
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Proposal or this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

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

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This Scheme Document is provided for information purposes only and is not intended to and does not constitute, or form part of, any offer to purchase or subscribe for or an invitation to purchase or subscribe for the securities of the Offeror or the Company.



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

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

PROPOSED PRIVATISATION OF TONLY ELECTRONICS HOLDINGS LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES ACT AND SPECIAL DEAL IN RELATION TO THE ROLLOVER ARRANGEMENT AND PROPOSED WITHDRAWAL OF LISTING OF TONLY ELECTRONICS HOLDINGS LIMITED

Exclusive Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



SOMERLEY CAPITAL LIMITED

Capitalised terms used hereunder shall have the same meanings as defined in this Scheme Document. A letter from the Board is set out in Part IV of this Scheme Document. The Explanatory Memorandum is set out in Part VII of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Disinterested Scheme Shareholders and the Option Holders in relation to the Proposal, the Scheme, the Option Offer and the special deal relating to the Rollover Arrangement is set out in Part V of this Scheme Document. A letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee in respect of the Proposal, the Scheme, the Option Offer, and the special deal relating to the Rollover Arrangement, is set out in Part VI of this Scheme Document. The actions to be taken by the Shareholders and the Option Holders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting to be held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Tuesday, 23 February 2021 at 10:00 a.m. and the EGM to be held on Tuesday, 23 February 2021 at 10:30 a.m. (or in the case of the EGM immediately after the conclusion or the adjournment of the Court Meeting) are set out in Appendix V and Appendix VI to this Scheme Document, respectively. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment(s) thereof in person, you are strongly urged to complete and sign the enclosed PINK form of proxy in respect of the Court Meeting and also the WHITE form of proxy in respect of the EGM, in accordance with the instructions printed respectively on them, and to deposit them at the office of the Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any case not later than the respective times stated under the section headed "Actions to be taken" set out in Part II and in Part VII – Explanatory Memorandum – "Actions to be taken" of this Scheme Document. If the PINK form of proxy is not so lodged, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it) before the taking of the poll. If the WHITE form of proxy is not lodged in time, it will not be accepted and will be considered invalid. The chairman of the EGM may not, and does not have the discretion to, accept any WHITE form of proxy presented to him at the EGM.

This Scheme Document is issued jointly by the Company and the Offeror.

The English language text of this Scheme Document, the Option Offer Letter and the Forms of Acceptance shall prevail over the Chinese language text for purpose of interpretation.

PRECAUTIONARY MEASURES FOR THE COURT MEETING AND THE EGM

Please see pages V-4 to V-5 and VI-4 of this Scheme Document for measures being taken with a view to preventing and controlling the spread of the novel coronavirus ("COVID-19") at the Court Meeting and the EGM, including:

- Compulsory temperature checks
- Compulsory wearing of surgical face masks
- No distribution of refreshments

Shareholders who do not comply with the precautionary measures or has a body temperature of over 37.3 degrees Celsius but wish to attend any of the Meetings in person will be accommodated in designated area of the venue to attend the relevant Meeting and exercise their voting rights. Seating in the venue will also be arranged so as to allow for appropriate social distancing. In view of the Regulation and the requirements for social distancing to ensure the health and safety of attendees, there will be limited capacity for Shareholders to attend the Court Meeting and the EGM and only Shareholders and/or their proxies and relevant Court Meeting and/or EGM staff will be allowed entry into Court Meeting and/or EGM venue and the attending Shareholders (or their proxies) will be admitted to the main conference room at the venue on a "first-come-first-served" basis, whereas other attending Shareholders (or their proxies) will be accommodated in other room(s) at the venue after the main conference room is fully occupied. The Company may limit the number of attendees at the Court Meeting and the EGM as may be necessary to avoid overcrowding.

In order to facilitate the prevention and control of COVID-19, and to safeguard the health and safety of the Shareholders, the Company reminds all Shareholders that physical attendance in person at the Court Meeting and the EGM is not necessary for the purpose of exercising their voting rights and strongly advises the Shareholders to appoint the chairman of the relevant Meeting as a proxy to vote on the resolutions as an alternative to attending the Court Meeting and the EGM in person in light of the continuing risks posed by the COVID-19 pandemic. Shareholders are requested (a) to consider carefully the risk of attending the Court Meeting and/or EGM, which will be held in an enclosed environment; (b) to follow and comply with any law and guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic in deciding whether or not to attend the Court Meeting and/or EGM; and (c) not to attend the Court Meeting and/or EGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

29 January 2021

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In this Scheme Document, the following words and expressions shall have the following meanings set opposite them, unless the context otherwise requires:

“acting in concert”	has the meaning given to it under the Takeovers Code and “concert party” or “concert parties” shall be construed accordingly
“Announcement”	the announcement dated 30 October 2020 issued jointly by the Company and the Offeror relating to the Proposal
“Announcement Date”	30 October 2020, being the date of the Announcement
“Articles”	the articles of association of the Company as amended from time to time
“associate(s)”	has the meaning given to it under the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals required in connection with and to give effect to the Proposal
“Beneficial Owner(s)”	any beneficial owner(s) of an interest in the Shares which are registered in the name of a Registered Owner
“Board”	the board of Directors
“Business Day(s)”	any day(s) on which the Stock Exchange is open for the business of dealing in securities
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant(s)”	any person(s) admitted to participate in CCASS as a participant, including a Non-Investor Participant and an Investor Participant

“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 under the SFO, and the exclusive financial adviser to the Offeror in connection with the Proposal
“Companies Act”	The Companies Act (2020 Revision) of the Cayman Islands, as consolidated and revised
“Company”	Tonly Electronics Holdings Limited, an exempted 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)
“Concert Party(ies)”	those persons acting in concert or presumed to be acting in concert with the Offeror, including TCL Holdings, the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui, a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), Mr. LIAO Qian and Trustee
“Conditions”	the conditions to the implementation of the Proposal and the Scheme, as set out in “Part VII – Explanatory Memorandum – 3. Conditions of the Proposal and the Scheme” of this Scheme Document
“Court”	the Grand Court of the Cayman Islands
“Court Meeting”	a meeting of the Disinterested Scheme Shareholders to be convened at the direction of the Court and which is to be held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong at 10:00 a.m. on Tuesday, 23 February 2021 at which the Scheme (with or without modification) will be voted upon, notice of which is set out in Appendix V – “Notice of Court Meeting” to this Scheme Document, or any adjournment thereof

“Court Order”	the order of the Court sanctioning the Scheme under section 86 of the Companies Act
“Director(s)”	the director(s) of the Company from time to time
“Disinterested Scheme Shareholders”	Shareholders other than the Offeror and its Concert Parties (including the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui, a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), Mr. LIAO Qian and Trustee). For the avoidance of doubt, each member of Citigroup which is an exempt principal trader is a Disinterested Scheme Shareholder but is not entitled to vote at the Court Meeting or on the resolution in relation to the Rollover Arrangement at the EGM, except in respect of the Shares held by it as a simple custodian for and on behalf of its non-discretionary clients where such client (i) controls the voting rights attaching to such Shares; (ii) if the Shares are voted, gives instructions as to how such Shares are to be voted; and (iii) is not the Offeror nor its Concert Parties and where the Executive has confirmed that Rule 35.4 of the Takeovers Code does not apply to such Shares
“Disinterested Scheme Shares”	Share(s) held by the Disinterested Scheme Shareholders
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Court, becomes effective in accordance with its terms and the Companies Act, being the date on which a copy of the Court Order sanctioning the Scheme and confirming the reduction of the issued share capital of the Company resulting from the cancellation and extinguishment of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) and section 15 of the Companies Act, and which is expected to be Thursday, 4 March 2021 (Cayman Islands time)

“EGM”	an extraordinary general meeting of the Company to be held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong at 10:30 a.m. on Tuesday, 23 February 2021 (or immediately after the Court Meeting to be convened on the same day and place shall have been concluded or adjourned), to consider and, if thought fit, approve, among others, (i) a special resolution in relation to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares, and the withdrawal of listing of the Shares upon the Scheme becoming effective; (ii) an ordinary resolution in relation to the restoration of the number of issued Shares in the share capital of the Company to its former amount by the issue of the same number of Shares as the number of the Scheme Shares cancelled and extinguished, at par credited as fully paid, to the Offeror; and (iii) an ordinary resolution in relation to the approval of the Rollover Arrangement, notice of which is set out in Appendix VI – “Notice of EGM” to this Scheme Document, or any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate for the time being of the Executive Director
“Explanatory Memorandum”	the explanatory memorandum set out in Part VII of this Scheme Document issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Finance Company (HK)”	TCL Finance (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability
“Form(s) of Acceptance”	the form(s) of acceptance to be despatched to the Option Holders in connection with the Option Offer
“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”	grantees of the Share Awards
“Group”	the Company and its subsidiaries
“Guangdong Regency”	Guangdong Regency Optics-electron Co., Ltd.* (廣東瑞捷光電股份有限公司), a company established in the PRC with limited liability, and an indirect subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 to make a recommendation to the Disinterested Scheme Shareholders and the Option Holders in respect of the Proposal, the Scheme, the Option Offer and the special deal relating to the Rollover Arrangement
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a licensed corporation under the SFO, registered to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme, the Option Offer and the Rollover Arrangement

“Investor Participant(s)”	any person(s) admitted to participate in CCASS as an investor participant
“Investor Participant Proxy(ies)”	proxy appointed by HKSCC Nominees upon the instructions and at the request of an Investor Participant in respect of all Shares beneficially owned by an Investor Participant for attending and voting at the Meeting(s)
“Irrevocable Undertakings”	collectively the irrevocable undertakings in respect of the Share Options given by 46 individuals, representing all of the Option Holders, in favour of the Offeror and the Company as set out in “Part VII – Explanatory Memorandum – 2. Terms of the Proposal – Irrevocable Undertakings” of this Scheme Document
“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 the Announcement
“Latest Options Exercise Date”	4:30 p.m. on Wednesday, 24 February 2021, being the expected latest date and time upon which Option Holders must lodge notices of exercise (accompanied by full payment of the exercise price) of their Share Options in order for Option Holders to qualify for entitlements under the Scheme
“Latest Practicable Date”	27 January 2021, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained in this Scheme Document
“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 (as amended, supplemented and/or modified from time to time)

“Long Stop Date”	30 June 2021 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
“Management Shareholders”	Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong, Mr. WANG Xiaofeng and Mr. HUANG Wei
“Meeting(s)”	the Court Meeting and the EGM or either of them, as the case may be
“Meeting Record Date”	Tuesday, 23 February 2021, or such other time and date as shall have been announced by the Company to the Shareholders, for determining entitlements of the Disinterested Scheme Shareholders or the Shareholders (as the case may be) to attend and vote at the Meetings or, in the case of the Court Meeting, ordered by the Court
“Mr. LIAO Qian”	Mr. LIAO Qian, a non-executive Director
“Non-Investor Participant(s)”	any CCASS Participant that is a financial intermediary
“Non-Investor Participant Proxy(ies)”	proxy(ies) appointed by HKSCC Nominees upon the instructions and at the request of a Non-Investor Participant for attending and voting at the Meeting(s)
“Offer Period”	the period from the Announcement Date until the latest of (i) the Effective Date; (ii) the date on which the Scheme lapses; or (iii) the date on which an announcement is made of the withdrawal of the Scheme, both dates inclusive
“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 Latest Practicable Date
“Offeror Directors”	the directors of the Offeror, namely Mr. LI Dongsheng, Ms. XIONG Yan and Mr. DU Yuanhua (together with their close relatives, related trusts and companies controlled by such directors, their close relatives and related trusts)
“Option Consideration”	the price for each Share Option payable by the Offeror to the Option Holders accepting the Option Offer
“Option Holder(s)”	holder(s) of the Share Options

“Option Offer”	the offer to be made by or on behalf of the Offeror to the Option Holders
“Option Offer Letter”	the letter dated 29 January 2021 setting out the terms and conditions of the Option Offer sent separately to the Option Holders and substantially in the form set out in Appendix III to this Scheme Document
“Other CCASS Participant(s)”	any person(s) admitted to participate in CCASS including a Non-Investor Participant, but not an Investor Participant
“PRC” or “China”	the People’s Republic of China and for the purpose of this Scheme Document 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 this Scheme Document
“Register”	the principal and branch registers of members of the Company kept in the Cayman Islands and Hong Kong, respectively
“Registered Owner(s)”	any owner(s) of Shares (including, without limitation, a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the Register
“Registrar of Companies”	the Registrar of Companies in the Cayman Islands
“Regulation”	means the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Chapter 599G of the Laws of Hong Kong) (as amended, supplemented and/or modified from time to time)
“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)

“Relevant Period”	the period commencing on 30 April 2020, being that date that falls six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date, both dates inclusive
“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 nor vested in accordance with the terms of the Restricted Share Award Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“Rollover Agreement”	the rollover agreement dated 30 October 2020 among the Management Shareholders and the Offeror, details of which are set out in “Part VII – Explanatory Memorandum – 4. Rollover Arrangement” of this Scheme Document
“Rollover Arrangement”	the arrangement under the Rollover Agreement, details of which are set out in “Part VII – Explanatory Memorandum – 4. The Rollover Arrangement” of this Scheme Document
“Scheme”	the scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Act set out in “Appendix IV – Scheme of Arrangement” to this Scheme Document 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 Document”	this scheme document, including each of the letters, statements, appendices and notices in it

“Scheme Proceeds”	the aggregate sum to be paid to a Management Shareholder to cancel and extinguish any Scheme Shares that are beneficially owned by that Management Shareholder for the Scheme Share Consideration
“Scheme Record Date”	Thursday, 4 March 2021, or such other time and date as shall have been announced to the Shareholders and the Option Holders, being the record date for the purposes of determining (i) the entitlements of the Scheme Shareholders to the Scheme Share Consideration under the Scheme and (ii) the entitlements of the Option Holders in respect of which the underlying Shares have not been registered in the name of the relevant holder, to the Option Offer
“Scheme Share(s)”	Share(s) in issue as of the Scheme Record Date other than those beneficially held by the Offeror
“Scheme Shareholder(s)”	Shareholder(s) other than the Offeror on the Scheme Record Date
“Scheme Share Consideration”	HK\$12.00 per Scheme Share cancelled and extinguished payable in cash by the Offeror to the Scheme Shareholders
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented and/or modified from time to time)
“Share(s)”	the ordinary share(s) of par value HK\$1.00 each in the share capital of the Company
“Share Award(s)”	the Share(s) awarded under the Restricted Share Award Scheme from time to time that have not been vested to the Grantees nor lapsed according to the terms thereof

“Shareholder(s)”	holder(s) of Share(s)
“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 Registrar”	Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, the Company’s branch share registrar and transfer office in Hong Kong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning given to it under the Listing Rules and “subsidiaries” shall be construed accordingly
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong (as amended, supplemented and/or modified from time to time)
“Target Interests”	equity interests in Huizhou Tonly
“Trading Day(s)”	any day(s) on which the Stock Exchange is open for trading in securities
“TCL Electronics”	TCL Electronics Holdings Limited, an exempted 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: 1070)
“TCL Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), a company established in the PRC with limited liability
“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 (including those to be utilised for satisfying Share Awards on vesting, Returned Shares and Unreleased Vested Shares)
“Unreleased Vested Shares”	Shares that were granted to Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua which have met the relevant vesting conditions but have not been released by the Trustee. As at the Latest Practicable Date, among the Unreleased Vested Shares, 40,871 Shares were held by the Trustee for the benefit of Mr. LI Dongsheng and his spouse, and 1,722 and 2,838 Shares were held by the Trustee for the benefit of Ms. XIONG Yan and Mr. DU Yuanhua, respectively. These Shares were held by the Trustee under the Restricted Share Award Scheme in the same manner as the Share Awards that have not vested and the Trustee will release the Unreleased Vested Shares to the relevant Grantee(s) upon its receipt of the relevant instructions from the Directors
“U.S.” or “US”	the United States of America
“%”	per cent.

Certain amounts and percentage figures included in this Scheme Document have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates except as otherwise specified, and other than references to the expected dates of the Court hearing of the petition to sanction the Scheme and to confirm the reduction of capital of the Company and of the registration of the Court Order at the Registrar of Companies in Cayman Islands and the Effective Date, which are references to the relevant times and dates in Cayman Islands.

** For identification purpose only*

ACTIONS TO BE TAKEN BY REGISTERED OWNERS

A **PINK** form of proxy for use in respect of the Court Meeting and a **WHITE** form of proxy for use in respect of the EGM are enclosed with this Scheme Document. Subsequent purchasers of Scheme Shares will need to obtain the proxy forms from the transferor.

Whether or not you are able to attend any of the Meetings or any adjournment(s) thereof in person, if you are a Disinterested Scheme Shareholder, you are strongly urged to complete and sign the enclosed PINK form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed WHITE form of proxy in respect of the EGM, in accordance with the instructions printed respectively on them, and to deposit them at the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any case not later than the following respective times in order to be valid:

- **the PINK form of proxy for use at the Court Meeting must be lodged not later than 10:00 a.m. (Hong Kong time) on Sunday, 21 February 2021 but if it is not so lodged, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it) before the taking of the poll; and**
- **the WHITE form of proxy for use at the EGM must be lodged not later than 10:30 a.m. (Hong Kong time) on Sunday, 21 February 2021.**

Completion and return of a form of proxy for each of the Court Meeting and/or the EGM will not preclude you from attending the relevant Meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

Voting at the Court Meeting and the EGM will be taken, as required, by poll under the Listing Rules and the Takeovers Code.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of the Disinterested Scheme Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Disinterested Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders (or the Disinterested Scheme Shareholders, as the case may be) to attend and vote at the EGM, the Register will be closed from Wednesday, 17 February 2021 to Tuesday, 23 February 2021 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 16 February 2021.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM on Tuesday, 23 February 2021 not later than 7:00 p.m. If all the resolutions are passed at those Meetings, further announcement(s) will be made of the results of the Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD THROUGH TRUST

No person shall be recognised by the Company as holding any Shares on trust. Any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than the HKSCC Nominees) should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

A Beneficial Owner who wishes to attend and vote at the Court Meeting and/or the EGM personally should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into the Beneficial Owner's name (i.e. the Beneficial Owner becoming the Registered Owner of such Shares).

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM or, as applicable, the latest time for lodging transfers of Shares, in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy or transfer documents accurately and to submit them by the relevant deadlines. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of such Registered Owner. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the memorandum of association and the Articles of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude the Registered Owner from attending and voting in person at the relevant Meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant Meeting or any adjournment thereof after having lodged his/her/its forms of proxy, the returned form of proxy will be revoked by operation of law.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE DEPOSITED IN CCASS

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees must, unless such Beneficial Owner is an Investor Participant:

- (a) contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, an Other CCASS Participant regarding voting instructions to be given to such Other CCASS Participant if the Beneficial Owner wishes to vote at the Court Meeting and/or the EGM; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into the Beneficial Owner's name (i.e. the Beneficial Owner becoming the Registered Owner of such Shares), if the Beneficial Owner wishes to vote (in person or by proxy) at the Court Meeting and/or at the EGM.

The procedures for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees shall be in accordance with the "Operating Guide for Investor Participants", the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time. Beneficial Owners whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, must, unless being an Investor Participant, contact their broker, custodian, nominee or other relevant person in advance of the latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the EGM, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

For the purpose of voting at the Court Meeting, HKSCC Nominees shall be permitted to vote for and/or against the Scheme in accordance with instructions from CCASS Participants including those admitted to participate as an Investor Participant and the number of Shares so voted shall be counted for the purpose of ascertaining whether or not the requirement that seventy-five per cent in value of the Disinterested Scheme Shareholders voting in person or by proxy approve the Scheme under Section 86 of the Companies Act (the “**majority in value test**”) has been satisfied.

