection and processing. When the forecast of future expected cash flow is relatively objective and fair and a reasonable discount rate is adopted, the appraisal results would be more objective.

The market approach is to determine the market value of the entire shareholders’ equity of the valuated enterprise on the valuation reference date, by selecting comparable listed companies in the same industry, and analyse with adjustment on the differences between the valuated enterprise and each of the comparable companies in respects of profitability, operation capability, solvency, growth ability after taking into account the liquidity discount.

**(4) Particulars on the Valuation by Income Approach**

*i. General concept of this valuation*

Based on the results of due diligence for this valuation and the assets composition and characteristics of the main businesses of the valuated entity, the principal business of the legal entities within the consolidated statements of Tonly Electronics were production, research and development and after-sales of audio and video products including speakers and earphones, which should be regarded as the same profit subject. Therefore, the general concept of this valuation was conducted by estimating the equity value of the valuated entity based on audited consolidated statements of Tonly Electronics. To begin with, the value of the operating assets of the valued entity was valued using discounted cash flow method (DCF), plus the value of other non-operating or surplus assets as at the reference date, to derive the enterprise value of the valuated entity. Then, the interest-bearing debts were deducted from the corporate value to arrive at the value of the total equity value of the valuated entity.

General concept of this valuation:

- A. In respect of the assets and main businesses included in the scope of the statements, the expected net cash flow was estimated based on the trend of historical operating conditions in recent years and the types of businesses, and discounted to obtain the value of the operating assets;
- B. Assets included in the scope of the statements but not taken into account in the expected income (net cash flow), such as cash assets (liabilities) as at the reference date were defined as surplus or non-operating assets (liabilities) which existed at the reference date, and their values were valued separately;
- C. The value of the entire shareholders' equity of the valuated entity was arrived at by adding the value of the operating assets and of the surplus or non-operating assets derived as mentioned above, and deducting the interest-bearing debts due from the entity.

ii.    *Valuation model*

A.    Basic model

The basic model for this valuation is as follows:

$$P = E - M$$

Where:

P:    Appraised value of the equity attributable to the parent shareholders;

E:    Appraised value of the shareholders' equity value;

M:    Appraised value of the Minority interest;

M = Total equity value x percentage of minority interests

Percentage of minority interests = book value of minority interests/(book value of minority interests + book value of shareholder's equity of the parent).

Where:

$$E = B - D$$

B:    Enterprise value of the valuated entity;

$$B = P + \sum C_i$$



P: Value of the operating assets of the valuated entity;

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n}$$

Where:

R<sub>i</sub>: The expected income (free cash flow) of the valuated entity in the i<sup>th</sup> year in the future on a pro forma consolidated basis;

R<sub>n</sub>: The expected income (free cash flow) of the valuated entity in a sustainable period on a pro forma consolidated basis;

r: Discount rate;

n: The future operating term of the valuated entity.

ΣC<sub>i</sub>: The value of non-operating and surplus assets that exist at the reference date.

$$C_i = C_1 + C_2 + C_3 + C_4$$

Where:

C<sub>1</sub>: Value of wholly-owned, controlling or non-controlling investments that do not reflect investment income in the expected revenue (free cash flow);

C<sub>2</sub>: Value of cash or equivalent assets (liabilities) as at the reference date;

C<sub>3</sub>: Value of construction in progress, which income was not taken into account in the expected revenue (free cash flow);

C<sub>4</sub>: Value of assets including bad or idle equipment and properties as at the reference date;

D: Value of interest-bearing debts of the valuated entity.

