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

 **TONLY**
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)

JOINT ANNOUNCEMENT

**PROPOSED PRIVATISATION OF
TONLY ELECTRONICS HOLDINGS LIMITED
BY THE OFFEROR BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW
SPECIAL DEAL IN RELATION TO
THE ROLLOVER ARRANGEMENT
ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE
PROPOSED WITHDRAWAL OF LISTING OF
TONLY ELECTRONICS HOLDINGS LIMITED
AND
RESUMPTION OF TRADING**

Exclusive Financial Adviser to the Offeror



INTRODUCTION

The Offeror and the Company jointly announce that, on 30 October 2020, the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal which, if approved and implemented, will result in the Company being privatised by the Offeror and the withdrawal of listing of the Shares on the Stock Exchange.

If the Scheme becomes effective:

- (a) all the Scheme Shares will be cancelled and extinguished in exchange for the payment of the Scheme Amount, except that any Scheme Share Consideration payable to the Management Shareholders will be subject to the Rollover Arrangement;
- (b) Option Holders will be entitled to receive the Option Consideration in exchange for the cancellation of their Share Options;
- (c) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares and simultaneously, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished;
- (d) the Company will become wholly owned by the Offeror; and
- (e) the Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules, with effect immediately following the Effective Date.

TERMS OF THE PROPOSAL

The Scheme

The Scheme will provide that the Scheme Shares be cancelled and extinguished in exchange for the Scheme Share Consideration of HK\$12.00 per Share. **The Scheme Share Consideration will not be increased and the Offeror does not reserve the right to do so.**

Only Disinterested Scheme Shareholders may vote at the Court Meeting on the resolution to approve the Scheme. The Offeror and persons acting in concert with it will not vote at the Court Meeting on the resolution to approve the Scheme.

The Proposal and the Scheme are conditional upon the fulfilment or waiver, as applicable, of the Conditions as described in the section headed “Conditions of the Proposal and the Scheme” below. All Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Court may direct), otherwise the Proposal and the Scheme will lapse.

The Option Offer

As at the date of this announcement, there are 501,864 outstanding Share Options granted under the Share Option Scheme. The exercise of all the said Share Options in full would result in the issue of 501,864 new Shares (representing approximately 0.184% of the issued share capital of the Company as at the date of this announcement) and approximately 0.183% of the issued share capital of the Company as enlarged by the issue of such new Shares.

The Offeror will offer the Option Holders the “see-through” price (being the Scheme Share Consideration minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option cancelled in accordance with Rule 13 of the Takeovers Code. Such Option Offer will be conditional upon the Scheme becoming effective.

The Rollover Arrangement

Under the Rollover Arrangement, if the Scheme becomes effective, any Scheme Shares that are beneficially held by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds, and each Management Shareholder will enter into the Rollover Agreement to commit to the subscription of a specific amount of equity interest in Huizhou Tonly, the Company’s primary operating entity in the PRC.

As the Rollover Arrangement is available only to the Management Shareholders and is not offered to all Scheme Shareholders, the Rollover Arrangement constitutes a special deal under Rule 25 of the Takeovers Code. The implementation of the Rollover Arrangement is subject to (i) the receipt of an opinion from the Independent Financial Adviser confirming that the Rollover Arrangement is fair and reasonable, (ii) the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM to approve the Rollover Arrangement and (iii) the consent from the Executive to the Rollover Arrangement.

If the Rollover Arrangement cannot be implemented before the Long Stop Date (or such other later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Court may direct), the Management Shareholders will not enjoy their rights nor perform their obligation under the Rollover Arrangement, including their rights and obligation to use the Scheme Proceeds received to invest in Huizhou Tonly.

FINANCIAL RESOURCES

The maximum amount of cash required for the Proposal will be approximately HK\$1,277.4 million.

Citigroup, as the exclusive financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal in accordance with its terms.

SHAREHOLDING STRUCTURE

As at the date of this announcement, there were 273,393,448 Shares in issue and 501,864 outstanding Share Options granted under the Share Option Scheme. As at the date of this announcement, the Offeror and the parties acting in concert with it hold 204,189,255 Shares, representing approximately 74.69% of the issued Shares of the Company. Assuming all outstanding Share Options are exercised and that there is no other change in shareholding of the Company before implementation of the Proposal, the Offeror and the parties acting in concert with it will hold 204,368,046 Shares, representing approximately 74.62% of the issued Shares of the Company.

As at the date of this announcement, the Scheme Shares, being the Shares held by the Disinterested Scheme Shareholders, the Management Shareholders and persons acting in concert with the Offeror, comprising 105,941,209 Shares, representing approximately 38.75% of the issued share capital of the Company. Assuming all outstanding Share Options are exercised and that there is no other change in shareholding of the Company before implementation of the Proposal, the number of Scheme Shares is 106,443,073 Shares, representing approximately 38.86% of the issued share capital of the Company immediately upon implementation of the Proposal.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished. The Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect immediately after the Effective Date.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or does not become effective. If the Scheme is withdrawn or not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

GENERAL

The Independent Board Committee and the Independent Financial Adviser

The Independent Board Committee, which comprises Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, being all the independent non-executive Directors, has been established by the Board to make a recommendation to the Scheme Shareholders on the Proposal and the Scheme.

The Independent Financial Adviser will be appointed by the Board in due course to advise the Independent Board Committee on the Proposal, the Scheme and the Rollover Arrangement. A further announcement will be made after the appointment of the Independent Financial Adviser.

Despatch of the Scheme Document

The Company will send to the Shareholders a Scheme Document containing, among other things, further details about the Scheme, a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the recommendations of the Independent Board Committee and notices to convene the Court Meeting and the EGM as soon as possible in accordance with the Takeovers Code.

Suspension and Resumption of trading

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:00 a.m. on 30 October 2020 pending issuance of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 2 November 2020.

WARNING: Shareholders and/or potential investors should be aware that the implementation of the Proposal will only become effective upon all the Conditions being satisfied or validly waived (as applicable) and thus the Scheme may or may not become effective and the Option Offer may or may not be implemented. Shareholders and/or potential investors should therefore exercise caution when dealing in Shares. Persons who are in doubt as to the action they should take should consult their licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional adviser.

This announcement does not constitute an offer to sell or an invitation to purchase or subscribe for any securities or a solicitation of any vote or approval in any jurisdiction. This announcement does not constitute a prospectus or a prospectus equivalent document. Shareholders are advised to read carefully the formal documentation in relation to the Proposal once it has been despatched.

This announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Proposal or otherwise, nor shall there be any sale, issuance or transfer of securities of the Company in any jurisdiction in contravention of applicable law. The Proposal will be made solely through the Scheme Document, which will contain the full terms and conditions of the Proposal, including details of how to vote on the Proposal. Any acceptance, rejection or other response to the Proposal should be made only on the basis of information in the Scheme Document or any other document by which the Proposal is made.

The availability of the Proposal to persons who are not resident in Hong Kong may be affected by the laws of the relevant jurisdictions in which they are located or of which they are citizens. Persons who are not so resident in Hong Kong should inform themselves about, and observe, any applicable legal or regulatory requirements of their jurisdictions. Further details in relation to overseas shareholders will be contained in the Scheme Document.