For the purpose of ascertaining whether or not the requirement that a majority in number of the Disinterested Scheme Shareholders voting in person or by proxy approve the Scheme under Section 86 of the Companies Act (the “**majority in number test**”) has been satisfied, in accordance with the direction from the Court:

- (a) HKSCC Nominees shall be treated as a representative of the CCASS Participants from whom it receives instructions (and shall not have the power to vote on its own absent instructions from the CCASS Participants notwithstanding its status as a Registered Owner) and as a “multi-headed” shareholder such that, subject to sub-paragraphs (b) and (c) below, each of the CCASS Participants from whom voting instructions are received shall be counted as a separate shareholder and the number of such CCASS Participants will determine the number of “heads” attributable to HKSCC Nominees;
- (b) Each Non-Investor Participant shall inform HKSCC Nominees of the number of Shares which such Non-Investor Participant instructs HKSCC Nominees to vote in favour of the Scheme and/or the number of Shares which such Non-Investor Participant instructs HKSCC Nominees to vote against the Scheme. **For the purpose of the “majority in number” test, if such Non-Investor Participant has instructed HKSCC Nominees to vote both in favour and against the Scheme, and if HKSCC Nominees votes as instructed, such Non-Investor Participant shall be treated as two “heads” attributable to HKSCC Nominees, with one head counted as a single shareholder voting in favour of the Scheme and one head counted as a single shareholder voting against the Scheme. If such Non-Investor Participant has instructed HKSCC Nominees to vote either in favour or against the Scheme, and if HKSCC Nominees votes as instructed, such Non-Investor Participant shall be treated as one “head” attributable to HKSCC Nominees, with such head counted as a single shareholder voting on the Scheme in the manner indicated by the vote of HKSCC Nominees cast on the instructions of such Non-Investor Participant;**
- (c) Each Investor Participant shall be entitled to instruct HKSCC Nominees to, in respect of all of its Shares, vote in favour of the Scheme, or vote against the Scheme, or abstain from voting, but not a combination of more than one of these options. If HKSCC Nominees receives such voting instructions from an Investor Participant and votes in accordance with those instructions, such Investor Participant shall be treated as one “head” attributable to HKSCC Nominees, with such head counted as a single shareholder voting on the Scheme in the manner indicated by the vote of HKSCC Nominees cast on behalf of such Investor Participant;

- (d) Based on the counting methods set out above (i.e. both (b) and (c)), HKSCC Nominees shall specify to the Company the following: (i) the aggregate number of “heads” that have provided voting instructions to HKSCC Nominees; (ii) the aggregate number of votes cast in favour of the Scheme and the number of Shares to which they relate; and (iii) the aggregate number of votes cast against the Scheme and the number of Shares to which they relate;
- (e) Each Non-Investor Participant shall also inform HKSCC Nominees of the number of proxy(ies) that such Non-Investor Participant instructs and requests (or has instructed and requested) HKSCC Nominees to issue and the Shares in respect of which each proxy is to be (or has been) issued. HKSCC Nominees shall specify to the Company the aggregate number of Non-Investor Participant Proxies issued by HKSCC Nominees upon the instructions and at the request of Non-Investor Participants and the Shares to which each Non-Investor Participant Proxy relates. **Where a vote is cast by and pursuant to a Non-Investor Participant Proxy, no “head” shall be attributed to HKSCC Nominees for the purpose of the “majority in number” test. (For the avoidance of doubt, where the holder of a Non-Investor Participant Proxy votes at the Court Meeting, for the purpose of ascertaining whether or not the majority in value test has been satisfied, the number of Shares included in and covered by a Non-Investor Participant Proxy shall be counted in the same manner as other Registered Owners voting in person or by proxy);**
- (f) Each Investor Participant shall be entitled to instruct HKSCC Nominees to appoint not more than one Investor Participant Proxy in respect of all the Shares beneficially owned by such Investor Participant. Such Investor Participant Proxy shall entitle its holder to vote in favour of the Scheme, or vote against the Scheme, or abstain from voting, but not a combination of more than one of these options. If the holder of such an Investor Participant Proxy is present and votes at the Court Meeting, so long as the holder, prior to the voting taking place at the Court Meeting, (i) brings to the attention of the Company that it is a proxy holder acting under the direction of an Investor Participant; and (ii) provides to the chairman of the Court Meeting the original or printout monthly statement issued by HKSCC Nominees/HKSCC to the relevant Investor Participant (showing the name and participant ID of the Investor Participant and the number of Shares held by such Investor Participant via CCASS for the month in which the date of the Court Meeting falls, or if that is not available, for the month immediately preceding the date of the Court Meeting) and/or other supporting evidence reasonably satisfactory to the chairman of the Court Meeting showing that it is duly appointed to represent such Investor Participant at the Court Meeting (“**Investor Participant Proof**”), it shall be treated, for the purposes of the “majority in number” test, as one “head” attributable to HKSCC Nominees with such head counted as a single shareholder voting on the Scheme in the manner indicated by the vote of HKSCC Nominees cast on behalf of such Investor Participant; and

- (g) Each of the Registered Owners shall be permitted to vote, either in person or by proxy, in favour of the Scheme, or against the Scheme, or abstain from voting, but not a combination of more than one of these options. If such Registered Owner is present and casts its vote in the Court Meeting, whether in person or by proxy, such Registered Owner shall be treated, for the purpose of the “majority in number” test, as one “head”.

For the avoidance of doubt, where a vote is cast by a proxy holder representing an Investor Participant who fails to provide to the chairman of the Court Meeting the Investor Participant Proof, no “head” shall be attributed to HKSCC Nominees for the purpose of “majority in number” test, but for the purpose of ascertaining whether or not the “majority in value test” has been satisfied, the number of shares included in and covered by the vote of such proxy holder shall be counted in the same manner as other Registered Owners voting in person or by proxy.

If you are a Beneficial Owner whose Shares are deposited with a Non-Investor Participant, you should note that, where a vote is cast by and pursuant to a Non-Investor Participant Proxy, the number of Shares in respect of such a Non-Investor Participant Proxy shall be counted for the purpose of ascertaining whether or not the “majority in value” test has been satisfied, but no “head” shall be attributed to HKSCC Nominees for the purpose of the “majority in number” test.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Registered Owner, and thereby have the right to attend and vote at the Court Meeting (if you are a Disinterested Scheme Shareholder) and the EGM (as a Shareholder). You can become a Registered Owner by withdrawing all or any of your Shares from CCASS. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name. Beneficial Owners who wish to individually vote or be counted for the purpose of ascertaining whether a “majority in number” of Disinterested Scheme Shareholders have approved the Scheme should make arrangements to withdraw their Scheme Shares (or a board lot) from CCASS and become registered as a member of the Company in their own names prior to the Meeting Record Date.

ACTIONS TO BE TAKEN BY OPTION HOLDERS

The Option Offer Letter is being sent to each Option Holder, together with this Scheme Document and a YELLOW Form of Acceptance. If you are an Option Holder on the Scheme Record Date and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Human Resources Department of the Company at Section 37, Zhongkai Hi-tech Development Zone, Huizhou, 516006 Guangdong Province, the PRC, by no later than 4:30 p.m. (Hong Kong time) on Wednesday, 7 April 2021 (or such later date and time as may be notified to you by the Offeror, Citigroup and the Company or by way of joint announcement by the Offeror and the Company on the respective websites of the Stock Exchange and the Company). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Share Options or any other document will be given. 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 outstanding Share Options) for each outstanding Share Option cancelled. The Offeror will offer HK\$12.00 minus the relevant exercise price of HK\$7.84 for each Share Option, thus the “see-through price” is HK\$4.16.

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix III to this Scheme Document.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A DISINTERESTED SCHEME SHAREHOLDER, A SHAREHOLDER OR A BENEFICIAL OWNER WHOSE SHARES ARE HELD IN THE NAME OF A REGISTERED OWNER, YOU ARE STRONGLY ENCOURAGED:

- (A) IN THE CASE OF A DISINTERESTED SCHEME SHAREHOLDER OR A SHAREHOLDER – TO EXERCISE YOUR RIGHT TO VOTE AT THE COURT MEETING AND/OR THE EGM (IF APPLICABLE); OR**
- (B) IN THE CASE OF A BENEFICIAL OWNER – TO GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR THE EGM (IF APPLICABLE).**

IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, YOU ARE ENCOURAGED TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, YOU ARE STRONGLY ENCOURAGED TO WITHDRAW SOME OR ALL OF YOUR SHARES FROM CCASS AND BECOME A REGISTERED OWNER OF SUCH SHARES AND EXERCISE YOUR RIGHT TO VOTE (IN PERSON OR BY PROXY) AT THE COURT MEETING AND/OR THE EGM SUCH THAT YOU CAN BE COUNTED FOR THE PURPOSE OF ASCERTAINING WHETHER A “MAJORITY IN NUMBER” OF DISINTERESTED SCHEME SHAREHOLDERS HAVE APPROVED THE SCHEME AT THE COURT MEETING. IN RESPECT OF ANY SHARES OF WHICH YOU ARE THE BENEFICIAL OWNER AND/OR WHICH REMAIN IN CCASS, YOU ARE ENCOURAGED TO CONTACT YOUR BROKER, CUSTODIAN, NOMINEE OR OTHER RELEVANT PERSON WITHOUT DELAY REGARDING VOTING INSTRUCTIONS IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE EGM.

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF ONE OR MORE BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNER(S) ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE AND THE FACT THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, THEY SHOULD TRANSFER THEIR SHARES INTO THEIR OWN NAME.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

The following timetable takes into account the Court procedures for the Scheme. The expected timetable is indicative only and is subject to change. Further announcement(s) will be made if there is any change to the following expected timetable.

Hong Kong time

(unless otherwise stated)

Date of despatch of this Scheme Document Friday, 29 January 2021

Date of despatch of the Option Offer Letter for the Option Offer Friday, 29 January 2021

Latest time for Option Holders to lodge notices of exercise
of their Share Options in order to become entitled
to vote at the Court Meeting and
the EGM (*Note 10*) 4:30 p.m. on
Tuesday, 16 February 2021

Latest time for lodging transfers of Shares in order to
become entitled to vote at the Court Meeting and
the EGM 4:30 p.m. on
Tuesday, 16 February 2021

Register of the Company closed for determination
of entitlements of Disinterested Scheme Shareholders
to attend and vote at the Court Meeting and
of Shareholders to attend and vote at the EGM (*Note 1*) . from Wednesday, 17 February 2021
to Tuesday, 23 February 2021
(both dates inclusive)

Latest time for lodging forms of proxy in respect of (*Note 2*)

- Court Meeting 10:00 a.m. on Sunday, 21 February 2021
- EGM 10:30 a.m. on Sunday, 21 February 2021

Meeting Record Date Tuesday, 23 February 2021

Court Meeting (*Note 3*) 10:00 a.m. on Tuesday, 23 February 2021

EGM (*Note 3*) 10:30 a.m. on
Tuesday, 23 February 2021
(or immediately
after the conclusion or
adjournment of
the Court Meeting)

PART III

EXPECTED TIMETABLE

Announcement of the results of the Court Meeting and the EGM published on the respective websites of the Stock Exchange and the Company	no later than 7:00 p.m. on Tuesday, 23 February 2021
Expected last day for trading in the Shares on the Stock Exchange	Wednesday, 24 February 2021
Latest Options Exercise Date (<i>Note 5 and Note 10</i>)	4:30 p.m. on Wednesday, 24 February 2021
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Monday, 1 March 2021
Register of the Company closed for determination of entitlements to qualify under the Scheme (<i>Note 4</i>)	from Tuesday, 2 March 2021 onwards
Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Tuesday, 2 March 2021 (Cayman Islands time)
Announcement of, <i>inter alia</i> , the results of the Court hearing of the petition to sanction the Scheme, the expected Effective Date, and the expected date of withdrawal of the listing of the Shares on the Stock Exchange	before 1:00 p.m. on Wednesday, 3 March 2021
Scheme Record Date (<i>Note 5 and Note 6</i>)	Thursday, 4 March 2021
Effective Date (<i>Note 7</i>)	Thursday, 4 March 2021 (Cayman Islands time)
Option Offer becoming unconditional	Thursday, 4 March 2021

Announcement of the Effective Date and
the withdrawal of the listing of the Shares
on the Stock Exchange Before 8:30 a.m. on
Friday, 5 March 2021

Expected withdrawal of the listing of the Shares on
the Stock Exchange becomes effective (*Note 8*) 4:00 p.m. on
Monday, 8 March 2021

Latest date to despatch cheques for
cash payment under the Scheme Monday, 15 March 2021

Latest time and date to accept the Option Offer (*Note 6*)
and closing date of the Option Offer 4:30 p.m. on
Wednesday, 7 April 2021

Announcement of the results of the Option Offer posted on
the respective websites of the Company and the SFC not later than 7:00 p.m. on
Wednesday, 7 April 2021

Lapse of all Share Options (*Note 11*) Wednesday, 7 April 2021

Latest time to make payment under the Option Offer (*Note 9*) Friday, 16 April 2021

**Shareholders and Option Holders should note that the above timetable is subject to change.
Further announcement(s) will be made in the event that there is any change.**

Notes:

1. The Register will be closed during such period for the purpose of determining the entitlements of the Disinterested Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders (or the Disinterested Scheme Shareholders, as the case may be) to attend and vote at the EGM. This book closure period is not for determining the entitlements under the Scheme.
2. Forms of proxy should be deposited with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and no later than the relevant times and dates stated above. In order to be valid, the PINK form of proxy for the Court Meeting and the WHITE form of proxy for the EGM must be lodged no later than the latest times and dates stated above. Each Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) is only entitled to submit one proxy form for the Court Meeting. If more than one proxy form for the Court Meeting is submitted by a Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) and the voting instructions require the proxies to vote both FOR and AGAINST the Scheme, the proxy forms will not be accepted. If more than one proxy form for the Court Meeting is submitted by a Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) and the voting instructions require the proxies to vote **either** FOR or AGAINST the Scheme **but not both** FOR and AGAINST the Scheme, the chairman of the Court Meeting shall have absolute discretion as to whether or not to accept those proxy forms. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Disinterested Scheme Shareholder and a Shareholder, respectively, from attending the relevant Meeting and voting

in person. In such event, the returned form of proxy will be deemed to have been revoked. If the PINK form of proxy is not lodged in time but the voting instructions contained therein meet the requirements stipulated in this note, it may nonetheless be accepted if presented to the chairman of the Court Meeting before the taking of the poll, but its acceptance will be subject to such chairman's discretion. If the WHITE form of proxy is not lodged in time, it will not be accepted and will be considered invalid. The chairman of the EGM may not, and does not have the discretion to, accept any WHITE form of proxy presented to him at the EGM.

3. The Court Meeting and the EGM will be held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong at the scheduled times and dates as stated above. Please see the notice of Court Meeting set out in Appendix V to this Scheme Document and the notice of EGM set out in Appendix VI to this Scheme Document for details.
4. The Register will be closed from such time and on such date for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
5. If holders of Share Options wish to be qualified for entitlements under the Scheme, they must exercise their Share Options in accordance with the Share Option Scheme and lodge their notices of exercise before the time specified above on the Latest Options Exercise Date and, subject to the customary process for allotment and issue of Shares by the Company, become registered holders of Shares by the time of the Scheme Record Date.
6. Forms of Acceptance, duly completed in accordance with the instructions on them, must be lodged with the Human Resources Department of the Company not later than 4:30 p.m. on Wednesday, 7 April 2021 (or such later date as may be notified by the Offeror, Citigroup and the Company to the Option Holders or by way of joint announcement by the Offeror and the Company on the respective websites of the Stock Exchange and the Company).
7. The Scheme shall become effective upon all the Conditions set out in the paragraph headed "3. Conditions of the Proposal and the Scheme" in "Part VII – Explanatory Memorandum" of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case may be).
8. If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn at or before 4:00 p.m. on Monday, 8 March 2021.
9. Payment (by cheque, cash or bank transfer) in relation to outstanding Share Options as at the Scheme Record Date in respect of validly completed Forms of Acceptance received after the Scheme Record Date but before 4:30 p.m. on Wednesday, 7 April 2021 will be made within 7 Business Days following receipt of such validly completed Forms of Acceptance.
10. These denote the recommended latest dates, which are based on the time estimated by the Company to complete the required processes to issue the underlying Shares before the Meeting Record Date or the Scheme Record Date (as the case may be). For any Share Options being exercised (as the case may be) after the specified time on the Latest Options Exercise Date but before the Scheme Record Date, the Offeror and the Company may at their sole discretion issue or transfer (as the case may be) the underlying Shares to the holders so that they can be qualified for entitlements under the Scheme before the Scheme Record Date.
11. Pursuant to the terms of the Share Option Scheme, all outstanding Share Options shall lapse automatically and not be exercisable at the expiry of the period of 21 Business Days after the Effective Date.

All references to times and dates in this Scheme Document are references to Hong Kong times and dates, unless otherwise stated.



TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01249)

Executive Directors:

Mr. YU Guanghui

Mr. SONG Yonghong

Mr. REN Xuenong

Non-executive Director:

Mr. LIAO Qian (*Chairman*)

Independent Non-executive Directors:

Mr. POON Chiu Kwok

Mr. LI Qi

Mr. LEONG Yue Wing

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

Principal Place of Business

in Hong Kong:

8th Floor

Building 22E

22 Science Park East Avenue

Hong Kong Science Park

Shatin, N.T.

29 January 2021

To the Shareholders and Option Holders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
TONLY ELECTRONICS HOLDINGS LIMITED
BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES ACT
SPECIAL DEAL IN RELATION TO THE ROLLOVER ARRANGEMENT
PROPOSED WITHDRAWAL OF LISTING OF
TONLY ELECTRONICS HOLDINGS LIMITED**

1. INTRODUCTION

On 30 October 2020, the Offeror and the Company jointly announced that the Offeror had on that date 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 if the Rollover Arrangement is approved;
- (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 purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme, the Option Offer, the Rollover Arrangement and the expected timetable and to give you notices of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from Somerley, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme as set out in Appendix IV to this Scheme Document.

2. TERMS OF THE PROPOSAL

Subject to the fulfilment or waiver (as applicable) of the Conditions as set out in the section headed “3. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document, the Proposal will be implemented by way of the Scheme. Subject to the Scheme becoming effective, each Scheme Shareholder whose name appears in the Register as at the Scheme Record Date will be entitled to receive HK\$12.00 in cash for each Scheme Share except that any Scheme Share Consideration payable to the Management Shareholders will be subject to the Rollover Arrangement if the Rollover Arrangement is approved by the Disinterested Scheme Shareholders at the EGM. For the avoidance of doubt, the Scheme is not conditional on the Rollover Arrangement. If the Rollover Arrangement is not approved by the Disinterested

Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares.

On the assumption that (i) all outstanding exercisable Share Options as at the Scheme Record Date are exercised before the Latest Options Exercise Date and the 501,864 Shares so issued become part of the Scheme Shares and (ii) no further Shares are issued before the Scheme 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 Latest Practicable Date, the aggregate 106,443,073 Scheme Shares are in aggregate valued at approximately HK\$1,277.4 million.

Assuming the Scheme becomes effective on Friday, 5 March 2021 (Hong Kong time), (i) cheques for Scheme Share Consideration under the Scheme are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Monday, 15 March 2021; (ii) payments of the Option Consideration are expected to be made to the Option Holders on or before Friday, 16 April 2021; and (iii) cheque for payment of the Scheme Share Consideration for the Trustee Held Shares is expected to be despatched to the Trustee on or before Monday, 15 March 2021.

The Scheme

Under the Scheme, 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. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

The Scheme Share Consideration of HK\$12.00 represents:

- a premium of approximately 4.3% over the closing price of HK\$11.50 per Share on the Latest Practicable Date;
- 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\$10.02 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 Offeror has advised the Company that the Scheme Share Consideration has been determined on a commercial basis after taking into account, among other things, the challenging operating environment facing the Group, 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 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.

Dividends

The Company confirms that as at the Latest Practicable Date, (a) it has not declared any dividend, the record date of which falls on or after the expected date of despatch of the 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 Restricted Share Award Scheme

The Restricted Share Award Scheme was adopted by the Company as a long-term incentive measure, among others (i) to recognise and motivate the contribution of participants and to incentivise them; (ii) to 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 Group. The Company has appointed the Trustee for administration of the Restricted Share Award Scheme.

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 Latest Practicable Date, there were 3,386,385 Trustee Held Shares, out of which 2,560,000 Trustee Held Shares were held by the Trustee in respect of the outstanding Share Awards (being Share Awards that are granted under the Restricted Share Award Scheme but not yet vested nor otherwise lapsed under the terms thereof as of the Latest Practicable Date), 45,431 Trustee Held Shares were Unreleased Vested Shares and the remaining 780,954 Trustee Held Shares were held by the Trustee as Returned Shares and/or Further Shares which had not been designated to any particular Grantee under the Restricted Share Award Scheme.

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 Scheme Record 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 or Unreleased Vested Shares of such Grantees. Any remaining proceeds (i.e. Scheme Share Consideration in respect of those Trustee Held Shares which have not been designated to any particular Grantee under the Restricted Share Award Scheme as at the Scheme Record Date, less any charges payable by the Company to the Trustee under the Trust Deed) will be paid by the Trustee to the Company in accordance with the provisions of the Trust Deed.

If any of the Share Awards (except for the Unreleased Vested Shares) are vested in accordance with the terms of the Restricted Share Award Scheme on or before the Scheme Record Date, any Shares so delivered by the Trustee to the Grantees will be subject to and eligible to participate in the Scheme. For the avoidance of doubt, even if the Unreleased Vested Shares are released by the Trustee to Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua prior to the Meeting Record Date, as Concert Parties, they are not entitled to vote with such Shares at the Court Meeting and on the Rollover Arrangement at the EGM. The Register will be closed from Tuesday, 2 March 2021 for determination of entitlements to qualify under the Scheme. Any Share Awards vested from such date will remain, together with Share Awards (if any) that are unvested as of the Effective Date, the Trustee Held Shares.

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 to 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 Latest Practicable Date, there are 501,864 outstanding Share Options (being Share Options that were granted under the Share Option Scheme but not lapsed, cancelled or exercised under the terms thereof). Other than such Share Options, there are no other options, derivatives, warrants or other securities convertible or exchangeable into the Shares which were issued by the Company.

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 Latest Practicable Date, 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 Latest Practicable Date)		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 and the underlying Shares are registered in the name of the relevant Option Holder on or before the Scheme Record Date, any Shares so issued will be subject to and eligible to participate in the Scheme.