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B.     Income metrics

In this valuation, the company's free cash flow was used as an income indicator of its operating assets, which is basically defined as follows:

$$R = \text{net profit} + \text{depreciation and amortization} + \text{interest on interest-bearing debt net of tax} - \text{additional capital}$$

Where:

$$\text{Net profit} = \text{revenue} - \text{operating cost} - \text{sales tax and surcharges} - \text{expenses for the period (operational expenses} + \text{administrative expenses} + \text{finance cost)} - \text{income tax}$$

$$\text{Depreciation and amortization} = \text{depreciation and amortization in costs and expenses (operational expenses and administrative expenses)}$$

$$\text{Interest on interest-bearing debts net of tax} = \text{total interests on long-term and short-term interest-bearing debt} \times (1 - \text{income tax rate})$$

$$\text{Additional capital} = \text{investment in assets replacement} + \text{incremental working capital} + \text{additional investment in long-term assets}$$

Where:

$$\text{Investment in assets replacement} = \text{renewal of buildings} + \text{replacement of machines and equipment} + \text{replacement of other automation equipment (electronics, transportation and etc.)} + \text{renewal of intangible assets}$$

$$\text{Incremental working capital} = \text{current working capital} - \text{previous working capital}$$

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Where:

Working capital = cash reserves + inventories + receivables – payables

Additional investment = additional investment in fixed assets + additional  
in long-term assets                      intangible or other long-term assets

The expected future free cash flow of the entity was estimated according to its operating history and future market development, assuming that it would continue to operate as a going concern for a longer sustainable period after the forecast period, and the expected revenue of the valuated entity in the sustainable period would be equal to the free cash flow for the final year of the forecast period. The value of the operating assets of the entity was calculated by discounting and adding the free cash flow which would be generated in the future operating term.

C.     Discount rate

This valuation adopted the weighted average cost of capital model (WACC) to determine the discount rate  $r$

$$r = r_d \times W_d + r_e \times W_e$$

Where:

$W_d$ : Debt ratio of the valuated entity;

$$W_e = \frac{D}{(E + D)}$$

$W_e$ : Equity to capital ratio of the valuated entity;

$$W_e = \frac{E}{(E + D)}$$

$r_e$ :     Cost of equity capital, as determined based on the Capital Asset Pricing Model (CAPM);

$$r_e = r_f \times \beta_e \times (r_m - r_f) + \varepsilon$$

Where:

$r_f$ : Risk-free rate of return;

$r_m$ : Market expected return rate;

$\epsilon$  : Specific risk-adjusted factor of the valuated entity;

$\beta_e$ : Expected market risk factor of equity capital of the valuated entity;

D. Determination of forecast period

As the entity had been operating normally with relatively stable business conditions, the forecast period was defined as 5 years for each period, that is, from July 2018 to 2023. The revenue would remain stable starting from 2024 onwards.

E. Determination of yielding period

As the entity would be able to operate as a going concern in the long run through normal replacement of long-term assets including fixed assets, the yielding period was determined on a perpetual basis.

**(5) Valuation under market approach**

The market approach is to determine the market value of the entire shareholders' equity of the valuated enterprise on the valuation reference date, by selecting comparable listed companies in the same industry, and analyse with adjustment on the differences between the valuated enterprise and each of the comparable companies in respects of profitability, operation capability, solvency, growth ability after taking into account the liquidity discount.

A. Selection of comparable listed companies

Tonly Electronics is principally engaged in manufacture and sale of audio-visual products and the provision of research and development services, which belong to the consumer electronics industry. There are H-share listed companies with similar businesses. As such, 14 listed companies with similar principal businesses were selected for this valuation as comparable companies.

B.     Quantification of the comparison between Tonly Electronics and comparable companies

This valuation valued the performance of the enterprise in four aspects, namely profitability, development capability, operation capability and solvency. The following 10 indicators are specially selected to be the comparable indicators in the valuation system: a. profitability: profit margin from operation, return on total asset, return on net asset; b. development capability: operation revenue growth rate, total asset growth rate; c. operation capability: total asset turnover ratio, receivable turnover ratio, inventory turnover ratio; d. solvency: current ratio, quick ratio.