1. INTRODUCTION

On 30 October 2020, the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal which, if approved and implemented, will result in the Company being privatised by the Offeror and the withdrawal of listing of the Shares on the Stock Exchange.

If the Scheme becomes effective:

- (a) all the Scheme Shares will be cancelled and extinguished in exchange for the payment of the Scheme Amount, except that any Scheme Share Consideration payable to the Management Shareholders will be subject to the Rollover Arrangement;
- (b) Option Holders will be entitled to receive the Option Consideration in exchange for the cancellation of their Share Options;
- (c) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares and simultaneously, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished;
- (d) the Company will become wholly owned by the Offeror; and
- (e) the Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules, with effect immediately following the Effective Date.

The Offeror has appointed Citigroup as its exclusive financial adviser in connection with the Proposal.

2. THE PROPOSAL

The Scheme

Under the Proposal, if the Scheme becomes effective, all the Scheme Shares held by the Scheme Shareholders will be cancelled and extinguished in exchange for the Scheme Share Consideration of HK\$12.00 per Share, except that any Scheme Share Consideration payable to the Management Shareholders will be subject to the Rollover Arrangement. Under the Proposal, the total consideration payable for the cancellation and extinguishment of the Scheme Shares will be payable by the Offeror.

Comparisons of value

The Scheme Share Consideration of HK\$12.00 represents:

- a premium of approximately 19.0% over the closing price of HK\$10.08 per Share on the Last Trading Day;
- a premium of approximately 19.7% over the average closing price of approximately HK\$10.2 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 21.2% over the average closing price of approximately HK\$9.90 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 28.0% over the average closing price of approximately HK\$9.38 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 25.5% over the average closing price of approximately HK\$9.56 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 35.8% over the average closing price of approximately HK\$8.83 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 59.4% over the average closing price of approximately HK\$7.53 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 76.7% over the audited consolidated net asset value per Share of approximately HK\$6.79 per Share as at 31 December 2019; and
- a premium of approximately 81.3% over the unaudited consolidated net asset value per Share of approximately HK\$6.62 per Share as at 30 June 2020.

The Scheme Share Consideration has been determined on a commercial basis after taking into account, among other things, the challenging operating environment facing the Company, the recent and historic traded prices of the Shares, publicly available financial information of the Company, and other privatisation transactions in Hong Kong in recent years.

The Company confirms that as at the date of this announcement, (a) it has not declared any dividend, the record date of which falls on or after the expected date of despatch of the Scheme Document; and (b) it does not have any intention to make, declare or pay any future dividend or make other distributions until after the implementation or lapse of the Scheme.

The Offeror will not increase the Scheme Share Consideration. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Scheme Share Consideration. The Offeror does not reserve the right to increase the Scheme Share Consideration.

Highest and lowest prices

During the 6-month period ending on the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$12.00 per Share on 13 August 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$5.74 per Share on 6 May 2020 and 7 May 2020.

Shares Awards under the Restricted Share Award Scheme

The Restricted Share Award Scheme was adopted by the Company as a long-term incentive measure to, among others (i) recognise and motivate the contribution of participants and to incentivise them; (ii) help the Company in retaining its existing employees and attracting and recruiting suitable personnel as additional employees to further the operation and development of the Group; and (iii) to provide the employees and personnel with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the rules of the Restricted Share Award Scheme, the Company is responsible for providing the fund to the Trustee for the purchase and/or subscription of the Shares for grant of a Share Award and the related expenses thereof. In the event that the fund paid to the Trustee by the Company is not sufficient to purchase and/or subscribe all the necessary Shares to cover the Share Awards so specified in a grant, the Trustee shall acquire the maximum number of Shares that can be acquired with that fund and apply the Returned Shares and Further Shares if so instructed by the Board in writing or seek further fund from the Board until all of the required Share Awards are satisfied.

Pursuant to the Trust Deed, no one, including the Trustee, may exercise any voting rights in respect of the Trustee Held Shares.

As at the date of this announcement, there were 3,386,385 Trustee Held Shares. The number of Trustee Held Shares is sufficient to settle all of the outstanding Share Awards (being Share Awards that are granted under the Restricted Share Award Scheme but not lapsed or vested under the terms thereof as of the date of this announcement).

Pursuant to the rules of the Restricted Share Award Scheme, upon the occurrence of a privatisation of the Company, all the Share Awards shall immediately vest on the date when such privatisation becomes or is declared unconditional.

All the Trustee Held Shares shall form part of the Scheme Shares and be cancelled and extinguished upon the Scheme becoming effective. Conditional upon the Scheme becoming effective, the Offeror will pay to the Trustee an amount equivalent to the Scheme Share Consideration multiplied by the number of the Trustee Held Shares as at the Effective Date, which will be held on trust by the Trustee for and on behalf of the Grantees and will be paid by the Trustee to the Grantees based on the number of Share Awards of such Grantees. Any remaining proceeds will be paid by the Trustee to the Company in accordance with the rules of the Trust Deed.

If any of the Share Awards are vested in accordance with the terms of the Restricted Share Award Scheme on or before the Record Date, any Shares so delivered by the Trustee to the Grantees will be subject to and eligible to participate in the Scheme.

The Option Offer

The Share Option Scheme was adopted by the Company as another long-term incentive measure to recognise and motivate the contribution of participants and to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group.

Pursuant to the rules of the Share Option Scheme, upon the occurrence of a general offer (i.e. including privatisation by way of scheme of arrangement of the Company), each Option Holder will be entitled to exercise the Share Option (to the extent which has become exercisable and not already lapsed or exercised) in full at any time within 21 business days after the date on which such privatisation becomes or is declared unconditional. If the Option Holder does not accept the Option Offer in respect of the Share Options and the Share Options are not exercised within 21 business days after the date on which the privatisation becomes or is declared unconditional, the Share Options will automatically lapse.

As at the date of this announcement, there are 501,864 outstanding Share Options (being Share Options that are granted under the Share Option Scheme but not lapsed or exercised under the terms thereof).

The Offeror will make an offer to all the Option Holders. The Option Offer will be conditional upon the Scheme becoming effective. Under the Option Offer, the Offeror will offer Option Holders the “see-through” price (being the Scheme Share Consideration minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option cancelled.

The following table sets out, as at the date of this announcement, details of the outstanding Share Options under the Share Option Scheme:

Share Option exercise price (HK\$)	“See through” price (HK\$)	Total outstanding Share Options (exercisable and not exercisable as at the date of this announcement)	Exercise period
7.84	4.16	501,864	15 June 2020 to 15 June 2024

If any of the outstanding Share Options is exercised in accordance with the terms of the Share Option Scheme, on or before the Record Date, any Shares so issued will be subject to and eligible to participate in the Scheme.

Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Scheme Shareholders, subject to the satisfaction or valid waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Disinterested Scheme Shareholders representing not less than 75% in value of the Shares held by the Disinterested Scheme Shareholders, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme is approved (by way of poll) by the Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Scheme Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by the Disinterested Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Disinterested Scheme Shareholders;

- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM to approve the reduction of the share capital of the Company by the cancellation and extinguishment of the Scheme Shares and (ii) the passing of an ordinary resolution by the Shareholders present and voting, in person or by proxy, at the EGM to approve the restoration of the share capital of the Company to its former amount by allotting and issuing to the Offeror at par the same number of the Shares as the number of Scheme Shares cancelled and extinguished;
- (c) the sanction of the Scheme (with or without modifications) by the Court and the delivery to the Registrar of Companies of a copy of the Court Order for registration;
- (d) the necessary compliance with the procedural requirements and conditions, if any, of Sections 15 and 16 of the Companies Law in relation to the reduction of the share capital of the Company referred to in paragraph (b) above;
- (e) all Authorisations in connection with the Proposal having been obtained from the Relevant Authorities in the Cayman Islands, Hong Kong and any other relevant jurisdiction, apart from Condition (c) and Condition (d) above, including the following:
 - (i) compliance with the Listing Rules; and
 - (ii) compliance with the Takeovers Code;
- (f) the Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authority which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to the date immediately prior to the date on which a copy of the Court Order has been delivered to the Registrar of Companies for registration;
- (g) between the date of this announcement up to immediately prior to the date on which a copy of the Court Order has been delivered to the Registrar of Companies for registration, no government, governmental, quasi-governmental, statutory or regulatory, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal, or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms).

Conditions (a) to (d) and (g) cannot be waived. The Offeror reserves the right to waive all or any of Conditions (e) and (f), to the extent permissible by relevant laws and regulations, the Listing Rules and the Takeovers Code, either in whole or in part, either generally or in respect of any particular matter in such Conditions. As at the date of this announcement, save for Conditions (c) and (d), the Stock Exchange and the Executive's clearance on the Proposal in compliance with the Listing Rules and the Takeovers Code, including but not limited to the Executive's consent to the Rollover Arrangement as a special deal under Rule 25 of the Takeovers Code and waiver under Note 3 to Rule 8 of the Takeovers Code in relation to the waiver of not despatching the Scheme Documents to overseas Shareholders (if applicable), the Offeror is not aware of any other outstanding Authorisation in connection with the Proposal needed to be obtained from the Relevant Authorities in the Cayman Islands, Hong Kong and any other relevant jurisdiction.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. As at the date of this announcement, the Offeror is not aware of any such circumstances.

All of the above Conditions will have to be satisfied or validly waived (as applicable) on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Court may direct), failing which the Proposal and the Scheme will lapse. When all of the above Conditions are satisfied or validly waived (as applicable), the Scheme will become effective and binding on the Company and all Scheme Shareholders.

WARNING: Shareholders and/or potential investors should be aware that the implementation of the Proposal will only become effective upon all the Conditions being satisfied or validly waived (as applicable) and thus the Scheme may or may not become effective and the Option Offer may or may not be implemented. Shareholders and/or potential investors should therefore exercise caution when dealing in Shares. Persons who are in doubt as to the action they should take should consult their licensed securities dealer, registered institution in securities, bank manager, solicitor or other professional adviser.

3. THE ROLLOVER ARRANGEMENT

Under the Rollover Arrangement, if the Scheme becomes effective, any Scheme Shares that are beneficially held by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds, and each Management Shareholder will enter into the Rollover Agreement to commit to the subscription of a specific amount of equity interest in Huizhou Tonly.

Huizhou Tonly is the Group's primary operating entity in the PRC. The Offeror believes that ownership of equity interests in this PRC entity would be a suitable platform for the Management Shareholders, as this is the place where senior executives work together to strategise the Group's idea generation, product development and commercialisation, global sourcing of materials and services, manufacturing improvement and sales and marketing activities. The plan to have the Management Shareholders maintain their equity interests in the Group through Huizhou Tonly (and not through the Company) is a matter of convenience. The Group's primary operations are based in the PRC and the offshore investment holding structure made mainly for a public listing outside the PRC would no longer be necessary after the Scheme becoming effective. Further, the Management Shareholders are all residents of the PRC and accordingly, a shareholding in a PRC established company will be more convenient from an administrative perspective.

In connection with the intragroup restructuring of the Company and its subsidiaries, upon completion, Huizhou Tonly will become an indirect wholly-owned subsidiary of the Company with ownership of all the operating subsidiaries of the Group. The subscription of Target Interests will take place when the restructuring is completed.

Upon the completion of the intragroup restructuring, (i) the operating subsidiaries that will be owned by Huizhou Tonly will be the same as those owned by the Company as at the date hereof; (ii) the Company will own Huizhou Tonly through intermediate holding companies; and (iii) the intermediate companies, which are consolidated under the Company but not Huizhou Tonly, are holding vehicles. At that point in time, Huizhou Tonly and its subsidiaries, taken as a whole, will be substantially the same as the Group. The only difference will be that the Group will include the Company and a number of intermediate holding companies, apart from Huizhou Tonly and its then subsidiaries.

Except for the stockholding in their direct subsidiaries, profit appropriation and minor internal transactions, none of the Company and the intermediate companies, on an unconsolidated basis, have significant revenue, nor asset nor liability, thus the valuation of the Company and Huizhou Tonly should be substantially similar at that point in time. The amount of Target Interests to be subscribed by a Management Shareholder will have a value that is substantially similar to the Scheme Proceeds to be received by that Management Shareholder.

Information about the Management Shareholders

The Management Shareholders constitute core management members of the Group. They have extensive operation expertise, in-depth understanding and proven track record in the audio products, headphones, video products, and Internet of Things (IoT) related products industry, as well as long-established relationship with suppliers, regulators, local authorities, management and employees of the Group. In particular:

- Mr. YU Guanghui is an executive Director and CEO of the Company. He joined an affiliate of the Company in 1993 and the Group in 2003. He has held various positions in a number of group companies since then. Mr. YU has rich management experience in materials procurement, manufacturing, product management, business development and cooperation with world-class companies.
- Mr. SONG Yonghong is an executive Director and COO of the Company. He holds directorships in various principal subsidiaries of the Group. Mr. SONG joined an affiliate of the Company in 2003 and the Group in 2003. He has held various positions in a number of group companies since then. He has substantial experience in management and business development in the field of electronic products.
- Mr. REN Xuenong is an executive Director and CFO of the Company. He was the deputy manager of the Finance Department of an affiliate of the Company from 1996 to 2001 and has been the financial controller and the head of the Finance Department of AV Division of the Group since July 2004. He currently holds directorships in various principal subsidiaries of the Group since he joined the Group in 2004. Mr. REN is a practising accountant in the PRC and has rich financial and accounting experience in the field of electronic products.
- Mr. WANG Xiaofeng is a senior vice president and chief marketing officer of the Company. He has been a deputy general manager and general manager of sales center of the Company since October 2006. Mr. WANG joined an affiliate of the Company in 1997 and has held various positions in a number of group companies since then. Mr. WANG has strong ability in the management process from product planning to sales and marketing, as well as advertising and promotion, particularly in the TV and AV industry.
- Mr. HUANG Wei is a senior vice president of the Company. He joined an affiliate of the Company in 1998 and has held various positions in a number of group companies since then. Mr. HUANG has rich management experience in procurement, supply, management and business development in the field of electronic products.