Your attention is drawn to the sub-paragraph headed “The Option Offer” under the paragraph headed “2. Terms of the Proposal” in “Part VII – Explanatory Memorandum” of this Scheme Document and “Appendix III – Form of Option Offer Letter” to this Scheme Document.

3. IRREVOCABLE UNDERTAKINGS FROM THE OPTION HOLDERS

As at the Latest Practicable Date, the 501,864 outstanding Share Options (being Share Options that are granted under the Share Option Scheme but not yet exercised or otherwise lapsed under the terms thereof) were held by a total of 46 Option Holders. 37 of the Option Holders were also Shareholders of the Company and they in aggregate were beneficially interested in 1,372,946 Shares, representing approximately 0.50% of the entire issued share capital of the Company. Among the 46 Option Holders, there were 5 persons being Concert Parties as follows: (i) 4 persons being directors of the Offeror and the spouse of one of such directors and they in aggregate were beneficially interested in 178,791 Share Options and 1,078,097 Shares, representing approximately 0.39% of the entire issued share capital of the Company as at the Latest Practicable Date and (ii) a non-executive Director holding 19,875 Share Options and 97,746 Shares, representing approximately 0.04% of the entire issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, all of the Option Holders, who held in aggregate 501,864 outstanding Share Options (carrying rights to subscribe for 501,864 Shares which represents approximately 0.18% of the entire issued share capital of the Company as of the Latest Practicable Date), have given Irrevocable Undertakings to the Offeror and the Company. Out of the 46 Irrevocable Undertakings received by the Offeror as of the Latest Practicable Date, 37 of which were signed and returned by Option Holders who were also interested in 1,372,946 Shares of the Company, representing approximately 0.50% of the total number of issued Shares as of the Latest Practicable Date.

Pursuant to the Irrevocable Undertakings, each of the Option Holders has undertaken that (i) he/she shall not exercise any of the Share Options held by him/her from the date of despatch of this Scheme Document to completion or, where applicable, lapse of the Scheme and the Option Offer (the later date is applicable and both dates inclusive) and (ii) he/she shall accept the Option Offer and sign all the documents and take all steps as necessary and appropriate to accept the Option Offer. No Option Holder is able to withdraw the undertakings given under his/her Irrevocable Undertakings unless such Irrevocable Undertakings terminates in accordance with its terms. The Irrevocable Undertakings will be terminated when (i) the Option Offer closes and all Share Options lapse, (ii) the Scheme lapses or is withdrawn, terminated or rescinded by the Offeror or is finally dismissed, finally refused or finally rejected by the Court; or (iii) on a date as the Offeror and the Company otherwise agree in writing.

4. ROLLOVER ARRANGEMENT

According to the terms of the Rollover Arrangement, if the Scheme becomes effective, any Scheme Shares that are beneficially owned by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds, and each Management Shareholder has entered 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.

For the purpose of a more effective and efficient operation of the Group's business, the Group has commenced certain intragroup restructuring since July 2019 which involved, among others, streamlining the corporate structure. Upon the completion of the intragroup restructuring of the Group, Huizhou Tonly (an indirect wholly-owned subsidiary of the Company) will hold and own all the operating subsidiaries of the Group. The subscription of Target Interests will take place when the intragroup restructuring is completed.

As of the Latest Practicable Date, the Company maintained, directly or through intermediate holding companies, the same ownership interests in all the operating subsidiaries when compared with the time when the intragroup restructuring began. 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 immediately before the intragroup restructuring; (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 shareholding 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 immediately before the intragroup restructuring should be substantially similar to the valuation of Huizhou Tonly immediately after completion of the intragroup restructuring. On that basis, 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 the Chief Executive Officer 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 Guanghui 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 the Chief Operating Officer of the Company. He holds directorships in various principal subsidiaries of the Group. Mr. SONG Yonghong 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 the Chief Financial Officer 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 Xuenong 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 the 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 Xiaofeng joined an affiliate of the Company in 1997 and has held various positions in a number of group companies since then. Mr. WANG Xiaofeng has strong ability in the management process from product planning to sales and marketing, as well as advertising and promotion, particularly in the television and audio-visual 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 Wei has rich management experience in procurement, supply, management and business development in the field of electronic products.

Rollover Agreement

The Company has been informed that, on 30 October 2020, the Offeror and the 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, save that if the approval of the Rollover Arrangement is not obtained, he will not enjoy any further rights nor be obliged to 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, if the Rollover Arrangement is approved, to also 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.

None of the Management Shareholders holds any Share Options or Share Awards as of the Latest Practicable Date. As at the Latest Practicable Date, the Company does not intend to grant any further Share Options and/or Share Awards to the Management Shareholders.

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 if approval by the Disinterested Scheme Shareholders of the Rollover Arrangement is obtained at the EGM.

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

Approval of the Rollover Arrangement

As the Offeror offers the Rollover Arrangement only to the Management Shareholders but not the other Shareholders, the Rollover Arrangement constitutes a special deal and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Offeror have made an application for consent from the Executive in relation to the Rollover Arrangement conditional on the Independent Financial Adviser to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable, and the passing of an ordinary resolution by the Disinterest Scheme Shareholders at the EGM to approve the Rollover Arrangement. For the avoidance of doubt, the Scheme is not conditional on the Rollover Arrangement. If the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares.

As (i) the Rollover Agreement was entered into by the Offeror and the Management Shareholders, none of the Company, Huizhou Tonly or member of the Group is party to the Rollover Agreement; and (ii) the Offeror will cause Huizhou Tonly to issue the relevant Target Interests to the Management Shareholders only if the Scheme becomes effective and approval of the Rollover Arrangement by the Disinterested Scheme Shareholders is obtained at the EGM, the relevant transaction (i.e. the issue of equity interests by a subsidiary of the Company to the Management Shareholders) will occur only at a time when the Company is no longer a listed company on the Stock Exchange, the Rollover Arrangement does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Your attention is drawn to the section headed “4. Rollover Arrangement” in “Part VII – Explanatory Memorandum” of this Scheme Document.

5. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES

On the assumption that (i) all outstanding exercisable Share Options as at the Scheme Record Date are exercised before the Latest Options Exercise Date and the 501,864 Shares so issued become part of the Scheme Shares and (ii) no further Shares are issued before the Scheme 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 Latest Practicable Date, the aggregate 106,443,073 Scheme Shares are in aggregate valued at approximately HK\$1,277.4 million.

Outstanding Share Options that are not exercisable as at the Scheme Record Date will not be capable of exercise prior to the Scheme Record Date and will only be entitled to the Option Consideration. As at the Latest Practicable Date, there are no outstanding Share Options that fall within this category. Hence as to the Option Offer, on the assumption that all outstanding exercisable Share Options as at the Scheme Record Date are exercised and the relevant Option Holders become owners of the underlying Shares, 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 proceeds of 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.

6. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Proposal is subject to the fulfilment or waiver (as applicable) of the Conditions to the Proposal as set out in the paragraph headed “3. Conditions of the Proposal and the Scheme” in “Part VII – Explanatory Memorandum” of this Scheme Document. When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Company and all the Scheme Shareholders.

WARNING: Shareholders, Option Holders 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, Option Holders and/or potential investors should therefore exercise caution when dealing in securities of the Company. 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.

7. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. LEONG Yue Wing, Mr. POON Chiu Kwok and Mr. LI Qi, has been established by the Board to make a recommendation to (i) the Disinterested Scheme Shareholders as to whether the terms of the Proposal, the Scheme and the Rollover Arrangement are, or are not, fair and reasonable and as to whether to vote in favour of the Scheme at the Court Meeting and the Proposal and the Rollover Arrangement at the EGM; and (ii) the Option Holders as to whether the terms of the Option Offer are, or are not, fair and reasonable and its view on acceptance of the Option Offer.

Mr. LIAO Qian, a non-executive Director, was not involved in the preparation of the Proposal and was only notified of the Proposal, together with the other members of the Board, upon the receipt of the Proposal from the Offeror to the Board. Considering Mr. LIAO Qian's equity interests of (i) approximately 1.8604% interests in Lida Zhihui (a controlling shareholder of TCL Holdings which is the Offeror's parent company) and (ii) approximately 9% interests in Lida Tiancheng (the general partner of Lida Zhihui), the Board and Mr. LIAO Qian recognised that Mr. LIAO Qian has an economic exposure (albeit insignificant and minimal) to the outcome of the Proposal, the Board did not appoint Mr. LIAO Qian to the Independent Board Committee. Nevertheless, Mr. LIAO Qian did not participate in considering and approving the Proposal at the Board meetings.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

8. INDEPENDENT FINANCIAL ADVISER

Somerley has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Scheme, the Rollover Arrangement and the Option Offer.

The full text of the letter from Somerley is set out in Part VI of this Scheme Document.

9. REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed “11. Reasons for and Benefits of the Proposal” in Part VII – Explanatory Memorandum of this Scheme Document.

10. OFFEROR’S INTENTION REGARDING THE COMPANY

Your attention is drawn to the section headed “14. Offeror’s Intention in relation to the Group” in Part VII – Explanatory Memorandum of this Scheme Document.

The Board has noted the Offeror’s intentions in respect of the Group and the employees of the Group as disclosed in the aforesaid section in the Explanatory Memorandum.

11. INFORMATION ON THE COMPANY AND THE OFFEROR

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange. It is principally engaged in the research and development, manufacture and sales of audiovisual 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. Your attention is drawn to the “Financial Information on the Group” set out in Appendix I to this Scheme Document.

Your attention is also drawn to paragraph headed “13. Information on the Offeror” in Part VII – Explanatory Memorandum of this Scheme Document.

12. OVERSEAS SCHEME SHAREHOLDERS

Your attention is drawn to paragraph headed “21. Overseas Scheme Shareholders and Option Holders” in Part VII – Explanatory Memorandum of this Scheme Document.

13. COURT MEETING AND THE EGM

In accordance with the direction of the Court, the Court Meeting will be held at 10:00 a.m. on Tuesday, 23 February 2021 at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the resolution to approve the Scheme (with or without modifications). 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 of, among the other Conditions, 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.

For the purposes of determining whether or not a majority in number of Disinterested Scheme Shareholders approved the Scheme pursuant to Section 86 of the Companies Act, where the same person is the holder of a number of Shares bearing different certificate numbers or account numbers, such person shall be entitled to be present at the Court Meeting personally or by proxy and vote such Shares in which case he/she/it will be treated as a single Shareholder. In accordance with articles 4.14 and 14.4 of the Articles of the Company, if a Share is held in the name of two or more persons, the person first named in the Register shall be deemed the sole Shareholder and be entitled to vote in respect of the relevant joint holding either in person or by proxy.

For the purpose of approving the Scheme, the Concert Parties are considered under the laws of Cayman Islands as having different interests from those of the Disinterested Scheme Shareholders. The Company would have been required to hold a formal meeting of the Concert Parties as a separate class to consider, and if thought fit, approve (with or without modification) the Scheme. Nevertheless, each of the Offeror and its Concert Parties has undertaken to the Court and the Company to be bound by the Scheme and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme. Therefore, such formal meeting of the Concert Parties is waived on the grounds that all such Concert Parties have undertaken to be bound by the terms of the Scheme if sanctioned.

The EGM will be held at 10:30 a.m. on Tuesday, 23 February 2021 or as soon thereafter as the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders or Disinterested Scheme Shareholders (as the case may be) shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the 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 the withdrawal of the listing of the Shares of the Company from the Stock Exchange; (ii) the 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 credited as fully paid the same number of the Shares as the number of Scheme Shares cancelled and extinguished; and (iii) the ordinary resolution by the Disinterested Scheme Shareholders present and voting, in person or by proxy, at the EGM to approve the Rollover Arrangement, which constitutes a special deal under Rule 25 of the Takeovers Code. No Shareholders are required to abstain from voting on the resolutions described under (i) and (ii) above. The Offeror and its Concert Parties are required to abstain from voting on the resolution described under (iii) above.

Notice of the Court Meeting is set out in Appendix V to this Scheme Document. A PINK form of proxy for the Court Meeting is enclosed with this Scheme Document.

Notice of the EGM is set out in Appendix VI to this Scheme Document. A WHITE form of proxy for the EGM is enclosed with this Scheme Document.

Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

The Scheme will take effect when a copy of the Court Order has been delivered to the Registrar of Companies for registration pursuant to section 86(3) and section 15 of the Companies Act. If the Scheme becomes effective under the Companies Act, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

Further details of the Scheme, the Court Meeting and the EGM are set out in the section headed “16. Meetings” in “Part VII – Explanatory Memorandum” of this Scheme Document, “Part II – Actions to be taken” of this Scheme Document, and the notices of the Court Meeting and the EGM in Appendices V and VI, respectively, to this Scheme Document.

14. ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under paragraph headed “18. Actions to be taken” in Part VII – Explanatory Memorandum of this Scheme Document.

15. RECOMMENDATION

Mr. YU Guanghui, Mr. SONG Yonghong and 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.

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Proposal as set out in “Part VI – Letter from Somerley” of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal as set out in “Part V – Letter from the Independent Board Committee” of this Scheme Document.

16. SHARE CERTIFICATES, DEALINGS, WITHDRAWAL OF LISTING, REGISTRATION AND PAYMENT

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 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 on the Stock Exchange will become effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Wednesday, 24 February 2021, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 4:00 p.m. on Monday, 8 March 2021.

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.

17. TAXATION, EFFECTS AND LIABILITIES

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

It is emphasised that none of the Company, the Offeror, their respective concert parties and any of their respective directors, officers, employees, agents, affiliates, or advisers or any other person involved in the Scheme and the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme. Accordingly, you are asked to read the paragraph headed “23. Taxation” in Part VII – Explanatory Memorandum of this Scheme Document and you shall be solely responsible for your liabilities. If you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

18. FURTHER INFORMATION

You are urged to read carefully (i) the letter from the Independent Board Committee as set out in Part V of this Scheme Document; (ii) the letter from Somerley, the Independent Financial Adviser, to the Independent Board Committee, as set out in Part VI of this Scheme Document; (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document; (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out in Appendix IV to this Scheme Document; (v) the notice of the Court Meeting as set out in Appendix V to this Scheme Document; and (vi) the notice of the EGM as set out in Appendix VI to this Scheme Document, the PINK proxy form in respect of the Court Meeting as enclosed with this Scheme Document and the WHITE proxy form in respect of the EGM as enclosed with this Scheme Document.

Yours faithfully,
By order of the Board
LIAO Qian
Chairman



TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01249)

Executive Directors:

Mr. YU Guanghui

Mr. SONG Yonghong

Mr. REN Xuenong

Non-executive Director:

Mr. LIAO Qian *(Chairman)*

Independent Non-executive Directors:

Mr. POON Chiu Kwok

Mr. LI Qi

Mr. LEONG Yue Wing

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

*Principal Place of Business
in Hong Kong:*

8th Floor

Building 22E

22 Science Park East Avenue

Hong Kong Science Park

Shatin, N.T.

29 January 2021

To the Disinterested Scheme Shareholders and Option Holders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
TONLY ELECTRONICS HOLDINGS LIMITED
BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES ACT
SPECIAL DEAL IN RELATION TO THE ROLLOVER ARRANGEMENT
PROPOSED WITHDRAWAL OF LISTING OF
TONLY ELECTRONICS HOLDINGS LIMITED**

We refer to the scheme document (the “**Scheme Document**”) dated 29 January 2021 jointly issued by the Company and the Offeror in relation to the Proposal, of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as ascribed to them in the Scheme Document.

We have been appointed by the Board as the Independent Board Committee to advise the Disinterested Scheme Shareholders and the Option Holders in respect of the Proposal, the Scheme, the Rollover Arrangement and the Option Offer, respectively, details of which are set out in “Part IV – Letter from the Board” and “Part VII – Explanatory Memorandum” of this Scheme Document.

Somerley has been appointed, with our approval, as the independent financial adviser to advise us in respect of the Proposal, the Scheme, the Rollover Arrangement and the Option Offer. In the letter from Somerley set out in “Part VI – Letter from Somerley” of this Scheme Document, Somerley states that it considers the terms of the Proposal, the Scheme, the Rollover Arrangement and the Option Offer to be fair and reasonable and advises the Independent Board Committee to recommend the Disinterested Scheme Shareholders to vote in favour of the relevant resolutions to be proposed (i) at the Court Meeting and the EGM to approve and implement the Scheme; and (ii) at the EGM to approve the Rollover Arrangement, and the Option Holders to accept the Option Offer. The full text of the letter from Somerley is set out in “Part VI – Letter from Somerley” of this Scheme Document.

Having considered the terms of the Proposal, the Scheme, the Rollover Arrangement and the Option Offer and having taken into account the advice of Somerley, in particular the factors, reasons and recommendations as set out in its letter in Part VI of this Scheme Document, we consider the terms of the Proposal, the Scheme, the Rollover Arrangement and the Option Offer are fair and reasonable so far as the Disinterested Scheme Shareholders and the Option Holders are concerned.

Accordingly, we recommend:

- (a) at the Court Meeting, the Disinterested Scheme Shareholders to vote in favour of the resolution to approve the Scheme;
- (b) at the EGM:
 - (i) the Shareholders to vote in favour of:
 - (1) the special resolution to approve the reduction of the share capital of the Company by the cancellation and extinguishment of the Scheme Shares and the withdrawal of the listing of the Shares of the Company from the Stock Exchange; and

- (2) the ordinary resolution to approve the restoration of the share capital of the Company to its amount immediately prior to the cancellation and extinguishment of the Scheme Shares by allotting and issuing to the Offeror at par and credited as fully paid by applying the reserve created as a result of the aforesaid cancellation and extinguishment of Scheme Shares such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme; and
- (ii) the Disinterested Scheme Shareholders to vote in favour of the ordinary resolution to approve the Rollover Arrangement which constitutes a special deal under Rule 25 of the Takeovers Code; and
- (c) the Option Holders to accept the Option Offer.

The Independent Board Committee draws the attention of the Disinterested Scheme Shareholders and Option Holders to (i) the letter from the Board set out in Part IV of this Scheme Document; (ii) the letter from Somerley which sets out the factors and reasons taken into account in arriving at its advice and recommendation to the Independent Board Committee, set out in Part VI of this Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document.

Yours faithfully,

Independent Board Committee

Mr. POON Chiu Kwok

Independent

Non-executive Director

Mr. LI Qi

Independent

Non-executive Director

Mr. LEONG Yue Wing

Independent

Non-executive Director

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



SOMERLEY CAPITAL LIMITED

20th Floor

China Building

29 Queen's Road Central

Hong Kong

29 January 2021

To: the Independent Board Committee

Dear Sirs,

**PROPOSED PRIVATISATION OF
TONLY ELECTRONICS HOLDINGS LIMITED
BY THE OFFEROR BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES ACT;
SPECIAL DEAL IN RELATION TO
THE ROLLOVER ARRANGEMENT;
AND
PROPOSED WITHDRAWAL OF LISTING OF
TONLY ELECTRONICS HOLDINGS LIMITED**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal, the Scheme, the Option Offer and the Rollover Arrangement, details of which are set out in the Scheme Document dated 29 January 2021, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 30 October 2020 (after trading hours), the Company and the Offeror jointly announced that on the same date the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal for the proposed privatisation of the Company by way of the Scheme under Section 86 of the Companies Act. 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 the Scheme Share Consideration payable to the Management Shareholders will be subject to the Rollover Arrangement if the Rollover Arrangement is approved by the Disinterested Scheme Shareholders at the EGM. Option Holders will be entitled to receive the Option Consideration in exchange for the cancellation of their Share Options. As at the Latest Practicable Date, all of the Option Holders have given the Irrevocable Undertakings in respect of the Share Options to the Offeror and the Company.

On 30 October 2020, the Offeror and the Management Shareholders entered into the Rollover Agreement in respect of the Rollover Arrangement. Under the Rollover Arrangement, if the Scheme becomes effective, any Scheme Shares that are beneficially owned by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds, and each Management Shareholder has committed to utilise funds in an amount substantially similar to the Scheme Proceeds received for the subscription of a specific amount of equity interest in Huizhou Tonly. 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 and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Offeror has made an application for consent from the Executive in relation to the Rollover Arrangement conditional on the Independent Financial Adviser to the Independent Board Committee publicly stating in its opinion that the proposed terms of the Rollover Arrangement are fair and reasonable, and the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM to approve the Rollover Arrangement.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, has been established to advise the Disinterested Scheme Shareholders and the Option Holders as to (i) whether the terms of the Proposal, the Scheme, the Rollover Arrangement and the Option Offer are fair and reasonable so far as the Disinterested Scheme Shareholders and Option Holders are concerned; (ii) the action that should be taken by the Disinterested Scheme Shareholders as to voting at the Court meeting and the EGM; and (iii) for Option Holders, whether or not to accept the Option Offer. Considering Mr. LIAO Qian's (a non-executive Director) equity interests of (i) approximately 1.8604% interests in Lida Zhihui (a controlling shareholder of TCL Holdings which is the Offeror's parent company) and (ii) approximately 9% interests in Lida Tiancheng (the general partner of Lida Zhihui), the Board and Mr. LIAO Qian recognised that Mr. LIAO Qian has an economic exposure (albeit insignificant and minimal) to the outcome of the Proposal, the Board did not appoint Mr. LIAO Qian to the Independent Board Committee.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee of the Company in relation to the mandatory conditional cash offers as detailed in the Company's composite document dated 22 November 2019. The aforesaid past engagement was limited to providing independent advisory service to the independent board committee of the Company pursuant to the Takeovers Code, for which Somerley Capital Limited received normal professional fees. Accordingly, we do not consider the past engagement gives rise to any conflict of interest for Somerley Capital Limited in acting as the Independent Financial Adviser.