C.     Determination of value ratios

The value ratios used under market approach generally include price-to-earnings ratio (PE), price-to-book ratio (PB), price-to-sales ratio (PS), enterprise value/earnings before interest, taxes, and amortization (EV/EBITA), and enterprise value/income after tax (EVIAT). In the five indicators above, enterprise value/earnings before interest, taxes, and amortization (EV/EBITA), and enterprise value/income after tax (EVIAT), emphasize on the judgement of the overall value of an enterprise; price-to-earnings ratio (PE), price-to-book ratio (PB) and price-to-sales ratio (PS) emphasize on the judgement of the value of the shareholders' equity. For the purpose of reasonably determining the value of the valuated entity, it was appropriate to choose price-to-earnings ratio (PE), price-to-book ratio (PB) and price-to-sales ratio (PS) to be the value ratios.

According to the characteristics of the valuated enterprise, when determining the value ratios, the valuer comprehensively considered factors including profitability, financing structure and depreciation and amortization policy, together with the actual situation of the valuated enterprise. As the company has been established for a long time and it has relatively stable income and profits in the past years with a sound profit making situation, price-to-earnings ratio (PE) is selected to be the value ratio for this valuation.

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D.     Calculation of the value ratio derived from comparison

The adjustment coefficient of value ratio of each comparable cases is calculated based on the profitability, solvency, operation capability and development capability with a weighting of 25% each, and then the P/E ratio derived from comparison can be calculated by multiplying the P/E ratio corresponding to the comparable cases. The P/E ratio of the valuated enterprise is calculated by averaging the P/E ratio of each enterprises derived from the comparison. The final average P/E ratio derived from comparison, after removing the maximum value and minimum value, is 7.

E.     Calculation of the value of the entire Tonly Electronics shareholders' equity before the deduction of the liquidity discount

As the selected P/E ratio is LYR which corresponds to the data of the latest annual report, the equity value attributable to the parent shareholders of Tonly Electronics is calculated by multiplying the P/E ratio and the net profits attributable to the parent shareholders of the valuated enterprise in 2017.

- (1)    The equity value of the valuated entity attributable to the parent shareholders before the deduction of the liquidity discount:

$$\begin{aligned} & \text{Equity value attributable to the parent shareholders before the deduction of the} \\ & \text{liquidity discount} = \text{Net profits attributable to the parent shareholders} \times \text{Value} \\ & \text{ratio of P/E ratio} \\ & = 17,170.78 \times 7 \\ & = \text{RMB1,201,954,500} \end{aligned}$$

F.     Determination of the liquidity discount

As the valuated entity and the selected comparable companies are all listed companies, the shares of which have strong liquidity. It is not required to consider the liquidity discount. Therefore, the liquidity discount = 0%.

G.     Calculation of the equity value attributable to the parent shareholder

$$\begin{aligned} & \text{Equity value attributable to the parent shareholder} = \text{Equity value attributable to the} \\ & \text{parent shareholder before the deduction of the liquidity discount} \times (1 - \text{liquidity discount}) \\ & = 120,195.45 \times (1 - 0\%) \\ & = \text{RMB1,201,954,500} \end{aligned}$$

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H.     Calculation of the equity value attributable to the parent shareholder.

The combined balance sheet as at 30 June 2018 shows that the ratio of the parent company's minority shareholders' interest to all shareholders' interest is 0.350%.

$$\begin{aligned} \text{Equity value attributable to the parent shareholders} &= \text{Entire equity value of the} \\ &\text{shareholders} \times (1 - \text{the ratio of the minority shareholders' interest to all shareholders' interest}) \\ &= 120,195.45 \times (1 - 0.350\%) \\ &= \text{RMB1,197,742,500} \end{aligned}$$

The equity value of the valuated entity attributable to the parent shareholders under the market approach is RMB1,197,742,500.

**UBS AG**

Hong Kong Branch  
2 International Finance Centre  
52/F, 8 Finance Street  
Central, Hong Kong  
Tel. +852-2971-8888  
www.ubs.com

2 October 2019

The Board of Directors

T.C.L. Industries Holdings (H.K.) Limited

8/F, Building 22E, Phase 3, Hong Kong Science Park, Pak Shek Kok, NT, Hong Kong

The Board of Directors

TCL Industries Holdings Co., Ltd.