Terms of the Rollover Arrangement

Below are the equity interests that are beneficially held by the Management Shareholders in the Company as at the date of this announcement and the expected Target Interests that they have committed to subscribe for under the Rollover Arrangement:

Management Shareholders	Role in the Company	Beneficial interests in the Company ⁽¹⁾		Expected beneficial interests in Huizhou Only ⁽⁹⁾
		Scheme Shares	On an actual basis	Equity on an actual basis
Mr. YU Guanghui	Executive director and CEO	15,351,671 ⁽²⁾	5.62%	approx. 5.6% ⁽¹⁰⁾
Mr. SONG Yonghong	Executive director and COO	6,622,620 ⁽³⁾	2.42%	approx. 2.4% ⁽¹⁰⁾
Mr. REN Xuenong	Executive director and CFO	3,783,992 ⁽⁴⁾	1.38%	approx. 1.4% ⁽¹⁰⁾
Mr. WANG Xiaofeng	Senior vice president and chief marketing officer ⁽⁵⁾	3,293,637 ⁽⁶⁾	1.20%	approx. 1.2% ⁽¹⁰⁾
Mr. HUANG Wei	Senior vice president ⁽⁷⁾	3,225,174 ⁽⁸⁾	1.18%	approx. 1.2% ⁽¹⁰⁾
Total		32,277,094	11.81%	approx. 11.8%

Notes:

- (1) None of the Management Shareholders own any outstanding Share Options and Share Awards as at the date of this announcement.
- (2) Including 2,212,259 Scheme Shares held directly by Mr. YU; 11,869,339 Scheme Shares held through Vast Bright Investment Limited, a company wholly owned by Mr. YU; and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. YU has a 9.48% equity interest as a limited partner as at the date of this announcement.
- (3) Including 1,661,398 Scheme Shares held directly by Mr. SONG and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. SONG holds a 37.03% equity interest as a limited partner as at the date of this announcement.

- (4) Including 1,100,963 Scheme Shares held directly by Mr. REN and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. REN has a 20.02% equity interest as a limited partner as at the date of this announcement.
- (5) Mr. WANG is also a deputy general manager and general manager of sales center of the Company.
- (6) Including 1,279,381 Scheme Shares held directly by Mr. WANG and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. WANG has a 15.03% equity interest as a limited partner as at the date of this announcement.
- (7) Mr. HUANG is also the general manager of the Company's innovative business center, which focuses on the Internet of things (IoT) products of the Company.
- (8) Including 754,486 Scheme Shares held directly by Mr. HUANG and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. HUANG serves as general partner and holds a 18.44% equity interest as a limited partner as at the date of this announcement.
- (9) Upon completion of the intragroup restructuring of the Company and before the subscription of Target Interests by the Management Shareholders pursuant to the Rollover Agreement, Huizhou Tonly is and will remain to be wholly-owned by Tonly Electronics Technology (HK) Limited ("**Tonly Electronics (HK)**"), an indirectly wholly-owned company of the Company at the relevant time. Upon completion of the subscription of Target Interests by the Management Shareholders pursuant to the Rollover Agreement, the remaining equity interest of Huizhou Tonly (expected to be approximately 88.2%) will be held by Tonly Electronics (HK), other wholly-owned subsidiary of the Company or the Company.
- (10) The Management Shareholders will subscribe for the Target Interests in their individual capacity. The Scheme Proceeds to be paid to Run Fu Holdings Limited will be distributed to individual Management Shareholders based on their respective equity interests in Huizhou Guangsheng. Such distribution will be counted as Scheme Proceeds received by the Management Shareholders.

Rollover Agreement

On 30 October 2020, the Offeror and Management Shareholders entered into the Rollover Agreement in respect of the Rollover Arrangement.

Under the Rollover Agreement, each Management Shareholder has, among others, agreed to the following:

- a) none of the Shares beneficially owned by him, directly or indirectly, can be voted on the Scheme at the Court Meeting (for the avoidance of doubt, no matter whether the Disinterested Scheme Shareholders' approval as set out in the section headed "Approval of the Rollover Arrangement" below is obtained or not, none of such Shares can be voted on the Scheme at the Court Meeting but such Shares will form part of the Scheme Shares and be cancelled and extinguished upon the Scheme becoming effective, saved that if the approval of the Rollover Arrangement is not obtained, he will not enjoy any further rights nor perform any further obligation under the Rollover Arrangement, including his rights and obligation to use the Scheme Proceeds received to invest in Huizhou Tonly);

- b) subject to the Scheme becoming effective, he shall undertake to the Court to be bound by the Scheme and to commit to subscribe for the Target Interests on the terms set out in the Rollover Agreement;
- c) if the Scheme is approved at the Court Meeting, to the extent permitted under applicable laws, he shall vote, or cause his affiliates to vote, in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company and any resolutions proposed at the EGM to assist the implementation of the Scheme or are necessary for the Scheme to become effective;
- d) he shall otherwise support the Scheme and provide such undertakings to the Court as are appropriate and necessary for the Scheme to be approved;
- e) he shall not acquire, sell, transfer, charge, encumber, grant any option over or otherwise dispose interest in all or any Shares that are beneficially owned by him, directly or indirectly, nor accept any other offer in respect of all or any of its Shares before the earlier of the Effective Date or the Rollover Agreement terminating in accordance with its terms; and
- f) subject to the Scheme becoming effective and approval of the Rollover Arrangement, as set out in the paragraph headed “Approval of the Rollover Arrangement” below, being obtained, he shall pay a sum in cash in RMB substantially equivalent to the Scheme Proceeds to Huizhou Tonly as subscription price for an amount of Target Interests when the intragroup restructuring is completed.

Subject to compliance with applicable administrative and procedural requirements, completion of the intragroup restructuring of the Group may not be at the same time as the payment date of the Scheme Proceeds. Subject to the Scheme becoming effective, the Management Shareholders would receive Scheme Proceeds at the same time as the other Scheme Shareholders, and subject to the approval of the Rollover Arrangement, they would subsequently pay an amount substantially equivalent to the Scheme Proceeds for the subscription of Target Interests upon completion of the said intragroup restructuring.

In consideration of the Management Shareholders’ undertakings, the Offeror has undertaken in the Rollover Agreement to cause Huizhou Tonly to issue the amount of Target Interests to the Management Shareholders on the terms set out therein.

The Rollover Agreement will be terminated if the Scheme lapses or is withdrawn in accordance with its terms.

Rationale for the Rollover Arrangement

The Offeror believes that the primary goal of incentive compensation is to align the interests of management and employees with those of stockholders in a way that allow the Group to attract and retain the best talent. The main purpose of the Rollover Arrangement is to motivate the Management Shareholders to continue to serve the Group. The Offeror is of the view that the Rollover Arrangement will be important to the future growth of the Group, for the following reasons.