We are not associated with the Company, the Offeror, the Management Shareholders or their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal, the Scheme, the Option Offer and the Rollover Arrangement. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, the Management Shareholders, their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Scheme Document; (ii) the interim report of the Company for the six months ended 30 June 2020; (iii) the annual reports of the Company for the two years ended 31 December 2019 and 31 December 2018; (iv) the unaudited management accounts of the Company for the ten months ended 31 October 2020; (v) the announcements published by the Company on the website of the Stock Exchange since 1 January 2019; and (vi) the material change statement set out in Appendix I to the Scheme Document.

We have relied on the information and facts supplied by the Company and the opinions expressed by the executive Directors and the management of the Company, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the Latest Practicable Date. Shareholders will be informed as soon as possible if we become aware of any material change to such representations/our opinion up to the Effective Date. We have sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror, the Management Shareholders or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Scheme Shareholders and the Option Holders of acceptance or non-acceptance of the Scheme or the Option Offer, as the case may be, since these are particular to their individual circumstances. In particular, the Scheme Shareholders and the Option Holders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL

The terms set out below are summarised from the Explanatory Memorandum. Scheme Shareholders are encouraged to read the Scheme Document and the appendices in full.

The Scheme

Under the Proposal, if the Scheme becomes effective, all the Scheme Shares held by the Scheme Shareholders whose names appear on the Register at the Scheme Record Date will be cancelled and extinguished in exchange for the Scheme Share Consideration of HK\$12.00 in cash for each Scheme Share, except that any Scheme Share Consideration payable to the Management Shareholders will be subject to the Rollover Arrangement if the Rollover Arrangement is approved by the Disinterested Scheme Shareholders at the EGM. Upon the Scheme becoming effective, it will be binding on the Company and all Scheme Shareholders. The total consideration payable for the cancellation and extinguishment of the Scheme Shares will be payable by the Offeror. As disclosed in the section headed “8. Scheme Share Consideration” in the Explanatory Memorandum, the Scheme Share Consideration has been determined on a commercial basis after taking into account, among other things, the challenging operating environment facing the Group, 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.

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 if approval of the Rollover Arrangement by the Disinterested Scheme Shareholders is obtained at the EGM;
- (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 Company confirms that as at the Latest Practicable Date, (a) it has not declared any dividend, the record date of which falls on or after the date 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.

As at the Latest Practicable Date, the Offeror and its Concert Parties were beneficially interested in 204,246,130 Shares, representing approximately 74.71% of the issued Shares of the Company. All of the Shares in issue as of the Scheme Record Date that are not held by the Offeror will constitute the Scheme Shares. Save for the outstanding Share Awards (which are included in the Trustee Held Shares) and outstanding Share Options, the Company does not have any other outstanding options, warrants, derivatives, or other convertible securities as at the Latest Practicable Date. As at the Latest Practicable Date, the Company does not intend to grant any further Share Awards and/or Share Options.

Share Awards under the Restricted Share Award Scheme

Pursuant to the rules of the Restricted Share Award Scheme, the Company is responsible for providing funds to the Trustee for the purchase and/or subscription of the Shares for the grant of Share Awards and the related expenses thereof. Pursuant to the Trust Deed, no one, including the Trustee, may exercise any voting rights in respect of the Trustee Held Shares in the Court Meeting and the EGM.

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 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 Scheme Record 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 or Unreleased Vested Shares of such Grantees. Any remaining proceeds (i.e. Scheme Share Consideration in respect of those Trustee Held Shares which have not been designated to any particular Grantee under the Restricted Share Award

Scheme as at the Scheme Record Date, less any charges payable by the Company to the Trustee under the Trust Deed) will be paid by the Trustee to the Company in accordance with the provisions of the Trust Deed.

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

As at the Latest Practicable Date, there were 3,386,385 Trustee Held Shares, out of which 2,560,000 Trustee Held Shares were held by the Trustee in respect of the outstanding Share Awards (being Share Awards that are granted under the Restricted Share Award Scheme but not lapsed nor otherwise vested under the terms thereof as of the Latest Practicable Date), 45,431 Trustee Held Shares were Unreleased Vested Shares and the remaining 780,954 Trustee Held Shares were held by the Trustee as Returned Shares and/or Further Shares which had not been designated to any particular Grantee under the Restricted Share Award Scheme.

The Option Offer and Irrevocable Undertakings

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 their Share Options (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.

The Offeror will make (or procure to be made on its behalf) an appropriate offer to all the Option Holders at a price of HK\$4.16 per Share Option in accordance with Rule 13 of the Takeovers Code, including Option Holders who have exercised their Share Options but have not been registered as legal Registered Owners of the underlying Shares as of the Scheme Record Date and Option Holders holding outstanding Share Options that are not exercisable as of such date. 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 of the outstanding Share Options) for the cancellation of every outstanding Share Option.

If any Share Options are exercised and the underlying Shares are registered in the name of the relevant Option Holder on or before the Scheme Record Date, such Shares will be subject to and eligible to participate in the Scheme.

As at the Latest Practicable Date, there were 501,864 outstanding Share Options (being Share Options that were granted under the Share Option Scheme but not yet exercised or otherwise lapsed under the terms thereof) held by a total of 46 Option Holders. 37 of the Option Holders were also Shareholders of the Company and they in aggregate were beneficially interested in 1,372,946 Shares, representing approximately 0.50% of the entire issued share capital of the Company as at the Latest Practicable Date. Among the Option Holders, there were 5 persons being Concert Parties as follows: (i) 4 persons being directors of the Offeror and the spouse of one of such directors and they in aggregate were beneficially interested in 178,791 Share Options and 1,078,097 Shares, representing approximately 0.39% of the entire issued share capital of the Company as at the Latest Practicable Date; and (ii) a non-executive Director holding 19,875 Share Options and 97,746 Shares, representing approximately 0.04% of the entire issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, all of the 46 Option Holders have given Irrevocable Undertakings to the Offeror and the Company. Pursuant to the Irrevocable Undertakings, each of the Option Holders has undertaken that (i) he/she shall not exercise any of the Share Options held by him/her from the date of despatch of this Scheme Document to completion or, where applicable, lapse of the Scheme and the Option Offer (the later date is applicable and both dates inclusive); and (ii) he/she shall accept the Option Offer and sign all the documents and take all steps as necessary and appropriate to accept the Option Offer. No Option Holder is able to withdraw the undertakings given under his/her Irrevocable Undertakings unless such Irrevocable Undertakings terminate in accordance with their terms. The Irrevocable Undertakings will be terminated when (i) the Option Offer closes and all Share Options lapse; (ii) the Scheme lapses or is withdrawn, terminated or rescinded by the Offeror or is finally dismissed, finally refused or finally rejected by the Court; or (iii) on a date as the Offeror and the Company otherwise agree in writing. Further details in relation to the Option Offer are set out in the Explanatory Memorandum and the Form of Option Offer Letter to the Option Holders in Appendix III to the Scheme Document.

The Rollover Arrangement

Under the Rollover Arrangement, if the Scheme becomes effective, any Scheme Shares that are beneficially owned by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds, and each Management Shareholder has entered into the Rollover Agreement to commit to the subscription of a specific amount of equity interest in Huizhou Tonly, which, upon completion of an intragroup restructuring of the Group, will become an indirect wholly-owned subsidiary of the Company with ownership of all the operating subsidiaries of the Company. The Management Shareholders, in aggregate, hold 32,277,094 Scheme Shares (representing approximately 11.81% of the issued share capital of the Company as at the Latest Practicable Date), and the expected Target Interests that they have committed to subscribe for under the Rollover Arrangement will be approximately 11.8% beneficial interests in Huizhou Tonly.

The Rollover Arrangement is subject to and conditional on, among others, the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM. If the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM before the Long Stop Date, the Management Shareholders will not enjoy their rights nor perform their obligation under the Rollover Arrangement, including their rights and obligations to use the Scheme Proceeds received to invest in Huizhou Tonly. **For the avoidance of doubt, if the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares.** Further details in relation to the Rollover Arrangement are set out in the Explanatory Memorandum and this letter below.

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 Conditions on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. Details of the Conditions are set out in the section headed “3. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum. Main Conditions include, among others, (i) 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 (a) 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 (b) 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; and (ii) the sanction of the Scheme (with or without modifications) by the Court. For the avoidance of doubt, the Scheme is not conditional on the Rollover Arrangement.

As at the Latest Practicable Date, none of the Conditions has been fulfilled or waived.

PRINCIPAL FACTORS AND REASONS CONSIDERED**A. The Proposal and the Scheme*****1. Background to and reasons for the Proposal***

As set out in the section headed “11. Reasons for and benefits of the Proposal” in the Explanatory Memorandum, the Offeror is making the Proposal for various reasons. The Group is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets), and as non-necessity goods, their demand are generally more sensitive to change in consumer market sentiment and customers’ spending level. The ongoing development of the COVID-19 pandemic in the Company’s key markets, including the US and Europe, has caused disruption to the Company’s sales and marketing activities since March 2020. Although the Offeror (a) is confident of the long-term prospect of the Group in general due to the following reasons: (i) future growth of smart audio products, True Wireless Stereo earphone and other smart ecological ancillary products market; (ii) the Group’s continuous efforts in expanding into new product segments (e.g. wireless router products); and (iii) continuous improvement in operational efficiency and supply chain integration, and (b) has noted gradual normalisation of activities in the PRC and overseas markets since May 2020, uncertainties remain, particularly around the duration and effect of the COVID-19 pandemic on the economy (such as the pace or extent of recovery of the global economy and the potential disruption in the consumer market sentiment). In addition, uncertainties persist with respect to the on-going trade negotiations between the PRC and the US, which may have an impact on the Group’s customers’ procurement strategy and the Group’s production and R&D plan (including relocation of certain production line(s) to overseas manufacturing plant(s), if required) which in turn may affect the Group’s business and cost structure. The Proposal can refocus the management efforts on formulating the Group’s long-term growth strategies and following the privatisation and delisting of the Company, the administrative costs and management resources to be committed in maintaining the Company’s listing status and compliance with regulatory requirements are expected to be substantially reduced. Further details are set out in the same section of the Explanatory Memorandum.

It is further stated in the abovementioned section in the Explanatory Memorandum that the relatively low trading liquidity of the Shares hinders the Company’s ability to raise further funds from the equity market for the Group’s business developments. 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 Proposal allows the Scheme Shareholders to avoid the abovementioned uncertainties from continuing to hold the Shares, and provides the Scheme Shareholders with an opportunity to realise their investments in the Company for cash at premia ranging from approximately 19.0% to 59.4% over the closing Share prices for different periods up to and including the Last Trading Day, and premia of approximately 76.7% and 81.3% over the consolidated net asset value per Share of the Group as at 31 December 2019 and 30 June 2020, respectively.

2. *Information and prospects of the Group*

(i) *Background information of the Company*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its Shares are listed on the Main Board of 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.

(ii) *Financial information of the Group*

(a) Financial performance

The following is a summary of the financial results of the Group for (a) the two years ended 31 December 2018 and 2019 (both 2018 and 2019 annual results having been extracted from the Company's 2019 annual report); and (b) the six months ended 30 June 2019 and 2020 (both 2019 and 2020 interim results having been extracted from the Company's 2020 interim report).

	For the six months ended 30 June		For the year ended 31 December	
	2020 (Unaudited) (HK\$'000)	2019 (Unaudited) (HK\$'000)	2019 (Audited) (HK\$'000)	2018 (Audited) (HK\$'000)
Revenue	3,141,317	3,518,176	8,146,641	7,302,951
Profit for the period	70,437	98,672	271,213	221,159
Profit attributable to owners of the parent	68,251	98,295	268,746	223,135
Earnings per Share attributable to ordinary equity holders of the parent (<i>in HK\$</i>)				
– Basic	0.25	0.38	1.03	0.87
– Diluted	0.25	0.37	1.00	0.85

(1) Revenue

For the year ended 31 December 2019, revenue derived from audio products, headphones and ancillary product businesses¹ together accounted for over 90% of the Group's total revenue. In 2019, the Group recorded a total revenue of approximately HK\$8,147 million, representing an increase of approximately 11.6% as compared to approximately HK\$7,303 million in 2018. As disclosed in the Company's 2019 annual report, the growth in total revenue was primarily due to the growth in the new audio, smart audio speaker, headphones and ancillary product businesses. For the six months ended 30 June 2020, the Group recorded total revenue of approximately HK\$3,141 million, representing a decrease of approximately 10.7% as compared to approximately HK\$3,518 million in the same period of 2019. As disclosed in the Company's 2020 interim report, some business operations in the European and US markets were temporarily closed under the effect of the pandemic. Since Europe and the US are among the Group's primary markets, the sales volume declined as a result, leading to a substantial decrease in orders from overseas customers.

(2) Profit attributable to owners of the parent

As set out in the table above, profit attributable to owners of the parent in 2019 was approximately HK\$269 million, representing an increase of approximately 20.4% as compared to approximately HK\$223 million in 2018. As disclosed in the Company's 2019 annual report, the increase was mainly driven by an increase in total revenue and gross profit margin as well as effective cost control. On 6 July 2020 (after trading hours), the Company published a profit warning announcement in respect of the Group's 2020 interim results. As set out in the table above, for the six months ended 30 June 2020, profit attributable to owners of the parent was approximately HK\$68 million, representing a decrease of approximately 30.6% as compared to approximately HK\$98 million in the same period of 2019. As disclosed in the Company's 2020 interim report, the decrease in profit attributable to owners of the parent was mainly attributable to (a) the decrease in total revenue; (b) the reduction in the Group's production efficiency caused by the failure of the Group to resume work and production after the Spring Festival Holiday as a result of the pandemic, delayed work resumption of employees and material supply, and imbalanced production; and (c) the incurring of extra expenses arising from pandemic prevention and control during the period.

¹ As set out in the Company's 2019 annual report, these mainly include fabric covering for external sales, plastic injection structural parts, speakers, wireless modules and other components

(3) Earnings per Share

Basic and diluted earnings per Share for (i) the year ended 31 December 2018; (ii) the year ended 31 December 2019; (iii) the six months ended 30 June 2019; and (iv) the six months ended 30 June 2020 was approximately (a) HK\$0.87 and HK\$0.85; (b) HK\$1.03 and HK\$1.00; (c) HK\$0.38 and HK\$0.37; and (d) HK\$0.25 and HK\$0.25 respectively. The movements in the earnings per Share generally followed the movements of the Group's financial results.

(4) Dividends

Total dividend per Share for the financial years ended 31 December 2018 and 2019 was HK\$0.30 and HK\$0.35 respectively. No interim dividend was declared for the six months ended 30 June 2019 and 2020. The Company's implied dividend yield based on the Scheme Share Consideration of HK\$12.00 per Share and the total dividend of the Company of HK\$0.35 in respect of the year ended 31 December 2019 is approximately 2.9%.

(b) Financial position

Set out below is an extract of the financial position of the Group (a) as at 31 December 2018 and 2019 (both 2018 and 2019 financial position having been extracted from the Company's 2019 annual report); and (b) as at 30 June 2020 (having been extracted from the Company's 2020 interim report).

	As at 30 June 2020 (Unaudited) (HK\$'000)	As at 31 December 2019 (Audited) (HK\$'000)	2018 (Audited) (HK\$'000)
Total assets	4,930,524	5,618,335	4,704,893
Total liabilities	3,123,187	3,767,057	3,029,619
Equity attributable to owners of the parent	1,744,276	1,788,384	1,598,775

As at 30 June 2020, the Group's total assets were approximately HK\$4,931 million. Assets of the Group mainly include (a) property, plant and equipment of approximately HK\$1,189 million; (b) inventories of approximately HK\$1,222 million; and (c) trade and bills receivables of approximately HK\$1,513 million. As at 30 June 2020, the Group recorded total liabilities amounted to approximately HK\$3,123 million, which mainly consisted of (a) trade and bills payables of approximately HK\$1,690 million; and (b) other payables and accruals of approximately HK\$904 million.

As at 30 June 2020, the Group had interest-bearing bank borrowings of approximately HK\$191 million. Taking into account the cash and bank balances amounting to approximately HK\$471 million, the Group had a net cash balance of approximately HK\$280 million as at 30 June 2020. The gearing ratio of the Group as at 30 June 2020, measured by total interest-bearing bank borrowings divided by equity attributable to owners of the parent, was approximately 11%, as compared to approximately 13% as at 31 December 2019. The change in the gearing ratio was mainly due to a decrease in bank borrowings. As set out in Appendix I to the Scheme Document, as at 31 October 2020, the Group had bank borrowings of approximately HK\$189 million.

The Group's consolidated net asset value as at 31 December 2019 and 30 June 2020 amounted to approximately HK\$1,851 million and HK\$1,807 million, with net asset value per Share of approximately HK\$6.79 and HK\$6.62 respectively. The Scheme Share Consideration of HK\$12.00 represents a substantial premium of approximately 76.7% and 81.3% to the consolidated net asset value per Share as at 31 December 2019 and 30 June 2020 respectively.

(iii) Prospects of the Group

As set out in the Company's 2019 annual report and 2020 interim report, according to the reports by Strategy Analytics², a market research institution, the global sales volume of smart speakers reached 146.9 million units in 2019, representing an increase of 70% as compared to 2018. However, in the first quarter of 2020, the year-on-year growth rate has slowed down significantly to 8.2% compared with the corresponding period in 2019. As advised by the management of the Company, due to the non-necessity nature of the Group's products, their demand is generally more sensitive to change in consumer market sentiment and customers' spending level.

As further disclosed in the Company's 2020 interim report, although revenue in the first half of 2020 generated from the PRC (the largest market of the Group accounting for around 33% of the Group's total revenue in 2019) increased by approximately 39% year-on-year, the Group's revenue in the first half of 2020 generated from the US and Europe (the second and third largest market of the Group, respectively accounting for around 21% and 19% of the Group's total revenue in 2019), has seen a substantial decrease of approximately 60% and 39% respectively as compared with the same period in 2019 under the effect of the pandemic as discussed in the paragraph headed "Financial information of the Group" in this letter above. Despite business levels of the Group (including sales orders) showing gradual recovery since around mid-2020, the adverse impact of the pandemic on the business of the Group may continue to be a factor, with the US and Europe being among its key markets. The Group's business is also subject to global economic and political dynamics. In respect of smart speakers, with limited space for market development of the product and adjustments to supply chain management strategies by main customers, the growth of the Group's smart voice speakers may be subject to a certain degree of pressure. In addition, due to the restrictions by the US on chip supply to certain PRC enterprises, the Group will be required to switch chip platform for some of its products, which may lead to new R&D investments and a longer R&D cycle for products.

Notwithstanding that the impact of the pandemic remains uncertain (especially in the US and Europe), the Group will continue to invest in smart voice speakers and other voice-related smart ecological ancillary products to seize new market opportunities. The Group also strives to explore more opportunities for cross-industry applications based on smart voice technology. In terms of vertical integration of the supply chain, the Group intends to invest in the automation of certain processes to

² A market research institution with expertise in the industry domains of smart devices, connected cars, intelligent homes, service providers, Internet of Things, strategic components and media, and with analysts based in the Europe, Asia and the Americas.

achieve synergy and reduce production costs. In addition, the Group will gradually build up the production and supply chain vertical integration capability of the new overseas plant.

We have discussed the prospects of the Group with the management of the Company, including the above-mentioned development plans of the Group. Taking into account the year-on-year growth rate (despite slowing down significantly in the first quarter of 2020 as mentioned above) in global sales volume of smart speakers as mentioned above and the development plans of the Group, the executive Directors consider, and we concur, that the long-term prospects of the Group are generally positive. However, the uncertainties which affected the Group's performance referred to above remain unresolved (such as the pace or extent of recovery of the global economy and the potential disruption in the consumer market sentiment).