22/F, TCL Technology Building, 17 Huifeng 3rd Road, Zhongkai Hi-Tech District, Huizhou City, China

Dear Sirs,

We refer to the announcement dated 2 October 2019 jointly issued by TCL Industries Holdings Co., Ltd. (the “**Purchaser**”), T.C.L. Industries Holdings (H.K.) Limited (the “**Offeror**”) and Tonly Electronics Holdings Limited (the “**Company**”) (the “**Announcement**”), of which this letter forms part, and the appraisal report dated 3 December 2018 prepared by China United Assets Appraisal Group Co., Ltd (the “**PRC Appraiser**”) (the “**Appraisal Report**”), an independent appraiser engaged by TCL Corporation (the “**Vendor**”) in respect of the valuation of the Offeror (which directly holds a controlling interest in the Company) (the “**Valuation**”). An extract of the Appraisal Report is included in Appendix I of the Announcement.

We note that since the appraised value of the Company stated in Appraisal Report was derived from the discounted future cash flows method, the Valuation constitutes a profit forecast under Rule 10 of the Takeovers Code (the “**Profit Forecast**”). Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings given to them in the Announcement.

This letter is issued in compliance with the requirement under Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code. We have reviewed the Profit Forecast and discussed with the management of the Purchaser, the Offeror and the Vendor, and the PRC Appraiser regarding the Profit Forecast, including, in particular, the valuation methodologies, the qualifications, the bases and assumptions adopted in the Appraisal Report and the reasons thereof.



We have also considered the letter from Ernst & Young dated 2 October 2019 addressed to the Company regarding their opinion on whether, so far as the calculations are concerned, the discounted future cash flows have been properly compiled on the basis of the assumptions set out in the Appraisal Report.

We have not independently verified the computations leading to the Valuation. We have had no role or involvement and have not provided and will not provide any assessment of the value of the Company. We have assumed that all information, materials and representations provided to us by the Vendor, the Purchaser, the Offeror, the Company and the PRC Appraiser, including all information, materials, and representations referred to or contained in the Announcement, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Announcement and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, whether express or implied, is made by us on the accuracy, truth or completeness of such information, materials or representations. Accordingly, we accept no responsibility, whether expressly or implicitly, on the Valuation as set out in the Appraisal Report.

This letter also constitutes a report pursuant to Rule 11.1(b) of the Takeovers Code and sets out our assessment and review of the qualifications and experience of the PRC Appraiser, and the key responsible valuers for the Appraisal Report, being Mr. Yanfei Yu and Ms. Aijian Li. We have conducted reasonable checks and assessment of the relevant qualification, experience and expertise of the PRC Appraiser, Mr. Yanfei Yu and Ms. Aijian Li, including, among other things, reviewing the professional licences and other supporting documents of the PRC Appraiser, Mr. Yanfei Yu and Ms. Aijian Li, and discussing with representatives of the PRC Appraiser the qualifications and experience of Mr. Yanfei Yu, Ms. Aijian Li and the PRC Appraiser and confirm that their qualifications and experience meet the applicable legal and regulatory requirements for issuing the Appraisal Report.

On the basis of the foregoing, and the calculations reviewed by Ernst & Young, we are of the opinion that the adoption of the income approach as the valuation methodology as well as the bases and assumptions adopted in the Appraisal Report have been made with due care and objectivity and on a reasonable basis, and that the Profit Forecast, for which the directors of the Offeror and the Purchaser are jointly and severally responsible, has been made with due care and consideration. We are also satisfied that Mr. Yanfei Yu, Ms. Aijian Li and the PRC Appraiser are suitably qualified and experienced with sufficient current knowledge, skills and understanding necessary to undertake the Valuation competently.