First, the Management Shareholders are senior executives with the power to make managerial decisions affecting the future development and business prospects of the Group, and the Group will continue to benefit from their services. Accordingly, some special incentivisation arrangements are needed so that their interests are fully aligned with the Group and their compensation packages are competitive in the market. It is important for the Management Shareholders to maintain their economic interests in the Group after the implementation of the Scheme so that the Management Shareholders will be incentivised to contribute to the future development and growth of the Group.

Second, the overall quantum and structure of the Rollover Arrangement, particularly bearing in mind the objectives that the Management Shareholders are to be incentivised to achieve, are fair and reasonable. The Management Shareholders are being offered appropriate risk as well as reward in relation to their retained equity interest. In particular, the Rollover Arrangement is offered to the Management Shareholders not because of their aggregate ownership of over 10% share capital in the Company, but because of their long-term contributions to the Group as senior management of the Company. In particular, Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong joined the Group in 2003, 2003 and 2004 respectively; they acquired equity interests in the Group before the Company completed its initial public offering on 15 August 2013.

Third, the value of the Target Interests to be subscribed by the Management Shareholders will be substantially similar to the Scheme Proceeds to be received by them. The Rollover Arrangement will preserve their equity positions within the Group, but they will not be getting any windfall in the arrangement.

Approval of the Rollover Arrangement

As the Rollover Arrangement is available only to the Management Shareholders and is not offered to all Scheme Shareholders, the Rollover Arrangement constitutes a special deal under Rule 25 of the Takeovers Code. The Offeror has applied for the Executive's consent to the Rollover Arrangement as a special deal under Rule 25 of the Takeovers Code, subject to and conditional on:

- (a) the Independent Financial Adviser publicly stating in its opinion that the proposed terms of the Rollover Arrangement are fair and reasonable;
- (b) the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM to approve the Rollover Arrangement; and
- (c) the grant of consent from the Executive in respect of the Rollover Arrangement.

Accordingly, the implementation of the Rollover Arrangement is subject to (i) the receipt of an opinion from the Independent Financial Adviser confirming that the Rollover Arrangement is fair and reasonable, (ii) the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM to approve the Rollover Arrangement and (iii) the consent from the Executive to the Rollover Arrangement. If the Rollover Arrangement cannot be implemented before the Long Stop Date (or such other later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Court may direct), the Management Shareholders will not enjoy their rights nor perform their obligation under the Rollover Arrangement, including their rights and obligation to use the Scheme Proceeds received to invest in Huizhou Tonly. For the avoidance of doubt, no matter whether the Rollover Arrangement is implemented or not, the Offeror will proceed with the Scheme, under which such Shares held by the Management Shareholders will constitute part of the Scheme Shares and be cancelled and extinguished upon the Scheme becoming effective.

4. FINANCIAL RESOURCES

On the assumption that (i) all outstanding exercisable Share Options as at the Record Date are exercised and the 501,864 Shares so issued become part of the Scheme Shares and (ii) no further Shares are issued before the Record Date, and on the basis of the Scheme Share Consideration of HK\$12.00 and 106,443,073 Scheme Shares (including the Trustee Held Shares) in issue as at the date of this announcement, the aggregate 106,443,073 Scheme Shares are in aggregate valued at approximately HK\$1,277.4 million.

As to the Option Offer, on the assumption that all outstanding exercisable Share Options as at the Record Date are exercised (given that not exercisable outstanding Share Options as at the Record Date will not be capable of exercise prior to the Record Date and will only be entitled to the Option Consideration), the amount of cash required for the Option Offer would be HK\$0.

Consequently, the maximum amount of cash required for the Proposal on the basis described above would be approximately HK\$1,277.4 million.

The Offeror intends to finance the cash required for the Proposal using internal resources and/or external debt financing.

Based on the above, Citigroup the exclusive financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Proposal in accordance with its terms.

5. SHAREHOLDING STRUCTURE

As at the date of this announcement,

- there were 273,393,448 Shares in issue, including 3,386,385 Trustee Held Shares.
- the Offeror and the parties acting in concert with it hold 204,189,255 Shares, representing approximately 74.69% of the issued Shares of the Company; and
- there are 501,864 outstanding Share Options granted under the Share Option Scheme. The exercise of all the said Share Options in full would result in the issue of 501,864 new Shares.

All of the shares in issue as of the Record Date that are not held by the Offeror will constitute the Scheme Shares.

The Offeror will make (or procure to be made on their behalf) the Option Offer for 501,864 outstanding Share Options assuming no exercise or lapse of such Share Options before the Record Date. Such Option Offer is conditional upon the Scheme becoming effective.

Save from the Share Awards (which are referenced by the Trustee Held Shares) and Share Options, the Company does not have any other outstanding options, warrants, derivatives, or other convertible securities.

The table below sets out the shareholding structure of the Company (i) as at the date of this announcement (based on the existing issued share capital of the Company), (ii) as at the date of this announcement (on the assumption that all outstanding Share Options are exercised) and (iii) immediately upon implementation of the Proposal (on the assumption that all outstanding Share Options are exercised and that there is no other change in shareholding of the Company before implementation of the Proposal):

	As at the date of this announcement (based on the existing issued share capital of the Company)		As at the date of this announcement (on the assumption that all outstanding Share Options are exercised)		Upon implementation of the Proposal (on the assumption that all outstanding Share Options are exercised and that there is no other change in shareholding of the Company before implementation of the Proposal)	
	Number of Shares owned	% of the total issued Shares of the Company	Number of Shares owned	% of the total issued Shares of the Company ⁽¹⁾	Number of Shares owned ⁽²⁾	% of the total issued share capital of the Company
Offeror and parties acting concert with it						
Offeror	167,452,239	61.25%	167,452,239	61.14%	273,895,312	100%
Directors of Offeror and their spouses						
Mr. LI Dongsheng and his spouse	1,043,901	0.38%	1,204,817 ⁽³⁾	0.44%	–	–
Ms. XIONG Yan	16,934	0.01%	23,684 ⁽⁴⁾	0.01%	–	–
Mr. DU Yuanhua	12,702	0.00%	23,827 ⁽⁵⁾	0.01%	–	–
Management Shareholders						
Mr. YU Guanghui ⁽⁶⁾	15,351,671	5.62%	15,351,671	5.60%	–	–
Mr. SONG Yonghong ⁽⁷⁾	6,622,620	2.42%	6,622,620	2.42%	–	–
Mr. REN Xuenong ⁽⁸⁾	3,783,992	1.38%	3,783,992	1.38%	–	–
Mr. WANG Xiaofeng ⁽⁹⁾	3,293,637	1.20%	3,293,637	1.20%	–	–
Mr. HUANG Wei ⁽¹⁰⁾	3,225,174	1.18%	3,225,174	1.18%	–	–
Trustee	3,386,385	1.24%	3,386,385	1.24%	–	–
Subtotal	204,189,255	74.69%	204,368,046	74.62%	273,895,312	100%
Disinterested Scheme Shareholders	69,204,193	25.31%	69,527,266	25.38%	–	–
Scheme shareholders ⁽¹¹⁾	105,941,209	38.75%	106,443,073	38.86%	–	–
Total	273,393,448	100%	273,895,312	100%	273,895,312	100%
Total number of Scheme Shares	105,941,209	–	106,443,073	–	–	–