3. Information on the Offeror and its intention regarding the Group

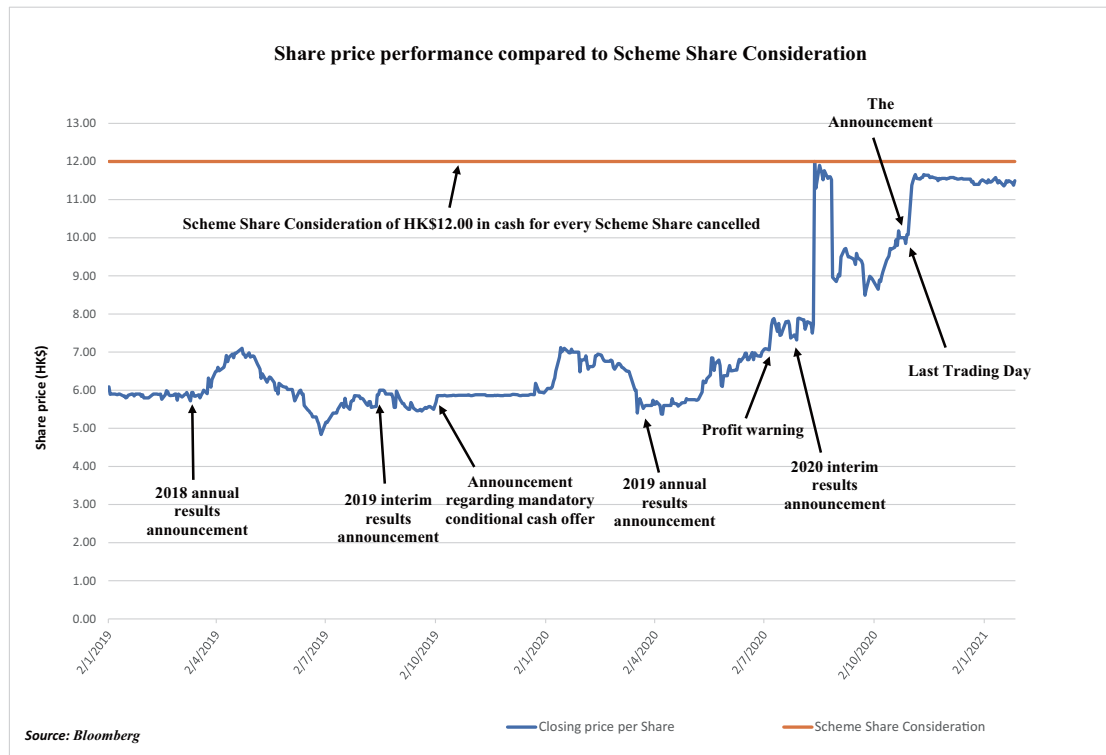
The Offeror is an investment holding company incorporated in Hong Kong with a diverse investment portfolio. Its investments are principally in the business of manufacture and distribution of colour television sets, audio-visual products and mobile phones, as well as trading of related components. The 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, shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 01070), and TCL Communication Technology Holdings Limited, which is principally engaged in the manufacture and distribution of mobile phone products. As at the Latest Practicable Date, the Offeror directly held 167,452,239 Shares, representing approximately 61.25% of the issued share capital of the Company.

As set out in the section headed "14. Offeror's intention in relation to the Group" in the Explanatory Memorandum, 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 Latest Practicable Date, 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. Further details are set out in the same section of the Explanatory Memorandum.

4. Analysis of price performance and trading liquidity of the Shares

(i) Historical price performance of the Shares

The chart below illustrates the daily closing price per Share from 1 January 2019 up to and including the Latest Practicable Date (the “**Review Period**”), and the comparison of the Share price performance with the Scheme Share Consideration of HK\$12.00 per Share.



As illustrated in the chart above, except for the closing price of HK\$12.00 per Share on 13 August 2020, which is equal to the Scheme Share Consideration, all other trading days during the Review Period saw a closing Share price below the Scheme Share Consideration of HK\$12.00 per Share. Further, we noted that except for 13 August 2020, the Share price has never closed at or above HK\$12.00 since the listing of the Shares on the Stock Exchange on 15 August 2013.

From 1 January to 27 June 2019, the Shares closed between HK\$4.97 to HK\$7.10 per Share. The closing Share prices hit a low of HK\$4.84 in the Review Period on 28 June 2019. After that low, the Share prices showed a general upward trend and closed in a range of HK\$5.15 to HK\$6.00 from 29 June to 2 October 2019. On 2 October 2019 (after trading hours), the Company published an announcement regarding, among others, mandatory conditional cash offer for the Company's shares and share options. The Share price closed at HK\$5.86 per Share on the following day, representing an increase of approximately 3.0% compared to the closing Share price on 2 October 2019. Since then and until 6 July 2020, the Share price closed in a range of HK\$5.37 to HK\$7.12.

On 6 July 2020 (after trading hours), the Company published a profit warning announcement, to the effect that the Group was expected to record fairly substantial decreases in revenue and net profit for the first half of 2020 as compared to the corresponding period of 2019. However, the Share price closed at HK\$7.39 on 7 July 2020, representing an increase of approximately 4.7% compared to the closing Share price on the previous trading day. Since then, the Share price has been generally fluctuating and hit a high of HK\$12.00 per Share during the Review Period on 13 August 2020. We are advised by the management of the Company that they are not aware of any reasons for the increase in the Share price on 13 August 2020. From 14 August 2020 to the Last Trading Day (29 October 2020), the Share prices closed in a range of HK\$8.49 to HK\$11.90.

On 30 October 2020, trading in the Shares was suspended, pending the publication of the Announcement. On 30 October 2020 (after trading hours), the Company published the Announcement. Trading in the Shares resumed on 2 November 2020 and the Shares closed at HK\$11.38, representing an increase of approximately 12.9% comparing to the closing Share price on the Last Trading Day (29 October 2020). Since then and up to the date immediately preceding the Latest Practicable Date, the Shares have closed between HK\$11.36 to HK\$11.66, suggesting that the market price is being principally determined by the Scheme Share Consideration. The Shares closed at HK\$11.50 as at the Latest Practicable Date. The Scheme Share Consideration of HK\$12.00 represents a premium of approximately 4.3% over the closing Share price on the Latest Practicable Date.

(ii) Trading liquidity

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued share capital and the public float of the Company during the Review Period:

	Monthly total trading volume of the Shares (Note 1)	Percentage of the monthly total trading volume of the Shares to the total issued share capital of the Company (Note 2)	Percentage of the monthly total trading volume of the Shares to the public float of the Company (Note 2 & 3)
2019			
January	1,163,530	0.43%	1.16%
February	1,342,030	0.50%	1.34%
March	3,054,449	1.14%	3.05%
April	3,107,351	1.16%	3.10%
May	912,669	0.34%	0.91%
June	2,323,261	0.86%	2.31%
July	1,506,728	0.56%	1.50%
August	696,761	0.26%	0.69%
September	1,098,609	0.41%	1.09%
October	32,692,776	12.16%	32.47%
November	4,817,953	1.79%	4.78%
December	6,870,053	2.52%	11.53%
2020			
January	1,371,626	0.50%	2.27%
February	588,000	0.22%	0.86%
March	9,283,576	3.40%	13.54%
April	1,211,836	0.44%	1.77%
May	1,279,527	0.47%	1.83%
June	1,267,263	0.46%	1.81%
July	2,605,636	0.95%	3.72%
August	31,130,016	11.39%	44.32%
September	6,519,294	2.38%	9.28%
October	4,305,387	1.57%	6.13%
November	25,216,249	9.22%	35.89%
December	3,214,736	1.18%	4.58%
2021			
From 1 January 2021 to the Latest Practicable Date	2,186,817	0.80%	3.11%

Notes:

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the Shares divided by the total issued share capital of the Company or the total number of the Shares in public float at the end of each month (or at the Latest Practicable Date for January 2021).
3. The total number of Shares in public float is calculated based on the total number of Shares held by the public (within the meaning of the Listing Rules) at the end of each month (or at the Latest Practicable Date for January 2021).

From January 2019 to July 2020, except for the fourth quarter of 2019 and March 2020, the percentages of the monthly total trading volume of the Shares to the total issued share capital of the Company were within the range of approximately 0.2% to 1.2%, and the percentages of the monthly total trading volume of the Shares to the public float of the Company were within the range of approximately 0.7% to 3.7%, which we regard as generally low. The Company published an announcement on 2 October 2019 in relation to, among others, mandatory conditional cash offer for the Company's shares and share options. Trading volume of the Shares increased subsequently, reaching over 16 million shares on 3 October 2019. In March 2020, trading volume of the Shares increased, partly due to the sale of Shares to restore public float subsequent to the mandatory conditional cash offer. In August 2020, trading volume of the Shares increased sharply. The percentage of the monthly total trading volume of the Shares to the total issued share capital and the percentage of the monthly total trading volume of the Shares to the public float of the Company were approximately 11.4% and 44.3%, respectively. We are advised by the management of the Company that they are not aware of any reasons for the higher trading volume in August 2020. Trading volume of the Shares subsided in September and October 2020, with percentages of the monthly total trading volume of the Shares to the total issued share capital of the Company in the range of approximately 1.6% to 2.4%, and percentages of the monthly total trading volume of the Shares to the public float of the Company in the range of approximately 6.1% to 9.3%. After publication of the Announcement on 30 October 2020 (after trading hours), trading volume was heightened, with total trading volume of Shares increasing to approximately 25.2 million Shares in November 2020, representing approximately 9.2% of the total issued share capital and 35.9% of the public float of the Company. Trading volume of the Shares subsided in December 2020 and January 2021 (up to the Latest Practicable Date), with percentages of the monthly total trading volume of the Shares to the total issued share capital of the Company in the range of approximately 0.80% to 1.18%, and percentages of the monthly total trading volume of the Shares to the public float of the Company in the range of approximately 3.11% to 4.58%.

Given the generally low trading volume except for certain specific periods as discussed above, if Scheme Shareholders (especially those with relatively sizeable shareholdings) wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The higher level of trading volume following the publication of the Announcement may not, in our view, be sustained if the Proposal lapses. Therefore, the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company for cash at a premium if they so wish.

(iii) Scheme Share Consideration comparisons

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\$10.02 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; and
- 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.

In summary, the Scheme Share Consideration of HK\$12.00 per Share represents (a) premium in a range of approximately 19.0% to 59.4% over the closing Share prices for different periods up to and including the Last Trading Day; and (b) premium of approximately 76.7% and 81.3% to the consolidated net asset value per Share as at 31 December 2019 and 30 June 2020 respectively. The Shares closed at HK\$11.50 per Share on the Latest Practicable Date, the Scheme Share Consideration represents a premium of approximately 4.3% over it.

(iv) Lack of comparable companies

As mentioned in the paragraph headed “Information and prospects of the Group”, the Company is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets) for third parties’ brands on an ODM (original design manufacture) basis. For the financial year ended 31 December 2019, revenue derived from audio products, headphones and ancillary product businesses together accounted for over 90% of the Group’s total revenue. Accordingly, we have conducted a search on Bloomberg for companies listed on the Main Board of the Stock Exchange, which, based on their latest published annual

reports available as at the date immediately prior to the Latest Practicable Date, are principally engaged in the consumer electronics business involving audio-visual products and related components. We conducted our search in the Hong Kong market, where market characteristics in terms of equity valuation, the ratio between institutional investors and retail investors, and regulations (being key factors in our view) are considered closely comparable. We note that there are companies listed on overseas stock exchanges which are engaged in the consumer electronics business involving audio products and components. However, given that these companies are listed in overseas markets with different characteristics to Hong Kong (in terms of the factors mentioned above), we consider that a comparison with such companies may not provide meaningful information for the Scheme Shareholders for the purpose of this analysis. Based on the aforementioned criteria, we have identified two companies namely, Suga International Holdings Limited (stock code: 912) and Alco Holdings Limited (stock code: 328) (collectively, the “Comparable Companies”), which represent an exhaustive list of companies comparable to the Company based on the criteria above. Suga International Holdings Limited has a price to sales (“P/S”) ratio, price to earnings (“P/E”) ratio and price to book (“P/B”) ratio of approximately 0.27 times, 15.1 times and 0.61 times respectively as at the date immediately prior to the Latest Practicable Date³. Alco Holdings Limited has a P/S ratio and P/B ratio of approximately 0.15 times and 0.31 times as at the date immediately prior to the Latest Practicable Date³. As it recorded a net loss for the latest financial year, an analysis based on P/E ratio is not applicable. The implied P/S⁴, P/E⁵ and P/B⁶ ratio of the Company at the Scheme Share Consideration of HK\$12.00 is approximately 0.42 times, 13.7 times and 1.88 times, respectively. Given there are only two companies available for comparison as set out above, we do not consider it sufficient to form a meaningful analysis on the implied P/S, P/E and P/B ratio of the Company represented by the Scheme Share Consideration based on peer company comparison.

Accordingly, we have not been able to perform a worthwhile peer analysis of the Proposal. Our views on the Scheme Share Consideration have been set out in other parts of this letter including analysis of the historical Share price, trading liquidity and privatisation precedents.

³ Sourced from Bloomberg.

⁴ The implied P/S ratio of the Company at the Scheme Share Consideration is calculated based on the Scheme Share Consideration of HK\$12.00 per Share; the number of Shares in issue as at the Latest Practicable Date; and the trailing twelve months (up to 30 June 2020) revenue of the Company deduced from the Company’s published figures.

⁵ The implied P/E ratio of the Company at the Scheme Share Consideration is calculated based on the Scheme Share Consideration of HK\$12.00 per Share; the number of Shares in issue as at the Latest Practicable Date; and the trailing twelve months (up to 30 June 2020) profit attributable to owners of the parent of the Company deduced from the Company’s published figures.

⁶ The implied P/B ratio of the Company at the Scheme Share Consideration is calculated based on the Scheme Share Consideration of HK\$12.00 per Share; the number of Shares in issue as at the Latest Practicable Date; and the equity attributable to owners of the parent of the Company as at 30 June 2020.

5. *Privatisation precedents*

We have compared the Proposal to privatisation proposals of companies listed on the Main Board of the Stock Exchange announced since 1 January 2019 and up to the date immediately prior to the Latest Practicable Date, excluding privatisation proposals (i) which were not/yet to be approved (or, where applicable, required acceptance level were not/yet to be achieved), or failed; or (ii) without a cash cancellation consideration (the “**Privatisation Precedents**”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. The table below illustrates the premia/discounts represented by the cancellation consideration/offer price over/to the respective last trading day and respective last 5 trading days, last 10 trading days, last 30 trading days, last 60 trading days, last 90 trading days, last 180 trading days average share prices, and the net asset value (“**NAV**”) per share in respect of such privatisation proposals:

Premium/(discount) of offer price/cancellation price* over/to closing share price/average share price on/over

Date of Rule 3.5/3.7 announcement	Company (stock code)	Last trading day ⁽¹⁾⁽²⁾	5 trading days ⁽¹⁾⁽²⁾	10 trading days ⁽¹⁾⁽²⁾	30 trading days ⁽¹⁾⁽²⁾	60 trading days ⁽¹⁾⁽²⁾	90 trading days ⁽¹⁾⁽²⁾	180 trading days ⁽¹⁾⁽²⁾	Premium/ (discount) over/to NAV per share ⁽¹⁾⁽³⁾
15-Oct-20	Shanghai Prime Machinery Company Limited (2345)	68.4%	101.0%	108.6%	110.9%	112.6%	129.8%	138.4%	(41.0%)
4-Oct-20	CIMC-TianDa Holdings Company Limited (445)	20.4%	21.9%	21.2%	18.5%	26.8%	36.8%	40.3%	7.7%
27-Sept-20	China ZhongDi Dairy Holdings Company Limited (1492)	11.0%	16.9%	20.0%	22.8%	44.9%	77.6%	124.7%	16.6%
24-Sept-20	AMVIG Holdings Limited (2300)	51.4%	51.6%	53.5%	56.5%	57.7%	56.1%	40.5%	(45.9%)
7-Sept-20	Changshouhua Food Company Limited (1006)	16.4%	22.2%	24.7%	43.2%	64.1%	65.8%	59.1%	(38.5%)
27-Aug-20	Leyou Technologies Holdings Limited (1089)	4.5%	5.9%	5.7%	8.3%	17.1%	24.6%	29.1%	435.8% [^]
29-Jul-20	Xinhua Port Holdings Ltd (1990)	23.7%	31.3%	27.4%	55.2%	92.3%	124.8%	142.9%	102.4%
8-Jul-20	O-Net Technologies (Group) Limited (877)	23.6%	24.7%	25.7%	24.6%	28.0%	34.3%	43.2%	126.5%
2-Jul-20	Vantage International (Holdings) Limited (15)	80.0%	90.7%	103.6%	119.5%	115.0%	104.1%	78.6%	(61.7%)
21-Jun-20	China Baofeng (International) Limited (3966)	27.5%	57.8%	61.9%	52.3%	42.5%	38.9%	30.7%	(5.5%)
17-Jun-20	Golden Meditech Holdings Limited (801)	41.9%	48.6%	53.6%	61.3%	55.8%	39.1%	21.6%	(33.2%)
12-Jun-20	Jinmao (China) Hotel Investments and Management Limited (6139)	30.4%	57.8%	72.8%	82.6%	86.8%	64.6%	38.0%	81.1%
5-Jun-20	Capxon International Electronic Company Limited (469)	79.1%	89.3%	94.2%	88.4%	88.4%	76.1%	54.6%	(37.5%)
1-Jun-20	Huadian Fuxin Energy Corporation Limited (816)	65.6%	82.2%	85.9%	87.9%	89.3%	85.3%	75.8%	(14.1%)
20-Apr-20	Allied Properties (H.K.) Limited (56) (“Allied Properties”) ⁽⁴⁾	34.3%	36.6%	40.6%	39.5%	33.5%	30.1%	22.7%	(66.3%)
3-Apr-20	Elec & Eltek International Company Limited (1151)	67.5%	46.5%	44.3%	39.0%	38.7%	42.5%	51.8%	3.2%
20-Mar-20	(“Elec & Eltek”) ⁽⁵⁾	150.0%	157.7%	135.6%	95.2%	72.7%	62.1%	43.3%	8.2%
20-Jan-20	Li & Fung Limited (494)	16.3%	23.8%	31.4%	42.5%	46.1%	47.9%	56.7%	109.7%
	BBI Life Sciences Corporation (1035)								
12-Dec-19	Joyce Boutique Group Limited (647)	91.8%	91.3%	95.8%	82.2%	62.7%	50.1%	32.2%	19.9%
27-Nov-19	China Agri-Industries Holdings Limited (606)	34.1%	35.6%	40.9%	53.2%	64.7%	72.5%	70.0%	(23.6%)

Date of Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of offer price/cancellation price* over/to closing share price/average share price on/over							Premium/ (discount) over/to NAV per share ⁽¹⁾⁽³⁾
		Last trading day ⁽¹⁾⁽²⁾	5 trading days ⁽¹⁾⁽²⁾	10 trading days ⁽¹⁾⁽²⁾	30 trading days ⁽¹⁾⁽²⁾	60 trading days ⁽¹⁾⁽²⁾	90 trading days ⁽¹⁾⁽²⁾	180 trading days ⁽¹⁾⁽²⁾	
1-Nov-19	Springland International Holdings Limited (1700)	63.1%	67.9%	64.4%	56.8%	55.4%	53.2%	48.6%	(18.2%)
20-Oct-19	Dah Chong Hong Holdings Limited (1828)	37.5%	37.3%	42.4%	54.9%	55.9%	54.2%	41.5%	(28.2%)
3-Oct-19	Huaneng Renewables Corporation Limited (958)	46.1%	51.0%	56.2%	55.7%	51.2%	51.3%	45.3%	(4.5%)
2-Oct-19	AVIC International Holdings Limited (161)	29.1%	43.8%	58.1%	81.3%	88.6%	100.2%	92.1%	18.4%
12-Aug-19	TPV Technology Limited (903)	41.4%	46.8%	50.8%	54.5%	75.0%	87.4%	138.8%	(24.8%)
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (1135)	23.4%	31.5%	33.4%	44.4%	50.4%	56.5%	71.0%	10.0%
18-Jun-19	C.P. Lotus Corporation (121)	10.0%	10.2%	12.0%	29.4%	30.3%	26.5%	21.9%	52.8%
14-Jun-19	China Automation Group Limited (569)	24.0%	27.3%	36.9%	47.8%	47.4%	46.6%	42.5%	16.0%
4-Apr-19	China Hengshi Foundation Company Limited (1197)	10.6%	14.6%	16.8%	17.5%	19.0%	24.4%	27.5%	42.1%
28-Mar-19	China Power Clean Energy Development Company Limited (735)	41.9%	54.9%	60.9%	78.4%	94.1%	101.8%	88.8%	(35.1%)
	Maximum	150.0%	157.7%	135.6%	119.5%	115.0%	129.8%	142.9%	126.5%
	Minimum	4.5%	5.9%	5.7%	8.3%	17.1%	24.4%	21.6%	(66.3%)
	Average	42.2%	49.3%	52.6%	56.8%	60.2%	62.2%	60.4%	4.7%
	Median	34.2%	45.2%	47.6%	54.7%	55.8%	55.2%	47.0%	(4.5%)
	The Company	19.0%	19.7%	21.2%	28.0%	25.5%	35.8%	59.4%	81.3%

Source: Bloomberg and the Stock Exchange website

Notes:

- (1) Subject to rounding differences.
 - (2) Up to and including the last trading day of the shares prior to the publication of the Rule 3.5 announcement or Rule 3.7 announcement (where applicable).
 - (3) It represents the premium/(discount) of offer price/cancellation price over/to the NAV per share quoted from the respective privatisation documents without taking into account any adjustments arising from, amongst other, revaluation of properties set out therein.
 - (4) The relevant premia/(discount) of Allied Properties are calculated based on a total price representing the aggregate of the scheme consideration and a special dividend.
 - (5) The relevant premia of Elec & Eltek are calculated based on the ex-dividend offer price.
- * Unadjusted unless otherwise stated.
- ^ Excluded in the calculation of maximum/minimum/average/median premium/discount over/to NAV per share as an outlier.

