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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)**

**CONTINUING CONNECTED TRANSACTION  
HUMAN RESOURCES SUBCONTRACT AGREEMENT  
WITH HUIZHOU TCL**

**AND**

**CHANGE OF NAME OF PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE IN THE CAYMAN ISLANDS**

**SUBCONTRACT AGREEMENT**

**Introduction**

On 8 September 2020, the Company entered into the Subcontract Agreement with Huizhou TCL, pursuant to which Huizhou TCL Group agreed to provide Human Resources Services to the Group.

**Listing Rules Implications**

As at the date of this announcement, 167,452,239 Shares, representing approximately 61.25% of the total number of issued Shares, were held by TCL Industries, which in turn was held as to 100% by TCL Holdings. As such, TCL Industries is a substantial Shareholder and connected person of the Company under Chapter 14A of the Listing Rules. As TCL Holdings is the holding company of TCL Industries and Huizhou TCL is held as to 50% by TCL Holdings, Huizhou TCL, being an associate of TCL Industries, is hence a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Subcontract Agreement constitute a continuing connected transaction of the Company.

Huizhou TCL is held as to 50% by each of TCL Holdings and TCL Technology. Notwithstanding the respective interest and/or role of certain Directors in TCL Holdings and/or TCL Technology, none of them is considered as having a material interest in the Subcontract Agreement, therefore all Directors are entitled to vote on the relevant board resolutions pursuant to the Company's articles of association.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules (other than the profits ratio) with reference to the annual caps of the Subcontract Agreement exceed 0.1% but all are less than 5%, the continuing connected transaction contemplated thereunder is subject to the reporting, announcement and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **CHANGE OF NAME OF PRINCIPAL SHARE REGISTRAR**

The Board hereby announces that with effect from 4 September 2020, the name of the Principal Share Registrar has been changed from SMP Partners (Cayman) Limited to Suntera (Cayman) Limited.

The address of the Principal Share Registrar remains unchanged.

## **SUBCONTRACT AGREEMENT**

### **Introduction**

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### **Terms of the Subcontract Agreement**

The details of the Subcontract Agreement are set out below.

Date: 8 September 2020

Parties: (i) the Company (for itself and on behalf of its subsidiaries)  
(ii) Huizhou TCL (for itself and on behalf of its associates)

Duration: From 8 September 2020 to 31 December 2021 (both dates inclusive)

Major terms:

Members of the Group may (but not obliged to) engage Huizhou TCL Group in provision of the Human Resources Services, in which case the relevant member of the Group and the relevant member of Huizhou TCL Group will enter into definitive agreements (which shall be subject to the terms of the Subcontract Agreement) in respect of such subcontract projects to govern the specific terms of such provision of the Human Resources Services. For the avoidance of doubt, the Group reserves the right to recruit production labour and supporting staff on its own.

Huizhou TCL Group shall provide Human Resources Services in respect of production labour and supporting staff to the Group, in order to complete the projects subcontracted by the Group. Huizhou TCL Group shall have the right over the management and operation of the projects, including the recruitment and day-to-day management of labour and overseeing of progress of the projects, to the extent that the production and operational requirements of the Group are satisfied.

Huizhou TCL Group agreed to be responsible for the training in relation to the labour management system, including legal compliance, labour protection, safety training in respect of personal injury and incident and disaster prevention whereas the Group agreed to provide on behalf of Huizhou TCL Group specialised safety training to the labour stationed by Huizhou TCL Group.

The Group agreed to provide work premises, facilities and equipment and raw materials necessary for completion of the projects, and ensure a safe working environment.

The Group shall have absolute discretion in deciding whether and to what extent the requirements of the Group under the subcontract projects are satisfied and the decisions of the Group shall be final and conclusive. In the event that the Group determines that Huizhou TCL Group is unable to satisfy in any respect the relevant requirements set out in the definitive agreements in a timely manner, the Group shall have the right to terminate such definitive agreements.