Notes:

- (1) The percentage are calculated on the basis that there are 273,895,312 Shares in issue, assuming all of the 501,864 outstanding Share Options are exercised.
- (2) Upon implementation of the Proposal, the Scheme Shares will be cancelled and extinguished and the share capital of the Company will be restored to the amount immediately before the cancellation and extinguishment of the Scheme Shares. The issued Shares will comprise 273,895,312 Shares held by the Offeror.
- (3) Including 894,777 Shares and 137,500 Shares issued as a result of the exercise of 137,500 Share Options held directly by Mr. LI Dongsheng; 149,124 Shares and 23,416 Shares issued as a result of the exercise of 23,416 Share Options owned by Mr. LI's spouse.
- (4) Including 16,934 Shares and 6,750 Shares issued as a result of the exercise of 6,750 Share Options held directly by Ms. XIONG Yan.
- (5) Including 12,702 Shares and 11,125 Shares issued as a result of the exercise of 11,125 Share Options held directly by Mr. DU Yuanhua.

- (6) Including 2,212,259 Scheme Shares held directly by Mr. YU; 11,869,339 Scheme Shares held through Vast Bright Investment Limited, a company wholly owned by Mr. YU; and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. YU has a 9.48% equity interest as a limited partner.
- (7) Including 1,661,398 Scheme Shares held directly by Mr. SONG and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. SONG holds a 37.03% equity interest as a limited partner.
- (8) Including 1,100,963 Scheme Shares held directly by Mr. REN and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. REN has a 20.02% equity interest as a limited partner.
- (9) Including 1,279,381 Scheme Shares held directly by Mr. WANG and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. WANG has a 15.03% equity interest as a limited partner.
- (10) Including 754,486 Scheme Shares held directly by Mr. HUANG and his pro rata share of the 13,399,268 Scheme Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. HUANG serves as general partner and holds a 18.44% equity interest as a limited partner.
- (11) The total number of Scheme Shares comprises the Shares held by the Management Shareholders, the Disinterested Scheme Shareholders and persons acting in concert with the Offeror.

6. REASONS FOR AND BENEFITS OF THE PROPOSAL

Focus management on addressing near-term macro-economic uncertainties and facilitating long-term growth

As mentioned in the Company's Profit Warning Announcement dated 6 July 2020 and the Interim Result announcement dated 24 July 2020, the lockdown due to the outbreak of COVID-19 in the PRC has negatively impacted the Group's manufacturing activities in the first half of 2020, in particular at its factory in Huizhou since late January 2020. Further, the ongoing development of the pandemic in the Company's key markets, including the United States and Europe, has caused significant disruption to the Company's sales and marketing activities since March 2020, which is expected to continue throughout the rest of 2020. Although the Offeror has noticed gradual normalisation of activities in the PRC and overseas markets in the recent few weeks, the duration and long-term effect of the COVID-19 pandemic remains uncertain.

In addition, uncertainties faced by the Group is exacerbated by (i) the intensifying China-US trade disputes, (ii) management's intention to undertake restructuring initiatives that may result in near-term volatility in operational and financial performance which might have an adverse impact on share price, (iii) the inherent uncertainties of results from the Group's continuous research and development activities and new product development, (iv) the planning and construction of the Group's overseas self-owned manufacturing plant, and (v) ongoing supply chain vertical integration efforts.

The Proposal can effectively free the Offeror and the management from the on-going regulatory constraints and the pressure from market expectations on the Company's stock price and short-term financial results, and can refocus the management efforts on formulating the Group's long-term growth strategies, provide more flexibilities as a privately operated business, and will also allow the Scheme Shareholders to avoid the abovementioned uncertainties from continuing to hold the shares.

Low liquidity of the Shares

The trading liquidity of the Shares has been at a relatively low level over a prolonged period in recent years, with an average daily trading volume of approximately 247,969 Shares for the 24 months up to and including the Last Trading Day, representing approximately 0.09% of the total issued Shares as at the Last Trading Day.

Additionally, the low trading liquidity of Shares hinders the Company's ability to raise further funds from the equity market for the Group's business developments.

Attractive opportunity for Scheme Shareholders to realise investments

The Proposal is intended to provide the Scheme Shareholders with an attractive opportunity to realise their investments in the Company for cash at a premium. The Scheme Share Consideration represents a premium of approximately (i) 19.0% over the closing price of the Shares on the Last Trading Day; (ii) 19.7% over the average closing price of the Shares for the 5 trading days up to and including the Last Trading Day; (iii) 21.2% over the average closing price of the Shares for the 10 trading days up to and including the Last Trading Day; (iv) 28.0% over the average closing price of the Shares for the 30 trading days up to and including the Last Trading Day; (v) 25.5% over the average closing price of the Shares for the 60 trading days up to and including the Last Trading Day; (vi) 35.8% over the average closing price of the Shares for the 90 trading days up to and including the Last Trading Day; and (vii) 59.4% over the average closing price of the Shares for the 180 trading days up to and including the Last Trading Day.

Lack of benefit from maintaining the listing status of the Company

The Company has not utilised its listing status for any equity fund raising activities in recent years, nor has it been able to attract any prospective strategic or financial investors to further commit any resources. The listing status is not expected to provide any benefit to the Company in the near term but would involve administrative, compliance and other listing-related costs and expenses being incurred. The Proposal entails the privatisation and delisting of the Company, and is expected to substantially reduce the administrative costs and management resources to be committed in maintaining its listing status and compliance with regulatory requirements.

7. OFFEROR'S INTENTION IN RELATION TO THE GROUP

It is the intention of the Offeror for the Group to maintain its existing business following the implementation of the Proposal. The Offeror will continue to identify options to respond to competitive challenges in the industry and will strive to create shareholder value through consistent and sustainable earnings growth. To pursue these objectives, the Offeror may evaluate the need for further restructurings, alternative financings, assets spinoffs and strategic acquisitions from time to time. As of the date of this announcement, the Offeror does not have plans to implement material transactions of such nature.

Subject to the above, the Offeror has no plans, in the event the Scheme becomes effective, (i) to make any material changes to the business and/or disposal or redeployment of assets of the Group or (ii) to discontinue the employment of employees of the Group. The Offeror will continue to carefully monitor the general business conditions, especially with regards to the uncertainties created by the COVID-19 crisis and the intensifying China-US trade disputes, including supply chain disruptions and shifting market sentiment.

8. INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in Hong Kong on 16 July 1996. As at the date of this announcement, 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 date of this announcement.

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 Holdings Limited, which is currently listed on the Main Board of the Stock Exchange (stock code: 01070), and TCL Communication Technology Holdings Limited, which principally engaged in the manufacture and distribution of mobile phone products.