The terms of the privatisation proposals set out above provide, in our view, a general guide to the premium over market prices needed in Hong Kong to secure a successful privatisation, i.e. how much the shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges. Analysis of privatisation precedents is widely used in assessing the pricing of privatisation proposals in Hong Kong. Although the business nature and scale of each company vary and some aspects of pricing are likely to be industry-specific, this analysis, in our view, demonstrates the pricing of recent successful privatisations of Main Board listed companies in Hong Kong (with cash cancellation consideration offered both in the Proposal and the Privatisation Precedents which were approved) under recent market sentiment. Accordingly, we regard the Privatisation Precedents as a relevant benchmark for acceptable privatisation premium range in the market and one of the factors we consider meaningful in assessing the fairness and reasonableness of the Scheme Share Consideration.

Based on the table above, the premia represented by the Scheme Share Consideration of HK\$12.00 per Share over the closing Share prices for different periods up to and including the last trading day were within the corresponding range of premia of the Privatisation Precedents, despite being lower than the corresponding mean. The premium represented by the Scheme Share Consideration of HK\$12.00 per Share over the NAV per share of approximately 81% is substantially more favourable than the corresponding average premium of the Privatisation Precedents (in terms of NAV per share) of approximately 5% and corresponding median discount of approximately 5%. Overall, we consider the premia represented by the Scheme Share Consideration are in line with the Privatisation Precedents; in particular, the premium over NAV per share is significantly more favourable.

B. The Option Offer

The Offeror will make an offer to all the Option Holders, which will be conditional upon the Scheme becoming effective. As at the Latest Practicable Date, there are 501,864 outstanding Share Options (being Share Options granted under the Share Option Scheme but not yet exercised or otherwise lapsed under the terms thereof) with an exercise price of HK\$7.84. The exercise of all the said Share Options in full would result in the issue of 501,864 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. For the 501,864 outstanding Share Options with an exercise price of HK\$7.84, the “see through” price is HK\$4.16. The “see-through” principle is normally adopted in Hong Kong for pricing option offers which form part of general offers and privatisation proposals.

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 any Share Options are exercised and the underlying Shares are registered in the name of the relevant Option Holder on or before the Scheme Record Date, such Shares will be subject to and eligible to participate in the Scheme. 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. Further details in relation to the Option Offer are set out in the Explanatory Memorandum and the Form of Option Offer Letter to the Option Holders in Appendix III to the Scheme Document.

C. The Rollover Arrangement

1. Background to and rationale for the Rollover Arrangement

As set out in the Explanatory Memorandum, under the Rollover Arrangement, if the Scheme becomes effective, any Scheme Shares that are beneficially owned by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds, and each Management Shareholder has entered into the Rollover Agreement to commit to the subscription of a specific amount of equity interest in Huizhou Tonly. The Management Shareholders, in aggregate, hold 32,277,094 Scheme Shares (representing approximately 11.81% of the issued share capital of the Company as at the Latest Practicable Date).

Huizhou Tonly is the Group's primary operating entity in the PRC. Upon the completion of the intragroup restructuring of the Group, Huizhou Tonly will become an indirect wholly-owned subsidiary of the Company and will hold and own all the operating subsidiaries of the Group. The subscription of the Target Interests will take place when the intragroup restructuring is completed. As further set out in the Explanatory Memorandum, upon completion of the intragroup restructuring, among others, the operating subsidiaries that will be owned by Huizhou Tonly will be the same as those owned by the Company immediately before the intragroup restructuring, and the Company will own Huizhou Tonly through intermediate holding companies which 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. Except for share holding 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 and liability, thus the valuation of the Company immediately before the intragroup restructuring should be substantially similar to the valuation of Huizhou Tonly immediately after completion of the intragroup restructuring. On that basis, the amount of the 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. As at the Latest Practicable Date, the Management Shareholders, in aggregate, are expected to subscribe for approximately 11.8% beneficial interest in Huizhou Tonly.

The Management Shareholders comprise five core management members of the Group including three executive Directors and two senior vice presidents of Company. Further information on the Management Shareholders is set out in the “Letter from the Board” and the Explanatory Memorandum contained in the Scheme Document.

The Offeror is of the view that the Management Shareholders are senior executives, able to make managerial decisions affecting the future development and business prospects of the Group, and the Group will continue to benefit from their services. The main purpose of the Rollover Arrangement is to motivate the Management Shareholders to continue to serve the Group, involving risk as well as reward in relation to their retained equity interest. As 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” through the arrangements.

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 subject to and conditional on, among others, the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM to approve the Rollover Arrangement. Further details in relation to the approval of the Rollover Arrangement are set out in the Explanatory Memorandum. For the avoidance of doubt, if the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares.

2. Terms of the Rollover Agreement

On 30 October 2020, the Offeror and the Management Shareholders entered into the Rollover Agreement in respect of the Rollover Arrangement, the key terms of which are summarised below. Further details of the Rollover Agreement are set out in the Explanatory Memorandum.

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

- (i) none of the Shares beneficially owned by him, directly or indirectly, can be voted on the Scheme at the Court Meeting;

- (ii) subject to the Scheme becoming effective, he shall undertake to the Court to be bound by the Scheme and, if the Rollover Arrangement is approved, to also commit to subscribe for the Target Interests on the terms set out in the Rollover Agreement;
- (iii) 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;
- (iv) he shall otherwise support the Scheme and provide such undertakings to the Court as are appropriate and necessary for the Scheme to be approved;
- (v) 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 Arrangement terminating in accordance with its terms; and
- (vi) subject to the Scheme becoming effective and approval of the Rollover Arrangement 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.

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

3. *Assessment on the Rollover Arrangement*

Under the Rollover Arrangement, subject to the Scheme becoming effective, the Management Shareholders would receive the Scheme Proceeds at the same time as the other Scheme Shareholders, and subject to the approval of the Rollover Arrangement at the EGM, they would subsequently pay an amount substantially equivalent to the Scheme Proceeds for the subscription of Target Interests upon completion of the intragroup restructuring. In assessing the fairness and reasonableness of the Rollover Arrangement, we have considered the following factors:

(i) *Rationale for the Rollover Arrangement*

The main purpose of the Rollover Arrangement is to motivate the Management Shareholders to continue to serve the Group and 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. As stated in the “Letter from the Board” and the Explanatory Memorandum contained in the Scheme document, the Management Shareholders constitute core management members of the Group and have held various senior positions in the Group. They joined the Group and/or the Company’s affiliates in various years ranging from 1993 to 2003. They have extensive operation expertise and experience in areas including materials procurement, manufacturing, product management, business development, financial and accounting in the field of electronic products, advertising and promotion in the television and audio-visual industry.

As discussed in the paragraph headed “Prospects of the Group” above, the long-term prospects of the Group are generally positive but subject to uncertainties including, among others, the pandemic and trade war between the US and China. The prospects and future performance of the Group would therefore, to a certain extent and among other things, hinge on the capabilities and performance of its management including the Management Shareholders and how they formulate and implement the business growth strategies and react to the market challenges in the future. The Rollover Arrangement will provide long-term incentives for the Management Shareholders to continue contributing to the development and growth of the Group post privatisation.

(ii) Subscription price payable for the Target Interests by the Management Shareholders

As set out in the Explanatory Memorandum, upon the completion of the intragroup restructuring, Huizhou Tonly and its subsidiaries, taken as a whole, will be substantially the same as the Group. The amount of the Target Interests to be subscribed by the Management Shareholders will have a value that is substantially similar to the Scheme Proceeds to be received by them. As further set out in the Explanatory Memorandum, the expected beneficial interests (in terms of percentage individually and on an aggregate basis) in Huizhou Tonly of these Management Shareholders would approximately equal their beneficial interests in the Company as at the Latest Practicable Date. The Rollover Arrangement will preserve their equity positions within the Group. As set out in the section headed “Offeror’s intention in relation to the Group” in the “Letter from the Board” contained in the Scheme Document, as of the Latest Practicable Date, the Offeror does not have plans to implement material transactions (in the nature of restructurings, alternative financings, assets spinoffs and strategic acquisitions), following the implementation of the Proposal.

As discussed in the paragraph headed “Analysis of price performance and trading liquidity of the Shares” above, the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company for cash at a premium, if they wish so. Taking into account the principal factors and reasons as summarised under the sub-section headed “In respect of the Proposal and the Scheme” under the section headed “Discussion” of this letter below, we are of the view that the Scheme Share Consideration is fair and reasonable. On this basis, we consider a proposal to become a shareholder of Huizhou Tonly, if extended to Disinterested Scheme Shareholders, would amount to a less desirable alternative for Disinterested Scheme Shareholders given the reduced protection and potential risks in investing in an unlisted company as further discussed below. Because of their role in the Group, the Management Shareholders, as opposed to the Disinterested Scheme Shareholders, are in a knowledgeable position to assess the risks of continued investments in an unlisted company and make a judgement on whether to retain their equity interest in Huizhou Tonly in future. Hence, we considered not extending the Rollover Arrangement to the Disinterested Scheme Shareholders is acceptable in these circumstances.

(iii) Reduced protection and potential risks in an unlisted company

In the case where Disinterested Scheme Shareholders were given the opportunity to retain interests in Huizhou Tonly (which will become an indirect wholly-owned subsidiary of the Company upon the completion of the intragroup restructuring of the Group), their interests would no longer be safeguarded by regulations relating to minority protection applicable to listed companies on the Stock Exchange post privatisation. In addition, Disinterested Scheme Shareholders might find it difficult to realise their shareholdings as no public trading in the shares of Huizhou Tonly would be available.

DISCUSSION**In respect of the Proposal and the Scheme*****(i) Challenging operating environment faced by the Group***

The Group is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets) for third parties' brands on an ODM (original design manufacture) basis. During 2019, the Group experienced growth in the new audio, smart audio speaker, headphones and ancillary product businesses and its revenue increased by approximately 11.6% as compared to the previous year. In the first half of 2020, the Company had a setback in its operation under the effect of the pandemic with its revenue decreasing by approximately 10.7% as compared to the same period of 2019. Despite business levels of the Group (including sales orders) showing gradual recovery since around mid-2020, the adverse impact of the pandemic on the business of the Group may continue to be a factor, with the US and Europe being among its key markets. Going forward, taking into account the growth rate in global sales volume of smart speakers (despite slowing down significantly in the first quarter of 2020) and the development plans of the Group as discussed in the paragraph headed "Prospects of the Group" above, we concur with the executive Directors' view that the long-term prospects of the Group are generally positive. However, the uncertainties which affected the Group's performance referred to above remain unresolved (such as the pace or extent of recovery of the global economy and the potential disruption in the consumer market sentiment). Some Scheme Shareholders may wish to consider voting against the Scheme and keeping the Shares given the generally positive long-term prospects, but should be aware of continuing shorter-term uncertainties and the potential vulnerability of the market price if the Scheme fails, as mentioned below. The Proposal provides, in our view, an opportunity to the Disinterested Scheme Shareholders and Option Holders to realise their investment in the Company amid these uncertainties, through receiving a fixed cash consideration at a premium over historical Share prices under the Proposal (as further discussed below).

(ii) Scheme Share Consideration represents substantial premia over historical Share prices

Under the Scheme, the Scheme Shares are proposed to be cancelled and extinguished at HK\$12.00 each in cash. **The Offeror will not increase the Scheme Share Consideration and does not reserve the right to do so.** The Scheme Share Consideration of HK\$12.00 per Share exceeds the closing Share prices during the entire Review Period (save for one trading day when the Shares closed at HK\$12.00). Further, except for 13 August 2020, the Share price has never closed at or above HK\$12.00 since the listing of the Shares on the Stock Exchange on 15 August 2013. The Scheme Share Consideration represents premia in a range of approximately 19.0% to 59.4% over the closing Share prices for different periods up to and including the Last Trading Day. The Shares closed at HK\$11.50 per Share on the Latest Practicable Date, which we consider shows the market price is being principally determined by the Scheme Share Consideration and may be vulnerable if the Scheme fails.

(iii) Trading volume thin

The trading volume of the Shares has been low in general. The trading volume of the Shares to the total issued share capital was below 2% in 17 months out of 22 months from January 2019 to October 2020. In the absence of the Scheme, a downward pressure on the market price of the Shares may be exerted if Scheme Shareholders (especially those with relatively sizeable shareholdings) wish to sell a significant number of Shares within a short period in the market. The higher level of trading volume following the publication of the Announcement may not, in our view, be sustained if the Proposal lapses. Therefore, the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company for cash at a premium if they so wish.

(iv) Scheme Share Consideration represents substantial premia over net assets

The Scheme Share Consideration represents premia of approximately 76.7% and 81.3% over the net asset value per Share as at 31 December 2019 and 30 June 2020 respectively, which we consider favourable to the Scheme Shareholders.

(v) Privatisation precedents

As set out in the paragraph headed “Privatisation precedents” of this letter above, the premia represented by the Scheme Share Consideration of HK\$12.00 per Share over the closing Share prices for different periods up to and including the last trading day were within the corresponding range of premia of the Privatisation Precedents, despite being lower than the corresponding mean. The premium represented by the Scheme Share Consideration of HK\$12.00 per Share over the NAV per share of approximately 81% is substantially more favourable than the corresponding average premium of the Privatisation Precedents (in terms of NAV per share) of approximately 5% and corresponding median discount of approximately 5%. Overall, we consider the premia represented by the Scheme Share are in line with the Privatisation Precedents; in particular, the premium over NAV per share is significantly more favourable.

In view of the factors summarised in this section above, notwithstanding the long-term prospects of the Group remaining generally positive, taking into account that (i) uncertainties remain, particularly around the duration and effect of the COVID-19 pandemic on the economy and trade war between the US and China; (ii) the Scheme Share Consideration represents premia in a range of approximately 19.0% to 59.4% over the closing Share prices for different periods up to and including the Last Trading Day; (iii) the Share price has never closed at or above HK\$12.00 since the listing of the Shares on the Stock Exchange on 15 August 2013 (save for one trading day); (iv) the trading volume of the Shares has been generally low and the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company amid uncertainties for a fixed cash consideration at a premium if they so wish; and (v) the premia represented by the Scheme Share are in line with the Privatisation Precedents, while the premium over NAV per share is significantly more favourable, we are of the view that the Scheme Share Consideration is fair and reasonable.

In respect of the Option Offer

The Option Consideration for the outstanding Share Options under the Option Offer is HK\$4.16 per Share Option, determined by reference to the Scheme Share Consideration of HK\$12.00 and the exercise price of the outstanding Share Options of HK\$7.84. This is the “see-through” principle which is normally adopted in Hong Kong in such circumstances and which we consider fair. On this basis, we consider that the Option Offer is fair and reasonable so far as the Option Holders are concerned. If any Share Options are exercised and the underlying Shares are registered in the name of the relevant Option Holder on or before the Scheme Record Date, such Shares will be subject to and eligible to participate in the Scheme. If any 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 proposal becomes or is declared unconditional, the Share Options will automatically lapse.

In respect of the Rollover Arrangement

The Rollover Arrangement allows the Management Shareholders (who are experienced senior executives of the Group) to retain 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. Because of their role in the Group, the Management Shareholders are in such a position to assess the risks of continued investment in an unlisted company. This knowledge is not available to the Disinterested Scheme Shareholders. From the Offeror’s point of view, it is important to retain the Management Shareholders as shareholders of Huizhou Tonly after implementation of the Scheme for the reasons discussed above.

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 and their expected beneficial interests in Huizhou Tonly approximates the beneficial interests they owned in the Company as at the Latest Practicable Date. Consequently, in our opinion, these arrangements only act to preserve the status quo and confer no unfair advantages on the Management Shareholders. More importantly, given the reduced protection, potential risks in investing in an unlisted company and difficulties in realising their shareholdings as no public trading in the shares of Huizhou Tonly would be available as discussed in this letter above, these arrangements would amount to less desirable alternative (as opposed to realising their investments under the Proposal) to Disinterested Scheme Shareholders. The Scheme Share Consideration allows Scheme Shareholders to realise their investment at a significant premium to the Company’s historical share prices and NAV per Share and the Rollover Arrangement in no way detracts from these benefits. On this basis, although the Offeror will still proceed with the Scheme if the Rollover Arrangement is not approved, we are of the view that the Rollover Arrangement is fair and reasonable so far as the Disinterested Scheme Shareholders are concerned.

OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons summarised in the section headed “Discussion” above, we consider the terms of the Proposal, the Scheme, the Option Offer and the Rollover Arrangement are fair and reasonable so far as the Disinterested Scheme Shareholders and Option Holders are concerned. Accordingly, we recommend the Independent Board Committee to advise:

- (1) at the Court Meeting, the Disinterested Scheme Shareholders to vote in favour of the resolution to approve the Scheme;
- (2) at the EGM, the Disinterested Scheme Shareholders to vote in favour of the resolution(s) in connection with the Scheme; and the ordinary resolution to approve the Rollover Arrangement; and
- (3) the Option Holders to accept the Option Offer.

Upon the Scheme becoming effective, it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and EGM.

The Option Holders are reminded of the circumstances in which the Share Options will automatically lapse, as set out above.

The Shares have traded below the Scheme Share Consideration since the Last Trading Day and up to the Latest Practicable Date. Although we consider it unlikely, there remains the possibility that the Share price may exceed the Scheme Share Consideration by 24 February 2021, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, the Scheme Shareholders and the Option Holders are reminded to monitor the trading price and liquidity of the Shares and, having regard to their own circumstances, for the Scheme Shareholders, to consider selling their Shares in the open market and, for the Option Holders, exercising their vested Share Options and selling their Shares to be issued upon such exercise in the open market instead of accepting the Option Offer, respectively, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds expected to be received under the Scheme and from accepting the Option Offer respectively.

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

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

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT
TO CANCEL ALL THE SCHEME SHARES
IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY
THE SCHEME SHARE CONSIDERATION FOR EACH SCHEME SHARE
AND OPTION OFFER**

1. INTRODUCTION

Reference is made to the Announcement issued jointly by the Company and the Offeror dated 30 October 2020.

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 if approval of the Rollover Arrangement by the Disinterested Scheme Shareholders is obtained at the EGM;
- (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 purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, the Scheme and the Option Offer, which are to be implemented by the Scheme and the Option Offer Letter, and to provide the Scheme Shareholders and Option Holders with additional information in relation to the Scheme and the Option Offer, in particular, to provide the intentions of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme.

Particular attention of the Scheme Shareholders and Option Holders is drawn to the following sections of this Scheme Document:

- (i) the letter from the Board set out in Part IV of this Scheme Document;
- (ii) the letter from the Independent Board Committee to the Disinterested Scheme Shareholders and Option Holders, set out in Part V of this Scheme Document;
- (iii) the letter from Somerley, the independent financial adviser to the Independent Board Committee, set out in Part VI of this Scheme Document; and
- (iv) the terms of the Scheme set out in Appendix IV to this Scheme Document.

2. TERMS OF THE PROPOSAL

The Scheme

The Proposal is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Act.

Under the Proposal, if the Scheme becomes effective, all the Scheme Shares held by the Scheme Shareholders whose names appear on the register at the Scheme Record Date 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 if approval of the Rollover Arrangement by the Disinterested Scheme Shareholders is obtained at the EGM. For the avoidance of doubt, the Scheme is not conditional on the Rollover Arrangement. If the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares. Under the Proposal, the total consideration payable for the cancellation and extinguishment of the Scheme Shares will be payable by the Offeror.

The Company confirms that as at the Latest Practicable Date, (a) it has not declared any dividend, the record date of which falls on or after the date 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.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$500,000,000.00 divided into 500,000,000 Shares, and the Company had 273,393,448 Shares in issue. As at the Latest Practicable Date, the Scheme Shares, comprising 105,941,209 Shares, represent approximately 38.75% of the issued share capital of the Company.

Shares Awards under the Restricted Share Award Scheme

The Restricted Share Award Scheme was adopted by the Company as a long-term incentive measure, among others (i) to recognise and motivate the contribution of participants and to incentivise them; (ii) to 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 Group.

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 in the Court Meeting and the EGM.

As at the Latest Practicable Date, there were 3,386,385 Trustee Held Shares, out of which 2,560,000 Trustee Held Shares were held by the Trustee in respect of the outstanding Share Awards (being Share Awards that are granted under the Restricted Share Award Scheme but not lapsed nor otherwise vested under the terms thereof as of the Latest Practicable Date), 45,431 Trustee Held Shares were Unreleased Vested Shares and the remaining 780,954 Trustee Held Shares were held by the Trustee as Returned Shares and/or Further Shares which had not been designated to any particular Grantee under the Restricted Share Award Scheme.

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

All the Trustee Held Shares as of the Scheme Record Date 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 Scheme Record 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 or Unreleased Vested Shares of such Grantees. Any remaining proceeds (i.e. Scheme Share Consideration in respect of those Trustee Held Shares which have not been designated to any particular Grantee under the Restricted Share Award Scheme as at the Scheme Record Date, less any charges payable by the Company to the Trustee under the Trust Deed) will be paid by the Trustee to the Company in accordance with the provisions of the Trust Deed.