Yours faithfully,

For and on behalf of

**UBS AG Hong Kong Branch**

**Samson Lo**

*Managing Director*

**Jun Luo**

*Managing Director*



SOMERLEY CAPITAL LIMITED

20th Floor, China Building

29 Queen's Road Central

Hong Kong

2 October 2019

The board of directors  
Tonly Electronics Holdings Limited  
8th Floor, Building 22E  
22 Science Park East Avenue  
Hong Kong Science Park, Shatin  
New Territories, Hong Kong

Dear Sirs,

We refer to (a) this joint announcement of Tonly Electronics Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 2 October 2019 in relation to, among others, the mandatory conditional cash offer by UBS AG, Hong Kong Branch, on behalf of T.C.L. Industries Holdings (H.K.) Limited; and (b) the valuation (the “**Valuation**”) of the market value of 100% equity interests of the Company prepared by China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司)(the “**Independent Valuer**”), details of which are set out in Appendix I to this joint announcement. Capitalised terms used in this letter shall have the same meanings as defined in this joint announcement unless otherwise specified.

As set out in Appendix I to this joint announcement, the appraised value of the Company has been derived from income approach which takes into account the future cash flow forecast of the Group. As such, the Valuation is regarded as a profit forecast pursuant to Rule 10 of the Takeovers Code and Rule 14.61 of the Listing Rules and is required to be reported on (as set out below). Furthermore, our report on the qualifications and experience of the Independent Valuer to prepare the Valuation is required under Rule 11.1(b) of the Takeovers Code and this letter also constitutes such report from us.

We have relied on the information and facts supplied, and the opinion expressed by the Vendor, Purchaser, Company and the Independent Valuer, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the date hereof. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied nor verified the computations leading to the appraised value of the Company as detailed in Appendix I to this joint announcement.

Pursuant to the Corporate Finance Adviser Code of Conduct, we have, among others, reviewed the supporting documents relating to the Valuation and discussed with the management of the Vendor and the Independent Valuer regarding the Valuation, including, in particular, the valuation approach, key bases and assumptions, and the forecast upon which the Valuation has been made (the “**Forecast**”). We have also considered the letter dated 2 October 2019 issued by Ernst & Young pursuant to Rule 10 of the Takeovers Code, the text of which is set out in Appendix IV to this joint announcement.

With regard to the qualifications and experience of the Independent Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussing the same with the Independent Valuer, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently.

On the basis of the foregoing, we are satisfied that the Forecast, for which the Purchaser is responsible, has been made with due care and consideration. We concur with the Independent Valuer that the income approach is commonly used and is the appropriate method for deriving the appraised value of the Company, and the valuation methodologies as well as the bases and assumptions adopted in the Valuation have been made by the Independent Valuer with due care and objectivity, and on a reasonable basis.

Yours faithfully,

For and on behalf of

**SOMERLEY CAPITAL LIMITED**

**Stephanie Chow**

*Director*



**Ernst & Young**  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

安永會計師事務所  
香港中環添美道1號  
中信大廈22樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

2 October 2019

The Directors  
Tonly Electronics Holdings Limited  
8th Floor, Building 22E,  
22 Science Park East Avenue,  
Hong Kong Science Park,  
Shatin, New Territories, Hong Kong

Dear Sirs,

**REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF TONLY ELECTRONICS HOLDINGS LIMITED (“Tonly Electronics”)**

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation prepared by China United Assets Appraisal Group Co., Ltd. in respect of Tonly Electronics as at 30 June 2018 is based. The valuation is disclosed in the announcement jointly issued by TCL Industries Holdings Co., Ltd. (“**TCL Holdings**”), T.C.L. Industries Holdings (H.K.) Limited (“**T.C.L. Industries**”) and Tonly Electronics dated 2 October 2019 (the “**Announcement**”) in connection with the T.C.L. Industries’ proposed mandatory conditional cash offer to acquire all the issued shares of Tonly Electronics. The Forecast is required to be reported on under Rule 10 of the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission.

**DIRECTORS’ RESPONSIBILITIES**

The directors (the “**Directors**”) of TCL Corporation and Tonly Electronics are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the headed “Assumptions” in the Appendix I of the Announcement.

**OUR INDEPENDENCE AND QUALITY CONTROL**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on *Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions made by the Directors of TCL Corporation and reviewed by the Directors of Tonly Electronics. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Tonly Electronics. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 10 of The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**OPINION**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions.