As of the date of this announcement, the Offeror was wholly-owned by TCL Holdings. Substantial shareholders (as defined in the Takeovers Code) of TCL Holdings were Lida Zhihui (owning 33.3331% interests in TCL Holdings), Suning.com Co., Ltd.* (蘇寧易購集團股份有限公司) (owning 23.2558% interests in TCL Holdings) and Pan Mao (Shanghai) Investment Center (L.P.)* (磐茂(上海)投資中心(有限合夥)) (owning 15.5039% interests in TCL Holdings). 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.

The Offeror directly held 167,452,239 Shares, representing approximately 61.25% of the issued share capital of the Company as at the date of this announcement.

9. 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 2018 and 2019 as extracted from the annual report of the Company for the year ended 31 December 2019 and unaudited consolidated financial information of the Group for the six months ended 30 June 2020:

	For the six months ended 30 June 2020 (unaudited) (HK\$'000)	For the year ended 31 December 2019 (audited) (HK\$'000)	For the year ended 31 December 2018 (audited) (HK\$'000)
Revenue	3,141,317	8,146,641	7,302,951
Profit before tax	81,748	302,098	282,308
Profit for the period	70,437	271,213	221,159
Total comprehensive income for the period	46,765	230,139	190,054
	As at 30 June 2020 (unaudited) (HK\$'000)	As at 31 December 2019 (audited) (HK\$'000)	As at 31 December 2018 (audited) (HK\$'000)
Total equity	1,807,337	1,851,278	1,675,274

10. EXCLUSIVE FINANCIAL ADVISER TO THE OFFEROR, INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Offeror has appointed Citigroup as its exclusive financial adviser in connection with the Proposal.

The Independent Board Committee, which comprises Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, being all the independent non-executive Directors, has been established by the Board to make a recommendation to the Scheme Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting in respect of the Scheme at the Court Meeting and the Proposal at the EGM. Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong are considered to be interested in the Proposal due to their participation in the Rollover Arrangement and have therefore not participated in any vote of the Board on the resolution to approve the Proposal.

The Independent Financial Adviser will be appointed by the Board in due course to advise the Independent Board Committee on the Proposal, the Scheme and the Rollover Arrangement. A further announcement will be made after the appointment of the Independent Financial Adviser.

11. WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect immediately after the Effective Date. The Scheme Shareholders will be notified by way of a public announcement of the exact dates of the last day of dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares will become effective. A detailed timetable will be set out in the Scheme Document, which will also contain, among other things, further details of the Scheme.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or does not become effective. If the Scheme is withdrawn or not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

12. COSTS OF THE SCHEME

Pursuant to Rule 2.3 of the Takeovers Code, if the Scheme is not approved and the Proposal is either not recommended by the Independent Board Committee, or is not recommended as fair and reasonable by the Independent Financial Adviser, all costs and expenses incurred by the Company and the Offeror in connection with the Scheme will be borne by the Offeror.

If the Proposal is recommended by the Independent Board Committee, and is recommended as fair and reasonable by the Independent Financial Adviser, the Company and the Offeror have agreed that each party will bear their own costs, charges and expenses.

13. DESPATCH OF SCHEME DOCUMENT

The Company will send to the Shareholders a Scheme Document containing, among other things, further details about the Scheme, a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the recommendations of the Independent Board Committee and notices to convene the Court Meeting and the EGM as soon as possible in accordance with the Takeovers Code.

14. DISCLOSURE OF DEALINGS

Respective associates (as defined under the Takeovers Code) of the Company and the Offeror (including shareholders holding 5% or more of any class of relevant securities issued by the Company or the Offeror) are reminded to disclose their dealings in the securities of the Company. In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates of an offeror or the offeree company and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than HK\$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

15. OTHER ARRANGEMENTS

The Offeror confirms that, as at the date of this announcement:

- (a) save for (i) the Management Shareholders and (ii) Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua (who are persons presumed to be acting in concert with the Offeror in accordance with class 2 of the definition of “acting in concert” in the Takeovers Code) of which their respective shareholding in the Company is set out in the paragraph “Shareholding Structure” above, no person acting in concert with the Offeror owns or controls or directs any existing holding of voting rights and rights over shares in the Company;
- (b) members of the Citigroup group (except those which have been granted exempt principal trader or exempt fund manager status for the purposes of the Takeovers Code), being parties acting in concert with the Offeror by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code, do not beneficially own, control or have direction over any Shares;
- (c) save for the Rollover Agreement, neither the Offeror nor any person acting in concert with it has received any irrevocable commitment to accept the Proposal;

- (d) save for the Management Shareholders, Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua in respect of their Share Awards and Share Options, neither the Offeror nor any person acting in concert with it holds convertible securities, warrants or options in the Company;
- (e) save as disclosed in the section headed “Shareholding Structure”, there is no outstanding derivative in respect of securities in the Company entered into by the Offeror or any person acting in concert with it;
- (f) save for the Rollover Agreement, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or the shares of the Offeror which might be material to the Proposal;
- (g) there are no agreements or arrangements to which the Offeror (nor any person acting in concert with it) is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposal;
- (h) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror (or any person acting in concert with it) has borrowed or lent, save for any borrowed Shares which have been either on-lent or sold;
- (i) save for the Scheme Amount and the consideration for the Option Offer, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the Offeror or any party acting in concert with it to the Scheme Shareholders or any party acting in concert with the Scheme Shareholders in connection with the cancellation and extinguishment of the Scheme Shares, the Share Awards or the Share Options (as applicable);
- (j) save for the Rollover Arrangement, there is no understanding, arrangement, agreement or special deal between the Offeror or any party acting in concert with it on the one hand, and the Scheme Shareholders or any party acting in concert with the Scheme Shareholders on the other hand; and
- (k) save for the Rollover Arrangement, there is no understanding, arrangement, agreement or special deal between any shareholder of the Company and (A) the Offeror and any party acting in concert with it or (B) the Company, its subsidiaries or associated companies.

16. OVERSEAS SCHEME SHAREHOLDERS

The making of the Proposal to and acceptance of the Proposal by Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal or regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Scheme Shareholders wishing to accept the Proposal to satisfy themselves 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 and the payment of any taxes, duties and other amounts required to be paid in such jurisdictions. Any acceptance by such Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Company and the Offeror that those local laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

In the event that the receipt of the Scheme Document by overseas Shareholders is prohibited by any relevant law or regulation or may only be effected after compliance with conditions or requirements that the Offeror regards as unduly onerous or burdensome (or otherwise not in the best interests of the Offeror), the Scheme Document may not be despatched to such overseas Shareholders. For that purpose, the Offeror will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. If any such waivers are granted by the Executive, the Offeror reserves the right to make arrangements in respect of Scheme Shareholders not resident in Hong Kong in relation to the terms of the Proposal. Such arrangements may include notifying any matter in connection with the Proposal to the Shareholders having a registered overseas address by announcement or by advertisement in a newspaper which may or may not be circulated in the jurisdiction within which such persons are resident. The notice will be deemed to have been sufficiently given, despite any failure by such Shareholders to receive or see that notice. If the relevant waivers are not obtained, or are granted with conditions, the Offeror will exercise its best effort to comply with the conditions imposed by the Executive and the laws of the relevant jurisdictions in which the overseas Shareholders are located and to proceed with the Proposal. Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal. It is emphasised that none of the Offeror, the Company, Citigroup, or any of their respective directors, officers or associates or any other person involved in the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

17. SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 30 October 2020 pending the issue of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 2 November 2020.