Pricing policy  
and price  
determination:

The subcontracting fees payable to Huizhou TCL Group are calculated based on:–

- (i) the salaries/wages of production labour and supporting staff stationed by Huizhou TCL Group in respect of the projects subcontracted to Huizhou TCL Group by the Group; and
- (ii) actual costs incurred and disbursement costs paid by Huizhou TCL Group in such projects.

To ensure the subcontracting fees to be paid are on normal commercial terms or better and not higher than the fees of Independent Third Parties of the Company for provision of the same or similar services, the Group, before entering into definitive agreements, shall compare the subcontracting fees payable to Huizhou TCL Group with the market data in respect of the Independent Third Parties of the Company for provision of the same or similar services.

Huizhou TCL Group agreed that the aforesaid salaries/wages and the actual costs incurred and disbursement costs paid by Huizhou TCL Group shall not be higher than those set out in the definitive agreements, otherwise the Group shall be entitled to pay to Huizhou TCL Group only such amounts set out in the definitive agreements.

The aforesaid salaries/wages of production labour and supporting staff and the costs incurred or paid by Huizhou TCL Group shall be set out in the definitive agreements and be supported with written documents to the Group's satisfaction.

Payment terms:

The Group agreed to pay subcontracting fees to Huizhou TCL Group on a monthly basis for the Human Resources Services rendered to the Group. Unless otherwise agreed, the Group shall on the 17th day of each month pay subcontracting fees incurred for the preceding month, but in no event shall the Group pay subcontracting fees in advance for services not yet provided by Huizhou TCL Group.

## **Internal Control Procedures**

In respect of the Subcontract Agreement, the Group has adopted the following internal control procedures:

- (1) Before conducting any transactions contemplated under, or enter into any sub-contract pursuant to, an agreement for a continuing connected transaction, the internal control department, legal department and finance department of the Group would review the terms of the proposed transactions and the draft sub-contract to ensure that the transactions would be conducted in accordance with the terms of the agreement and in accordance with the Company's pricing policy;
- (2) To ensure that the transactions with connected persons are on normal commercial terms and terms no less favourable than those available from Independent Third Parties, where comparable services are available on the market from Independent Third Parties, before requesting the connected persons to provide the services, the purchasing department of the Group would obtain a quotation from at least two Independent Third Parties for the comparable services and conduct an overall assessment on the terms of provision of services. The relevant members of the Group would only engage the connected persons for the provision of the services when, according to the results of the overall assessment by the purchasing department of the Group, the connected persons offer the best terms of supply for the services, and the internal control department and legal department of the Group have (i) reviewed the terms for the supply of services and (ii) separately given their approval for engaging the connected persons. The quotations obtained from the Independent Third Parties would be recorded in an internal system maintained by the purchasing department of the Group which would be updated from time to time so that the members of the Group would have an easy access of information regarding market price and other terms of supply; and

- (3) The internal control department of the Group is responsible for identifying connected persons of the Group from new suppliers on a regular basis and update the connected persons list. The finance department of the Group would monitor on an on-going basis the actual transaction amounts with the connected persons to ensure that such amounts do not exceed the relevant annual caps. Before conducting any transactions with connected persons, the finance department would review the database for monitoring actual transaction amounts to confirm that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transaction. No continuing connected transaction would be conducted absent such confirmation from the finance department. The internal control department would on a monthly basis review the continuing connected transaction carried out in the month under review to assess, and compile a monthly report, on (i) whether the continuing connected transaction of the Group has been carried out in accordance with the terms of the relevant agreement and the Company's pricing policy; (ii) whether the transactions have been conducted on normal commercial terms and on terms no less favourable than those on which the Company conducted with Independent Third Parties; and (iii) the transactions amount during the month under review, the aggregate amount of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded. In the report, the forecasted transactions amount for the next three months would also be set out. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, the internal control department would inform all relevant departments and take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules before entering into the proposed transactions.