Yours faithfully,

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

To: Holders of Share Options and/or Awarded Shares in Tonly Electronics Holdings Limited

Dear Sir/Madam:

**Re: The mandatory conditional cash offers made by T.C.L. Industries Holdings (H.K.) Limited to the Shares (including Awarded Shares) and Share Options of Tonly Electronics Holdings Limited (the “Company”)**

1. You are a holder of Share Option(s) and/or Awarded Shares of the Company based on the information available to the Company.
2. TCL Industries Holdings Co., Ltd (the “Purchaser”), T.C.L. Industries Holdings (H.K.) Limited (the “Offeror”) and the Company had jointly issued an announcement on 2 October 2019 and a composite document on 22 November 2019 in relation to the Mandatory General Offer made by the Offeror to the Shares of the Company, among others, including the offer to acquire the Awarded Shares and for cancellation of the Share Options.
3. The Share Option(s) and/or Awarded Shares are subject to the Mandatory General Offer, the following summarize your option as a holder thereof:

Offer Price	Holder(s) of Share Options		Holder(s) of Awarded Shares
	Share Option exercise price (HK\$)	Option Offer Price (HK\$)	
	4.05	1.84	HK\$5.89 per Awarded Share
	7.84	0.0001	
	9.60	0.0001	



**Actions to be adopted**

1. Irrespective of whether the Share Option(s) are exercisable or not, if you accept the Option Offer, you will receive the Option Offer Price stated above per Share Option. Following acceptance of the Option Offer, the relevant Share Option(s) together with all rights attaching thereto will be cancelled and renounced in their entirety.
  2. If you are the holder of a Share Option that is exercisable and you do not accept the Option Offer, you can nonetheless exercise the Share Options within twenty-one (21) Business Days after the date on which the Mandatory General Offer becomes or is declared unconditional. If any such Share Option is not exercised within such period, such Share Option will automatically lapse.
  3. If you are the holder of a Share Option that is not exercisable, you are still entitled to accept the Option Offer in the manner set out in paragraph 1. If you choose not to accept the Option Offer, your Share Options will still be subject to original vesting schedules and exercise prices. You may exercise your Share Options at any time after such Share Options become exercisable in accordance with the terms thereof.
1. If you accept the Share Offer, please give a written notice of acceptance to the Human Resources Department of the Company at least three (3) Business Days before the Closing Date of the Mandatory General Offer and in such case, the Awarded Shares will vest pursuant to the relevant rules of the Restricted Share Award Scheme and form part of the Offer Shares and be subject to the Share Offer, you will receive HK\$5.89 per Awarded Share.
  2. If you do not accept the Share Offer, please give a written notice of non-acceptance to the Human Resources Department of the Company within the aforesaid period. If no reply is obtained from you within the aforesaid period, the Company will assume that the you do not intend to accept the Share Offer. In such case, your Awarded Shares shall remain unvested and will be vested in accordance with their respective original vesting schedules.

For detailed arrangements, terms and procedures for acceptance of the Mandatory General Offer, please refer to the composite document of the Company of even date regarding the Mandatory General Offer.

**WARNING: The Mandatory General Offer is conditional. If the total number of Shares in respect of the valid acceptances, which the Offeror has received at or before 4:00 p.m. on the first Closing Date (or such other time as the Offeror may, subject to the Takeovers Code, decide) under the Mandatory General Offer together with the Shares acquired before or during the Mandatory General Offer, does not result in the Purchaser, the Offeror and parties acting in concert with any of them holding more than 50% of the voting rights of the Company, the Mandatory General Offer will not become unconditional. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. If Shareholders and potential investors are in any doubt about their position, they should consult their own professional advisers.**

Tonly Electronics Holdings Limited  
22 November 2019

\* *Note:* this notice shall be read in conjunction with the composite document of the Company of even date regarding the Mandatory General Offer. Unless the context otherwise requires, capitalised terms used in this notice shall have the same meanings as in the composite document.

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

*The directors of the Purchaser and the Offeror jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Group) contained in this notice and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this notice have been arrived at after due and careful consideration and there are no other facts not contained in this notice, the omission of which would make any statements in this notice misleading.*