If any of the Share Awards (except for the Unreleased Vested Shares) are vested in accordance with the terms of the Restricted Share Award Scheme on or before the Scheme Record Date, any Shares so delivered by the Trustee to the Grantees will be subject to and eligible to participate in the Scheme. If such Shares are vested on or before the Meeting Record Date, the relevant Grantee will also be entitled to attend and vote at the Court Meeting and EGM in respect of such Shares. For the avoidance of doubt, even if the Unreleased Vested Shares are released by the Trustee to Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua prior to the Meeting Record Date, as Concert Parties, they are not entitled to vote with such Shares at the Court Meeting and on the Rollover Arrangement at the EGM. The Register will be closed from Tuesday, 2 March 2021 for determination of entitlements to qualify under the Scheme. Any Share Awards vested from such date will remain, together with Share Awards (if any) that are unvested as of the Effective Date, the Trustee Held Shares.

Share Options under the Share Options Scheme

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 to 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 Latest Practicable Date, there are 501,864 outstanding Share Options (being Share Options that were granted under the Share Option Scheme but not lapsed or exercised under the terms thereof).

The following table sets out, as at the Latest Practicable Date, 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 Latest Practicable Date)	Exercise period
7.84	4.16	501,864	15 June 2020 to 15 June 2024

The Option Offer

The Offeror will make (or procure to be made on its behalf) an appropriate offer to all the Option Holders in accordance with Rule 13 of the Takeovers Code, including Option Holders who have exercised their Share Options but the Register has not reflected the issuance of the underlying Shares as of the Scheme Record Date and Option Holders holding outstanding Share Options that are not exercisable as of such date. The Option Offer will be conditional upon the Scheme becoming effective. Under the Option Offer, the Offeror will offer the Option Holders the “see-through” price (being the Scheme Share Consideration minus the relevant exercise price of the outstanding Share Options) for each outstanding Share Option they hold for the cancellation of every outstanding Share Option in accordance with Rule 13 of the Takeovers Code.

As of the Latest Practicable Date, all outstanding Share Options are exercisable. If any Share Options are exercised and the underlying Shares are registered in the name of the relevant Option Holder on or before the Scheme Record Date, such Shares will be subject to and eligible to participate in the Scheme. If such Shares are registered in the name of the relevant Option Holder on or before the Meeting Record Date, the relevant Option Holder will also be entitled to attend and vote at the Court Meeting and the EGM in respect of such Shares. The Register will be closed from (i) Wednesday, 17 February 2021 to Tuesday, 23 February 2021 for determination of entitlements of Disinterested Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the EGM and (ii) from Tuesday, 2 March 2021 onwards for determination of entitlements to qualify under the Scheme, and no changes in the number or ownership of Shares, including Shares underlying the outstanding exercisable Share Options, during these periods can be reflected in the Register. Option Holders who have exercised their Share Options but the Register has not reflected the issuance of the underlying Shares as of the Scheme Record Date, together with Option Holders holding outstanding Share Options that are not exercisable as of such date, will remain as Option Holders. Under the terms of the Share Option Scheme, Share Options held by these Option Holders will be or become (as the case may be) exercisable for up to 21 Business Days after the Effective Date, after which they will lapse automatically.

The latest time and date to accept the Option Offer as indicated in Part III of this Scheme Document is 4:30 p.m. on Wednesday, 7 April 2021. Forms of Acceptance, duly completed in accordance with the instructions on them, must be lodged with the Human Resources Department of the Company not later than such time (or such later date as may be notified by the Offeror, Citigroup and the Company to the Option Holders or by way of joint announcement by the Offeror and the Company on the respective websites of the Stock Exchange and the Company).

Any Share Options that are not exercised on or prior to the Latest Options Exercise Date or cancelled pursuant to the acceptance of the Option Offer will automatically lapse and not be exercisable upon expiry of the period of 21 Business Days after the Effective Date, and Option Holders will not be entitled to receive the Option Consideration or be allotted any underlying Shares in respect of such Share Options.

Further information on the Option Offer is set out in the form of Option Offer Letter which is set out in Appendix III to this Scheme Document.

Irrevocable Undertakings

As at the Latest Practicable Date, the outstanding Share Options were held by a total of 46 Option Holders, among which 37 of the Option Holders were also Shareholders of the Company and they in aggregate were beneficially interested in 1,372,946 Shares of the Company, representing approximately 0.50% of the entire issued share capital of the Company. Among the Option Holders, there were 5 Persons being Concert Parties as follows: (i) 4 persons being directors of the Offeror and the spouse of one of such directors and they in aggregate were beneficially interested in 178,791 Share Options and 1,078,097 Shares, representing approximately 0.39% of the entire issued share capital of the Company as at the Latest Practicable Date and (ii) a non-executive Director holding 19,875 Share Options and 97,746 Shares, representing approximately 0.04% of the entire issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, all of the Option Holders, who held in aggregate 501,864 outstanding Share Options (carrying rights to subscribe for 501,864 Shares which represents approximately 0.18% of the entire issued share capital of the Company as of the Latest Practicable Date), have given Irrevocable Undertakings to the Offeror and the Company. Out of the 46 Irrevocable Undertakings received by the Offeror as of the Latest Practicable Date, 37 of which were signed and returned by Option Holders who were also interested in 1,372,946 Shares of the Company, representing approximately 0.50% of the total number of issued Shares as of the Latest Practicable Date.

Pursuant to the Irrevocable Undertakings, each of the Option Holders has undertaken that (i) he/she shall not exercise any of the Share Options held by him/her from the date of despatch of this Scheme Document to completion or, where applicable, lapse of the Scheme and the Option Offer (the later date is applicable and both dates inclusive) and (ii) he/she shall accept the Option Offer and sign all the documents and take all steps as necessary and appropriate to accept the Option Offer. No Option Holder is able to withdraw the undertakings given under his/her Irrevocable Undertakings unless such Irrevocable Undertakings terminates in accordance with its terms. The Irrevocable Undertakings will be terminated (i) when the Option Offer closes and all Share Options lapse, (ii) when the Scheme lapses or is withdrawn, terminated or rescinded by the Offeror or is finally dismissed, finally refused or finally rejected by the Court; or (iii) on a date as the Offeror and the Company otherwise agree in writing.

Other Equity Securities

Save for the outstanding Share Options, the Company does not have any warrants, options, derivatives, convertible securities or other securities convertible into Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company does not intend to grant any further Share Awards and/or Share Options.

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will be wholly owned by the Offeror. The Proposal is conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in this section. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will not proceed and will lapse. For the avoidance of doubt, the Scheme is not conditional on the Rollover Arrangement. If the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares. Further announcements on any changes regarding the timetable of the Scheme will be made as and when necessary.

If the Proposal does not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

Settlement of the Scheme Share Consideration and the Option Consideration will be implemented in full in accordance with the terms of the Scheme and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Option Holder.

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, for the purposes of determining whether or not a majority in number of Disinterested Scheme Shareholders approved the Scheme pursuant to Section 86 of the Companies Act, where the same person is the holder of a number of Shares bearing different certificate numbers or account numbers, such person shall be entitled to be present at the Court Meeting personally or by proxy and vote such Shares in which case he/she/it will be treated as a single Shareholder. In accordance with articles 4.14 and 14.4 of the Articles of the Company, if a Share is held in the name of two or more persons, the person first named in the Register shall be deemed the sole Shareholder and be entitled to vote in respect of the relevant joint holding either in person or by proxy.
- (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 credited as fully paid 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) implementation or fulfillment of the necessary procedural requirements and conditions, if any, under Sections 15, 16 and 17 of the Companies Act in relation to the reduction of the share capital of the Company referred to in paragraph (b)(i) 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 any Authorisation required under the following:
 - (i) the Listing Rules; and
 - (ii) 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 Effective Date being the date on which a copy of the Court Order has been delivered to the Registrar of Companies for registration; and
- (g) from the Latest Practicable Date up to immediately prior to the Effective Date being 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, including 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 Latest Practicable Date, save for Conditions (c) and (d), the Offeror and the Company do not reasonably foresee 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 Latest Practicable Date, the Offeror and the Company were not aware of any such circumstances.

As at the Latest Practicable Date, none of the Conditions has been fulfilled or waived.

All of the above Conditions will have to be satisfied or validly waived (as applicable) on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions. 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.

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Thursday, 4 March 2021 (Cayman Islands time). Further announcements will be made including in particular in relation to (i) the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings, (ii) the result of the hearing of the petition for the sanction of the Scheme by the Court, (iii) the Scheme Record Date, (iv) the Effective Date and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in Part III – Expected Timetable of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, a joint announcement will be jointly made by the Offeror and the Company.

WARNING: Shareholders, Option Holders 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 in whole or in part) and thus the Scheme may or may not become effective and the Option Offer may or may not be implemented. Shareholders, Option Holders and/or potential investors should therefore exercise caution when dealing in the securities of the Company. 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.

4. ROLLOVER ARRANGEMENT

If the Scheme becomes effective, any Scheme Shares that are beneficially owned by the Management Shareholders will be cancelled and extinguished in exchange for the Scheme Proceeds. If the Rollover Arrangement is also approved by the Disinterested Scheme Shareholders at the EGM, the Rollover Agreement will require each Management Shareholder to commit to utilise funds in an amount substantially similar to the Scheme Proceeds received for 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 becomes 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.

The Company is in the process of implementing an intragroup restructuring of the Group, pursuant to which, Huizhou Tonly (an indirect wholly-owned subsidiary of the Company) will hold and own all the operating subsidiaries of the Company. The subscription of Target Interests will take place when the intragroup restructuring is completed.

As of the Latest Practicable Date, the Company maintained, directly or through intermediate holding companies, the same ownership interests in all the operating subsidiaries when compared with the time when the intragroup restructuring began. 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 immediately before the intragroup restructuring; (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 shareholding 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 immediately before the intragroup restructuring should be substantially similar to the valuation of Huizhou Tonly immediately after completion of the intragroup restructuring. On that basis, 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 the Chief Executive Officer 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 Guanghui 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 the Chief Operating Officer of the Company. He holds directorships in various principal subsidiaries of the Group. Mr. SONG Yonghong 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 the Chief Financial Officer 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 Xuenong 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 the 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 Xiaofeng joined an affiliate of the Company in 1997 and has held various positions in a number of group companies since then. Mr. WANG Xiaofeng has strong ability in the management process from product planning to sales and marketing, as well as advertising and promotion, particularly in the television and audio-visual 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 Wei 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 owned by the Management Shareholders in the Company as at the Latest Practicable Date 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 Tonly ⁽⁹⁾
		Scheme Shares	% (based on the existing issued share capital of the Company)	% (based on the existing registered equity capital of Huizhou Tonly)
Mr. YU Guanghui	Executive Director and Chief Executive Officer	15,351,671 ⁽²⁾	5.62%	approx. 5.6% ⁽¹⁰⁾
Mr. SONG Yonghong	Executive Director and Chief Operating Officer	6,622,620 ⁽³⁾	2.42%	approx. 2.4% ⁽¹⁰⁾
Mr. REN Xuenong	Executive Director and Chief Financial Officer	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 Latest Practicable Date.
- (2) Consisting of 2,212,259 Scheme Shares held directly by Mr. YU Guanghui; 11,869,339 Scheme Shares held through Vast Bright Investment Limited, a company wholly owned by Mr. YU Guanghui; 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 Guanghui has an approximate 9.48% equity interest as a limited partner as at the Latest Practicable Date.
- (3) Consisting of 1,661,398 Scheme Shares held directly by Mr. SONG Yonghong 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 Yonghong holds an approximate 37.03% equity interest as a limited partner as at the Latest Practicable Date.

- (4) Consisting of 1,100,963 Scheme Shares held directly by Mr. REN Xuenong 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 Xuenong has an approximate 20.02% equity interest as a limited partner as at the Latest Practicable Date.
- (5) Mr. WANG Xiaofeng is also a deputy general manager and general manager of sales center of the Company.
- (6) Consisting of 1,279,381 Scheme Shares held directly by Mr. WANG Xiaofeng 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 Xiaofeng has an approximate 15.03% equity interest as a limited partner as at the Latest Practicable Date.
- (7) Mr. HUANG Wei 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) Consisting of 754,486 Scheme Shares held directly by Mr. HUANG Wei 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 Wei serves as general partner and has an approximate 18.44% equity interest as a limited partner as at the Latest Practicable Date.
- (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(ies) 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.

None of the Management Shareholders are Grantees or Option Holders as at the Latest Practicable Date. As at the Latest Practicable Date, the Company does not intend to grant any further Share Awards and/or Share Options.

Rollover Agreement

On 30 October 2020, the Offeror and the 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 "4. Rollover Arrangement – Approval of the Rollover Arrangement" in "Part VII – Explanatory Memorandum" 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, save that if the approval of the Rollover Arrangement is not obtained, he will not enjoy any further rights nor be obliged to 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, if the Rollover Arrangement is approved, to also 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 section headed "4. Rollover Arrangement – Approval of the Rollover Arrangement" in "Part VII – Explanatory Memorandum" 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 if approval of the Rollover Arrangement by the Disinterested Scheme Shareholders is obtained at the EGM.

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; and
- (b) the passing of an ordinary resolution by the Disinterested Scheme Shareholders at the EGM to approve 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. The Independent Financial Adviser has stated in Part VI – “Letter from Somerley” that in its opinion, the Rollover Arrangement is fair and reasonable. If the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM before the Long Stop Date, the Management Shareholders will not enjoy their rights nor be obliged to 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, if the Rollover Arrangement is not approved by the Disinterested Scheme Shareholders at the EGM, the Offeror and the Company will still proceed with the Scheme, and in such case the Scheme Shares held by the Management Shareholders will be treated in the same manner as the other Scheme Shares.

As (i) the Rollover Agreement was entered into by the Offeror and the Management Shareholders, none of the Company, Huizhou Tonly or member of the Group is party to the Rollover Agreement; and (ii) the Offeror will cause Huizhou Tonly to issue the relevant Target Interests to the Management Shareholders only if the Scheme becomes effective and approval of the Rollover Arrangement by the Disinterested Scheme Shareholders is obtained at the EGM, the relevant transaction (i.e. the issue of equity interests by a subsidiary of the Company to the Management Shareholders) will occur only at a time when the Company is no longer a listed company on the Stock Exchange, the Rollover Arrangement does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Act, where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

It is expressly provided in Section 86 of the Companies Act that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Court, be binding on all members or class of members, as the case may be, and also on the company. For the purposes of determining whether or not a majority in number of Disinterested Scheme Shareholders approved the Scheme pursuant to Section 86 of the Companies Act, where the same person is the holder of a number of Shares bearing different certificate numbers or account numbers, such person shall be entitled to be present at the Court Meeting personally or by proxy and vote such Shares in which case he/she/it will be treated as a single Shareholder. In accordance with articles 4.14 and 14.4 of the Articles of the Company, if a Share is held in the name of two or more persons, the person first named in the Register shall be deemed the sole Shareholder and be entitled to vote in respect of the relevant joint holding either in person or by proxy. For the avoidance of doubt, the Court has ordered a meeting of a class of members being the Disinterested Scheme Shareholders. For the purpose of approving the Scheme, the Concert Parties are considered under the laws of Cayman Islands as having different interests from those of the Disinterested Scheme Shareholders. The Company would have been required to hold a formal meeting of the Concert Parties as a separate class to consider, and if thought fit, approve (with or without modification) the Scheme. Nevertheless, each of the Offeror and its Concert Parties has undertaken to the Court and the Company to be bound by the Scheme and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme. Therefore, such formal meeting of the Concert Parties is waived on the grounds that all such Concert Parties have undertaken to be bound by the terms of the Scheme if sanctioned.

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Disinterested Scheme Shareholders that are cast either in person or by proxy at the Court Meeting; and

- (b) the number of votes cast by Disinterested Scheme Shareholders present and voting either in person or by way of 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.

For the purpose of counting the votes for (a) and (b) above, Disinterested Scheme Shareholders comprise all Shareholders as at the Meeting Record Date other than Offeror and its Concert Parties (including the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui, a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), Mr. LIAO Qian and Trustee). For the avoidance of doubt, each member of Citigroup which is an exempt principal trader is a Disinterested Scheme Shareholder but is not entitled to vote at the Court Meeting, except in respect of the Shares held by it as a simple custodian for and on behalf of its non-discretionary clients where such client (i) controls the voting rights attaching to such Shares; (ii) if the Shares are voted, gives instructions as to how such Shares are to be voted; and (iii) is not the Offeror nor a person acting in concert with it; and where the Executive has confirmed that Rule 35.4 of the Takeovers Code does not apply to such Shares.

As at the Latest Practicable Date, the Disinterested Scheme Shareholders held in aggregate 69,147,318 Scheme Shares. On that basis, and assuming all Share Options are exercised before the Meeting Record Date, 10% of the votes attached to all Disinterested Scheme Shares which amount to 69,450,516 Shares referred to in (b) above therefore represent approximately 6,945,052 Shares as at the Latest Practicable Date.

7. OPTION CONSIDERATION

As of the Latest Practicable Date, all outstanding Share Options are exercisable. If any Share Options are exercised and the underlying Shares are registered in the name of the relevant Option Holder on or before the Scheme Record Date, such Shares will be subject to and eligible to participate in the Scheme. If such Shares are registered in the name of the relevant Option Holder on or before the Meeting Record Date, the relevant Option Holder will also be entitled to attend and vote at the Court Meeting and the EGM in respect of such Shares. The Register will be closed from (i) Wednesday, 17 February 2021 to Tuesday, 23 February 2021 for determination of entitlements of Disinterested Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the EGM and (ii) from Tuesday, 2 March 2021 onwards for determination of entitlements to qualify under the Scheme, and no changes in the number or ownership of Shares, including Shares underlying the outstanding exercisable Share Options, during these periods can be reflected in the Register. Any Option Holder who have exercised their Share Options but the Register has not reflected the issuance of the Shares underlying his/her Share Option as of the Scheme Record Date, together with outstanding Share Options that are not exercisable as of such date, will remain as Option Holders until the Effective Date, after which their Options will be or become (as the case may be) exercisable for up to 21 Business Days after the Effective Date.

The Option Offer Letter to Option Holders setting out the terms and conditions of the Option Offer is being despatched separately to Option Holders and is substantially in the form set out in “Appendix III – Form of Option Offer Letter” to this Scheme Document.

The Option Offer is conditional upon the Scheme becoming effective and binding.

Each Option Holder as at the Scheme Record Date who accepts the Option Offer and lodges a completed YELLOW Form of Acceptance by the prescribed deadline set out in Part III – Expected Timetable of this Scheme Document will be entitled to receive the Share Option Offer Price as set out in the relevant Option Offer Letter that is sent to each holder of Share Options individually. The Option Consideration will represent the “see-through” price of that Share Option, being the amount by which the Scheme Share Consideration exceeds the relevant exercise price of that Share Option.

All payments in respect of the Option Consideration will be made in Hong Kong dollars or RMB. Settlement of the Option Consideration to which the Option Holders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer and will be subject to the terms of the Share Option Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such holder of Share Options.

8. SCHEME SHARE CONSIDERATION

Comparisons of value

The Scheme Share Consideration of HK\$12.00 represents:

- a premium of approximately 4.3% over the closing price of HK\$11.50 per Share on the Latest Practicable Date;
- 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\$10.02 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 Group, 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 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 Relevant Period, 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.

9. FINANCIAL RESOURCES

On the assumption that (i) all outstanding exercisable Share Options as at the Scheme Record Date are exercised before the Latest Options Exercise Date and the 501,864 Shares so issued become part of the Scheme Shares and (ii) no further Shares are issued before the Scheme 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 Latest Practicable Date, the aggregate 106,443,073 Scheme Shares are in aggregate valued at approximately HK\$1,277.4 million.

Outstanding Share Options that are not exercisable as at the Scheme Record Date will not be capable of exercise prior to the Scheme Record Date and will only be entitled to the Option Consideration. As of the Latest Practicable Date, there are no outstanding Share Options that fall within this category. Hence, as to the Option Offer, on the assumption that all outstanding exercisable Share Options as at the Scheme Record Date are exercised and the relevant Option Holders became owners of the underlying Shares, 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 proceeds of 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.

10. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date,

- there were 273,393,448 Shares in issue, including 3,386,385 Trustee Held Shares.
- the Offeror and its Concert Parties were beneficially interested in 204,246,130 Shares, representing approximately 74.71% of the issued Shares of the Company; and
- there were 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 Scheme Record Date that are not held by the Offeror will constitute the Scheme Shares.

The Option Offer is made for 501,864 outstanding Share Options assuming there is no exercise or lapse of such Share Options before the Scheme Record Date. Such Option Offer is conditional upon the Scheme becoming effective.