### **Proposed Annual Caps**

The following table sets out the proposed annual caps of the continuing connected transaction under the Subcontract Agreement for the following periods:

<b>Subcontract Agreement</b>	<b>For the period from 8 September 2020 to 31 December 2020 HK\$'000</b>	<b>For the year ending 31 December 2021 HK\$'000</b>
Subcontracting fees	<u>88,000</u>	<u>115,000</u>

## **Basis of the Proposed Annual Caps**

The proposed annual caps in relation to the Subcontract Agreement are determined by reference to the following factors:

- (i) the historical labour costs incurred in the operation of the Group;
- (ii) the business development plan of the Group;
- (iii) the expected labour costs for the provision of Human Resources Services during the term of the Subcontract Agreement;
- (iv) the expected labour demand during the term of the Subcontract Agreement taking into account of the Group's business development plan of the Group's overall production and the organic growth of business; and
- (v) the prevailing market rate of services similar to the Human Resources Services.

## **Reasons for and Benefits of the Subcontract Agreement**

Huizhou TCL is principally engaged in the business of provision of Human Resources Services in the area of electronic components production. With such specialisation and experience, Huizhou TCL understands the needs of the Group and can provide the Human Resources Services to the Group under the Subcontract Agreement. Also, the economies of scale reaped by Huizhou TCL Group allows the Group to obtain human resources at a lower cost when compared to hiring and managing labour on its own. The transactions contemplated under the Subcontract Agreement also give Huizhou TCL Group better bargaining power for its recruitment, and are conducive to transparent supplier selection and evaluation systems, which in turn promote integrity and lower subcontracting costs. On the basis of a normal and operating labour market, it is estimated that the human resources subcontracting cost of the Group will be reduced by about 5%-10% by engaging the services of the Huizhou TCL Group pursuant to the Subcontract Agreement.

Further, employee salaries and supplier management fees by batch recruitment will be centrally settled by Huizhou TCL Group, which arrangement is more conducive to standardisation, compliance and risk reduction.

Through the transactions contemplated under the Subcontract Agreement, Huizhou TCL Group would provide a stable supply of human resources to the Group upon the Group's request, which lowers the difficulty of the Group in recruiting sufficient employees in particular at peak seasons and reduces the risk of production disruption which may be brought by deficiency in labour supply.

The Directors (including the independent non-executive Directors) consider that the continuing connected transaction under the Subcontract Agreement and the proposed annual caps thereof are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## **General Information on the Parties**

The Group is one of the world's leading vertically-integrated manufacturing services provider in the AV product industry, and is principally engaged in research and development, manufacturing and sale of premium AV products for internationally renowned brands on an original design manufacturing basis. For more information on the Group, please visit its official website at <http://www.tonlyele.com/> (the information that appears in this website does not form part of this announcement).

Huizhou TCL is principally engaged in the business of provision of human resources referral and subcontracting services in the area of electronic components.

## **CHANGE OF NAME OF PRINCIPAL SHARE REGISTRAR**

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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)
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huizhou TCL”	Huizhou TCL Human Resources Services Co., Ltd.* (惠州TCL人力資源服務有限公司), a company established in the PRC with limited liability, which was owned as to 50% by each of TCL Holdings and TCL Technology as of the date of this announcement
“Huizhou TCL Group”	Huizhou TCL and its associate(s)
“Human Resources Services”	the human resources and human resources management services to be provided by Huizhou TCL Group to the Group under the Subcontract Agreement
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any directors, chief executives, controlling shareholders or substantial shareholders of the Company or any of its subsidiaries and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement

“Principal Share Registrar”	Suntera (Cayman) Limited (formerly known as SMP Partners (Cayman) Limited), the Company’s principal share registrar and transfer office in the Cayman Islands
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subcontract Agreement”	the subcontract agreement entered into between the Company and Huizhou TCL on 8 September 2020
“subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly
“TCL Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), a company established under the laws of the PRC and the holding company of TCL Industries which in turn held 61.25% of the total number of issued Shares as at the date of this announcement
“TCL Industries”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong and the controlling Shareholder
“TCL Technology”	TCL Technology Group Corporation* (TCL科技集團股份有限公司), a joint stock company established under the laws of the PRC
“%”	per cent

By order of the board  
**LIAO Qian**  
*Chairman*

Hong Kong, 8 September 2020

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

*As at the date of this announcement, 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.*