18. DEFINITIONS

In this announcement, the following expressions have the meaning set out below unless the context requires otherwise:

“acting in concert”	has the meaning given to it under the Takeovers Code and “concert party” or “concert parties” shall be construed accordingly
“associates”	has the meaning given to it under the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
“Board”	the board of Directors from time to time
“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities
“Citigroup”	Citigroup Global Markets Asia Limited (花旗環球金融亞洲有限公司), a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities, and the exclusive financial adviser to the Offeror in connection with the Proposal
“Companies Law”	The Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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: 1249)
“Conditions”	the conditions of the Proposal, details of which are set out in the section headed “Conditions of the Proposal and the Scheme” of this announcement
“Court”	the Grand Court of the Cayman Islands

“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof
“Court Order”	the order of the Court
“Directors”	the directors of the Company
“Disinterested Scheme Shareholders”	the Shareholders other than the Offeror, its concert parties, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng) and Trustee
“Disinterested Scheme Shares”	Shares held by the Disinterested Scheme Shareholders
“Effective Date”	the date on which the Scheme becomes effective in accordance with its terms
“EGM”	an extraordinary general meeting of the Company to be convened to consider and vote on, among other things, the necessary resolutions for the implementation of the Proposal
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate for the time being of the Executive Director
“Further Shares”	Shares purchased or subscribed by the Trustee out of cash income or net proceeds of distribution from Shares held upon trust by the Trustee under the Restricted Share Award Scheme
“Grantees”	holders of the Share Awards
“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 People’s Republic of China
“Huizhou Guangsheng”	Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership)* (惠州市廣勝投資合夥企業(有限合夥), a limited liability partnership established in the PRC which is wholly owned by the Management Shareholders

“Huizhou Tonly”	TCL Technoly Electronics (Huizhou) Co., Ltd* (TCL通力電子(惠州)有限公司), a company indirectly wholly owned by the Company and the Company’s primary operating entity established in the PRC
“Independent Board committee”	the independent board committee of the Company comprising Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, being all the independent non-executive Directors, formed for the purpose of advising the Scheme Shareholders in respect of the Proposal
“Independent Financial Adviser”	the independent financial adviser which will be appointed to advise the Independent Board Committee on the Proposal, the Scheme and the Rollover Arrangement
“Last Trading Day”	29 October 2020, being the last trading day of the Shares prior to their suspension in trading on the Stock Exchange pending the publication of this announcement
“Lida Tiancheng”	Huizhou Lida Tiancheng Investment Co., Ltd.* (惠州礪達天成股權投資有限公司), 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
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2021
“Offeror”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the immediate controlling shareholder of the Company as at the date of this announcement
“Option Consideration”	the price for each Share Option payable by the Offeror to the Option Holders accepting the Option Offer
“Option Holders”	holders of the Share Options
“Option Offer”	the offer to be made by or on behalf of the Offeror to the Option Holders

“Management Shareholders”	Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong, Mr. WANG Xiaofeng and Mr. HUANG Wei
“PRC”	the People’s Republic of China and for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Proposal”	the proposed privatisation of the Company by the Offeror by way of the Scheme, the implementation of the Option Offer and the Rollover Arrangement and the withdrawal of the listing of the Shares from the Stock Exchange, in each case, on the terms and subject to the Conditions set out in the Proposal
“Record Date”	the appropriate record date to be announced for determining entitlements under the Scheme
“Registrar of Companies”	the Registrar of Companies in the Cayman Islands
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions (including the Executive, the Stock Exchange, the Court and the Registrar of Companies)
“Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 28 August 2014 as amended on 9 September 2016, 8 August and 7 September 2017
“Returned Shares”	Share Awards awarded to a Grantee but are not accepted or vested in accordance with the terms of the Restricted Share Award Scheme
“Rollover Agreement”	the rollover agreement dated 30 October 2020 between the Management Shareholders and the Offeror, details of which are set out in the section headed “Rollover Agreement” of this announcement
“Rollover Arrangement”	the arrangements under the Rollover Agreement, details of which are set out in the section headed “The Rollover Arrangement” of this announcement
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law involving the cancellation and extinguishment of all the Scheme Shares and the restoration of the share capital of the Company to the amount immediately before the cancellation and extinguishment of the Scheme Shares, with or subject to any modification, addition or condition approved or imposed by the Court or agreed by the Company and the Offeror

“Scheme Amount”	the aggregate cash consideration to be paid to the Scheme Shareholders, being the Scheme Share Consideration multiplied by the number of Scheme Shares
“Scheme Proceeds”	the aggregate sum to be paid to a Management Shareholder to cancel and extinguish any Scheme Shares that are beneficially held by that Management Shareholder (including any Trustee Held Shares attributable to any Share Awards held by such Management Shareholder) for the Scheme Share Consideration
“Scheme Share Consideration”	HK\$12.00 for every Scheme Share cancelled and extinguished
“Scheme Document”	the document to be despatched to the Shareholders, the Grantees and the Option Holders containing details of the Scheme, the Option Offer, a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the recommendations of the Independent Board Committee and notices to convene the Court Meeting and EGM
“Scheme Share(s)”	Share(s) in issue as of the Record Date other than those held by the Offeror
“Scheme Shareholder(s)”	Shareholder(s) other than the Offeror on the Record Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Award(s)”	the Share(s) awarded under the Restricted Share Award Scheme from time to time which have not been vested to the Grantees or lapsed according to the terms thereof
“Share Option(s)”	share options awarded to an Option Holder under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 17 April 2014
“Share(s)”	the ordinary share(s) of par value 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
“subsidiary”	has the meaning given to it under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers
“Target Interests”	equity interests in Huizhou Tonly
“TCL Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), a company established in the PRC
“Trustee”	BOCI-Prudential Trustee Limited, the trustee appointed by the Board for the administration of the Restricted Share Award Scheme
“Trust Deed”	the amended and restated trust deed dated 29 September 2017 in respect of the Restricted Share Award Scheme
“Trustee Held Shares”	existing issued Shares held by the Trustee which are to be utilised for satisfying Share Awards on vesting
“U.S.”	the United States of America
“%”	per cent.

By order of the board of
T.C.L. Industries Holdings (H.K.) Limited
LI Dongsheng
Director

By order of the board of
TONLY ELECTRONICS HOLDINGS
LIMITED
LIAO Qian
Chairman

* *For identification purpose only*

30 October 2020

As at the date of this announcement, the directors of the Offeror are:

Mr. LI Dongsheng
Mr. DU Yuanhua
Ms. XIONG Yan

As at the date of this announcement, the Directors are:

Non-executive Director
Mr. LIAO Qian (*Chairman*)

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

Independent non-executive Directors

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

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

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