Save for the outstanding Share Awards (which are included in the Trustee Held Shares) and outstanding 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 Latest Practicable Date (based on the existing issued share capital of the Company), (ii) as at the Latest Practicable Date (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 Latest Practicable Date (based on the existing issued share capital of the Company)		As at the Latest Practicable Date (on the assumption that all outstanding Share Options are exercised)		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)	
	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%
Offeror Directors						
Mr. LI Dongsheng and his spouse ⁽³⁾	1,043,901	0.38%	1,204,817	0.44%	–	–
Ms. XIONG Yan ⁽⁴⁾	18,656	0.01%	25,406	0.01%	–	–
Mr. DU Yuanhua ⁽⁵⁾	15,540	0.01%	26,665	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%	–	–
Mr. LIAO Qian ⁽¹¹⁾	97,746	0.04%	117,621	0.04%	–	–
Trustee ⁽¹²⁾	3,386,385	1.24%	3,386,385	1.24%	–	–
Subtotal ⁽¹³⁾	<u>204,246,130</u>	<u>74.71%</u>	<u>204,444,796</u>	<u>74.64%</u>	<u>273,895,312</u>	<u>100%</u>
Disinterested Scheme Shareholders	<u>69,147,318</u>	<u>25.29%</u>	<u>69,450,516</u>	<u>25.36%</u>	<u>–</u>	<u>–</u>
Total	<u>273,393,448</u>	<u>100%</u>	<u>273,895,312</u>	<u>100%</u>	<u>273,895,312</u>	<u>100%</u>
Total number of Scheme Shares ⁽¹⁴⁾	<u>105,941,209</u>	<u>38.75%</u>	<u>106,443,073</u>	<u>38.86%</u>	<u>–</u>	<u>–</u>

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 by allotting and issuing to the Offeror the same number of Shares as is equal to the number of Scheme Shares cancelled. The issued Shares will therefore comprise 273,895,312 Shares held by the Offeror.
- (3) Consisting of (x) 894,777 Shares in which Mr. LI Dongsheng is beneficially interested (which included 35,077 Unreleased Vested Shares) and 137,500 Shares issuable as a result of the exercise of 137,500 Share Options held directly by Mr. LI Dongsheng (applicable when assuming that all outstanding Share Options are exercised); (y) 149,124 Shares in which Mr. LI Dongsheng's spouse is beneficially interested (which included 5,794 Unreleased Vested Shares) and 23,416 Shares issuable as a result of the exercise of 23,416 Share Options held directly by Mr. LI Dongsheng's spouse (applicable when assuming that all outstanding Share Options are exercised).
- (4) Consisting of 18,656 Shares in which Ms. XIONG Yan is beneficially interested (which included 1,722 Unreleased Vested Shares) and 6,750 Shares issuable as a result of the exercise of 6,750 Share Options held directly by Ms. XIONG Yan (applicable when assuming that all outstanding Share Options are exercised).
- (5) Consisting of 15,540 Shares in which Mr. DU Yuanhua is beneficially interested (which included 2,838 Unreleased Vested Shares) and 11,125 Shares issuable as a result of the exercise of 11,125 Share Options held directly by Mr. DU Yuanhua (applicable when assuming that all outstanding Share Options are exercised).
- (6) Consisting of 2,212,259 Scheme Shares held directly by Mr. YU Guanghui; 11,869,339 Scheme Shares held through Vast Bright Investment Limited, a company wholly owned by Mr. YU Guanghui; 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 Guanghui has an approximate 9.48% equity interest as a limited partner as at the Latest Practicable Date.
- (7) Consisting of 1,661,398 Scheme Shares held directly by Mr. SONG Yonghong 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 Yonghong has an approximate 37.03% equity interest as a limited partner as at the Latest Practicable Date.
- (8) Consisting of 1,100,963 Scheme Shares held directly by Mr. REN Xuenong 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 Xuenong has an approximate 20.02% equity interest as a limited partner as at the Latest Practicable Date.
- (9) Consisting of 1,279,381 Scheme Shares held directly by Mr. WANG Xiaofeng 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 Xiaofeng has an approximate 15.03% equity interest as a limited partner as at the Latest Practicable Date.

- (10) Consisting of 754,486 Scheme Shares held directly by Mr. HUANG Wei 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 Wei serves as general partner and has an approximate 18.44% equity interest as a limited partner as at the Latest Practicable Date.
- (11) Consisting of 97,746 Shares held directly by Mr. LIAO Qian and 19,875 Shares issuable as a result of the exercise of 19,875 Share Options held directly by Mr. LIAO Qian (applicable when assuming that all outstanding Share Options are exercised).
- (12) Including 45,431 Unreleased Vested Shares, among which, 40,871, 1,722 and 2,838 Shares were held for the benefit of Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua, respectively. The Unreleased Vested Shares are also included in the numbers of Shares under “Offeror Directors” in the table.
- (13) Numbers do not add up to total due to some shareholdings being disclosed more than once in the table. See Note 12 for further details.
- (14) The total number of Scheme Shares comprises the Shares held by the Management Shareholders, the Disinterested Scheme Shareholders and the Offeror’s Concert Parties.

11. REASONS FOR AND BENEFITS OF THE PROPOSAL

Focus management on addressing 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 Group’s key markets, including the US and Europe, has caused disruption to the Group’s sales and marketing activities since March 2020, which is expected to continue throughout 2021. In addition, as the Group is principally engaged in the research and development (“R&D”), manufacture and sales of audio-visual products (excluding TV sets), and as non-necessity goods, their demand are generally more sensitive to change in consumer market sentiment and customers’ spending level. As a result, although the Offeror (a) is confident of the long-term prospect of the Group in general due to the following reasons: (i) future growth of smart audio products, True Wireless Stereo earphone and other smart ecological ancillary products market; (ii) the Group’s continuous efforts in expanding into new product segments (e.g., wireless router products); and (iii) continuous improvement in operational efficiency and supply chain integration and (b) has noticed gradual normalisation of activities in the PRC and overseas markets since May 2020, uncertainties remain, particularly around the duration and effect of the COVID-19 pandemic on the economy (such as the pace or extent of recovery of the global economy and the potential disruption in the consumer market sentiment) which may have continuous impact on the Company’s financial results.

Moreover, the current China-US trade disputes may continue to constitute an adverse impact on the global business environment and weaken demand in the consumer market under such uncertainty. The US government has since 2018 imposed additional tariffs on top of the normal tariff duties on certain products imported from the PRC into the US. Since then, both countries are yet able to reach a new economic and trade agreement. Uncertainties still persist with respect to the on-going trade negotiations between the PRC and the US, which may have an impact on the Group's customers' procurement strategy and the Group's production and R&D plan (including relocation of certain production line(s) to overseas manufacturing plant(s), if required) which in turn may affect the Group's business and cost structure.

In addition, uncertainties faced by the Group is exacerbated by (i) 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, such restructuring initiatives may include the planned consolidation and reorganization of the Group's overseas procurement platforms, which would potentially improve the efficiency of the Group's procurement operations in the long term (by streamlining internal management processes and increasing bargaining power with suppliers), but may result in cost increases in the short term due to the necessary process alterations with suppliers, (ii) the inherent uncertainties of results from the Group's continuous research and development activities and new product development (such as planned entries into highly competitive new product categories, in which the Group does not have established competitive advantages, that may incur significant upfront development costs with limited short-term profitability visibility), (iii) the planning and construction of the Group's overseas self-owned manufacturing plant, with uncertainties such as construction delays due to the COVID-19 pandemic, and prolonged integration and ramp-up period due to language and cultural differences, and (iv) ongoing uncertainties as a result of the Group's supply chain vertical integration efforts, particularly in relation to production disruptions due to unforeseen delays in the construction and ramp-up of the Group's overseas manufacturing facilities.

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 Group 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.

12. 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 Main Board of 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 as extracted from the interim report 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

Your attention is also drawn to Appendix I to this Scheme Document which sets out the "Financial Information of the Group".

13. INFORMATION ON THE OFFEROR

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

The board of directors of the Offeror comprises 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, shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 01070), and TCL Communication Technology Holdings Limited, which is principally engaged in the manufacture and distribution of mobile phone products and a subsidiary of TCL Electronics as at the Latest Practicable Date.

As of the Latest Practicable Date, the Offeror was wholly-owned by TCL Holdings. Controlling shareholder of TCL Holdings is Lida Zhihui (owning approximately 33.3333% 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 Latest Practicable Date.

14. 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, including those business transactions between the Group on the one part and other subsidiaries and/or fellow subsidiaries of the Offeror on the other part. The Offeror is aware that the Group has been conducting transactions with TCL Electronics and its subsidiaries in their ordinary and usual course of business and such transactions will remain as continuing connected transactions of TCL Electronics even after the Company is privatised (in the event the Scheme becomes effective). 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 Latest Practicable Date, 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 regard to the uncertainties created by the COVID-19 crisis and the intensifying China-US trade disputes, including supply chain disruptions and shifting market sentiment.

15. 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.”

16. MEETINGS

In accordance with the directions of the Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Disinterested Scheme Shareholders whose names appear on the Register as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting.

The EGM will be held immediately following the conclusion, or adjournment of the Court Meeting for the purpose of considering and, if thought fit, passing, among other things, (i) the special resolution by the Shareholders to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and the withdrawal of the listing of the Shares of the Company from the Stock Exchange, (ii) the ordinary resolution by the Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme for issue to the Offeror and (iii) the ordinary resolution by the Disinterested Scheme Shareholders to approve the Rollover Arrangement.

Court Meeting

The Scheme is conditional upon, among other things, 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 Scheme Shares present and voting in person or by proxy at the Court Meeting, provided that:

- (a) the Scheme is approved (by way of poll) by the Disinterested Scheme Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Scheme Shareholders that are voted either in person or by proxy at the Court Meeting; and
- (b) 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.

Disinterested Scheme Shareholders whose names appear in the Register as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting.

In accordance with the Companies Act, the “75% in value” requirement, as described above, will be met if the total value of Disinterested Scheme Shares being voted in favor of the Scheme is at least 75% of the total value of the Disinterested Scheme Shares voted at the Court Meeting. In accordance with the Companies Act, the “majority in number” requirement, as described above, will be met if the number of Disinterested Scheme Shareholders voting in favour of the Scheme exceeds the number of Disinterested Scheme Shareholders voting against the Scheme at the Court Meeting. For the purpose of calculating the “majority in number” requirement, the number of Disinterested Scheme Shareholders, present and voting in person or by proxy, will be counted in the manner described below.

For the purposes of determining whether or not a majority in number of Disinterested Scheme Shareholders approved the Scheme pursuant to Section 86 of the Companies Act, where the same person is the holder of a number of Shares bearing different certificate numbers or account numbers, such person shall be entitled to be present at the Court Meeting personally or by proxy and vote such Shares in which case he/she/it will be treated as a single Shareholder. In accordance with articles 4.14 and 14.4 of the Articles of the Company, if a Share is held in the name of two or more persons, the person first named in the Register shall be deemed the sole Shareholder and be entitled to vote in respect of the relevant joint holding either in person or by proxy.

Notice of the Court Meeting is set out in Appendix V to this Scheme Document. The Court Meeting will be held at 10:00 a.m. (Hong Kong time) on Tuesday, 23 February 2021 at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

For the purpose of approving the Scheme, the Concert Parties are considered under the laws of Cayman Islands as having different interests from those of the Disinterested Scheme Shareholders. The Company would have been required to hold a formal meeting of the Concert Parties as a separate class to consider, and if thought fit, approve (with or without modification) the Scheme. Nevertheless, each of the Offeror and its Concert Parties has undertaken to the Court and the Company to be bound by the Scheme and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme. Therefore, such formal meeting of the Concert Parties is waived on the grounds that all such Concert Parties have undertaken to be bound by the terms of the Scheme if sanctioned.

EGM

All Shareholders (or the Disinterested Scheme Shareholders, as the case may be) whose names appear in the Register as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to:

- (i) the special resolution by the Shareholders to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and the withdrawal of the listing of the Shares of the Company from the Stock Exchange,
- (ii) the ordinary resolution by the Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme for issue to the Offeror, and
- (iii) the ordinary resolution by the Disinterested Scheme Shareholders to approve the Rollover Arrangement.

The special resolution described under (i) in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders, present and voting in person or by proxy at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Disinterested Scheme Shareholders, present and voting either in person or by proxy, at the EGM.

At the EGM, the resolutions will be put to the vote by way of poll as required under article 13.6 of the Articles and Rule 13.39(4) of the Listing Rules. Each Shareholder (or Disinterested Scheme Shareholder, as the case may be) present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favor of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder (or Disinterested Scheme Shareholder, as the case may be) may vote some of their Shares in favor of the special resolution and/or the ordinary resolutions and any of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

The Offeror has indicated that if the Scheme is approved at the Court Meeting, those Shares held by it will be voted in favour of the special resolution to reduce the number of issued Shares in the share capital of the Company and the ordinary resolution to restore the number of issued Shares in the share capital of the Company to be proposed at the EGM to approve the Proposal and any matters in connection with the Proposal. However, the Offeror and its Concert Parties (including the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui, a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), Mr. LIAO Qian and the Trustee) will be required to abstain from voting on the ordinary resolution to approve the Rollover Arrangement at the EGM.

Notice of the EGM is set out in Appendix VI to this Scheme Document. The EGM will be held at 10:30 a.m. (Hong Kong time) (or immediately after the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Tuesday, 23 February 2021 at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Thursday, 4 March 2021 (Cayman Islands time).

Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for, among other things, the sanction of the Scheme by the Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

17. BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective, it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and EGM.

18. ACTIONS TO BE TAKEN

Your attention is drawn to “Part II – Actions to be taken” of this Scheme Document.

Actions to be taken by Registered Owners

A **PINK** form of proxy for use in respect of the Court Meeting and a **WHITE** form of proxy for use in respect of the EGM are enclosed with this Scheme Document. Subsequent purchasers of Scheme Shares will need to obtain the proxy forms from the transferor.

Whether or not you are able to attend any of the Meetings or any adjournment(s) thereof in person, if you are a Disinterested Scheme Shareholder, you are strongly urged to complete and sign the enclosed PINK form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed WHITE form of proxy in respect of the EGM, in accordance with the instructions printed respectively on them, and to deposit them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any case not later than the following respective times in order to be valid:

- the PINK form of proxy for use at the Court Meeting must be lodged not later than 10:00 a.m. (Hong Kong time) on Sunday, 21 February 2021 but if it is not so lodged, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it) before the taking of the poll; and
- the WHITE form of proxy for use at the EGM must be lodged not later than 10:30 a.m. (Hong Kong time) on Sunday, 21 February 2021.

At the Court Meeting, each Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) is entitled to vote either FOR or AGAINST the Scheme, but not both FOR and AGAINST the Scheme.

Each Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) is only entitled to submit one proxy form for the Court Meeting. If more than one proxy form for the Court Meeting is submitted by a Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) and the voting instructions require the proxies to vote both FOR and AGAINST the Scheme, the proxy forms will not be accepted. If more than one proxy form for the Court Meeting is submitted by a Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) and the voting instructions require the proxies to vote either FOR or AGAINST the Scheme but not both FOR and AGAINST the Scheme, the chairman of the Court Meeting shall have absolute discretion as to whether or not to accept those proxy forms.

Completion and return of a form of proxy for each of the Court Meeting and/or the EGM will not preclude you from attending the relevant Meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

Voting at the Court Meeting and the EGM will be taken, as required, by poll under the Listing Rules and the Takeovers Code.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of the Disinterested Scheme Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Disinterested Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders (or the Disinterested Scheme Shareholders, as the case may be) to attend and vote at the EGM, the Register will be closed from Wednesday, 17 February 2021 to Tuesday, 23 February 2021 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 16 February 2021.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM on Tuesday, 23 February 2021, not later than 7:00 p.m. If all the resolutions are passed at those Meetings, further announcement (s) will be made of the results of the Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be taken by beneficial owners whose shares are held through trust

No person shall be recognised by the Company as holding any Shares on trust. Any Beneficial Owner whose Shares are held upon trust, and registered in the name of, a Registered Owner (other than the HKSCC Nominees) should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

A Beneficial Owner who wishes to attend and vote at the Court Meeting and/or the EGM personally should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into the Beneficial Owner's name (i.e. the Beneficial Owner becoming the Registered Owner of such Shares).

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM or, as applicable, the latest time for lodging transfers of Shares, in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy or transfer documents accurately and to submit them by the relevant deadlines. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of such Registered Owner. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the memorandum of association and the Articles of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude the Registered Owner from attending and voting in person at the relevant Meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant Meeting or any adjournment thereof after having lodged his/her/its forms of proxy, the returned form of proxy will be revoked by operation of law.

Actions to be taken by beneficial owners whose shares are deposited in CCASS

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees must, unless such Beneficial Owner is an Investor Participant:

- (a) contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, an Other CCASS Participant regarding voting instructions to be given to such Other CCASS Participants if the Beneficial Owner wishes to vote at the Court Meeting and/or the EGM; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into the Beneficial Owner's name (i.e. the Beneficial Owner becoming the Registered Owner of such Shares), if the Beneficial Owner wishes to vote (in person or by proxy) at the Court Meeting and/or at the EGM.

The procedures for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees shall be in accordance with the “Operating Guide for Investor Participants”, the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time. Beneficial Owners whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, must, unless being an Investor Participant, should contact their broker, custodian, nominee or other relevant person in advance of the latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

For the purpose of voting at the Court Meeting, HKSCC Nominees shall be permitted to vote for and/or against the Scheme in accordance with instructions from CCASS Participants including those admitted to participate as an Investor Participant and the number of Shares so voted shall be counted for the purpose of ascertaining whether or not the requirement that seventy-five per cent in value of the Disinterested Scheme Shareholders voting in person or by proxy approve the Scheme under Section 86 of the Companies Act (the “**majority in value test**”) has been satisfied.

For the purpose of ascertaining whether or not the requirement that a majority in number of Disinterested Scheme Shareholders voting in person or by proxy approved the Scheme under Section 86 of the Companies Act (the “**majority in number test**”) has been satisfied, in accordance with the directions from the Court:

- (a) HKSCC Nominees shall be treated as a representative of the CCASS Participants from whom it receives instructions (and shall not have the power to vote on its own absent instructions from the CCASS Participants notwithstanding its status as a Registered Owner) and as a “multi-headed” shareholder such that, subject to sub-paragraphs (b) and (c) below, each of the CCASS Participants from whom voting instructions are received shall be counted as a separate shareholder and the number of such CCASS Participants will determine the number of “heads” attributable to HKSCC Nominees;
- (b) Each Non-Investor Participant shall inform HKSCC Nominees of the number of Shares which such Non-Investor Participant instructs HKSCC Nominees to vote in favour of the Scheme and/or the number of Shares which such Non-Investor Participant instructs HKSCC Nominees to vote against the Scheme. **For the purpose of the “majority in number” test, if such Non-Investor Participant has instructed HKSCC Nominees to vote both in favour and against the Scheme, and if HKSCC Nominees votes as instructed, such Non-Investor Participant shall be treated as two “heads” attributable to HKSCC Nominees, with one head counted as a single shareholder voting in favour of**

the Scheme and one head counted as a single shareholder voting against the Scheme. If such Non-Investor Participant has instructed HKSCC Nominees to vote either in favour or against the Scheme, and if HKSCC Nominees votes as instructed, such Non-Investor Participant shall be treated as one “head” attributable to HKSCC Nominees, with such head counted as a single shareholder voting on the Scheme in the manner indicated by the vote of HKSCC Nominees cast on the instructions of such Non-Investor Participant;

- (c) Each Investor Participant shall be entitled to instruct HKSCC Nominees to, in respect of all of its Shares, vote in favour of the Scheme, or vote against the Scheme, or abstain from voting, but not a combination of more than one of these options. If HKSCC Nominees receives such voting instructions from an Investor Participant and votes in accordance with those instructions, such Investor Participant shall be treated as one “head” attributable to HKSCC Nominees, with such head counted as a single shareholder voting on the Scheme in the manner indicated by the vote of HKSCC Nominees cast on behalf of such Investor Participant;
- (d) Based on the counting methods set out above (i.e. both (b) and (c)), HKSCC Nominees shall specify to the Company the following: (i) the aggregate number of “heads” that have provided voting instructions to HKSCC Nominees; (ii) the aggregate number of votes cast in favour of the Scheme and the number of Shares to which they relate; and (iii) the aggregate number of votes cast against the Scheme and the number of Shares to which they relate;
- (e) Each Non-Investor Participant shall also inform HKSCC Nominees of the number of proxy(ies) that such Non-Investor Participant instructs and requests (or has instructed and requested) HKSCC Nominees to issue and the Shares in respect of which each proxy is to be (or has been) issued. HKSCC Nominees shall specify to the Company the aggregate number of Non-Investor Participant Proxies issued by HKSCC Nominees upon the instructions and at the request of Non-Investor Participants and the Shares to which each Non-Investor Participant Proxy relates. **Where a vote is cast by and pursuant to a Non-Investor Participant Proxy, no “head” shall be attributed to HKSCC Nominees for the purpose of the “majority in number” test. (For the avoidance of doubt, where the holder of a Non-Investor Participant Proxy votes at the Court Meeting, for the purpose of ascertaining whether or not the majority in value test has been satisfied, the number of Shares included in and covered by a Non-Investor Participant Proxy shall be counted in the same manner as other Registered Owners voting in person or by proxy);**

- (f) Each Investor Participant shall be entitled to instruct HKSCC Nominees to appoint not more than one Investor Participant Proxy in respect of all the Shares beneficially owned by such Investor Participant. Such Investor Participant Proxy shall entitle its holder to vote in favour of the Scheme, or vote against the Scheme, or abstain from voting, but not a combination of more than one of these options. If the holder of such an Investor Participant Proxy is present and votes at the Court Meeting, so long as the holder, prior to the voting taking place at the Court Meeting, (i) brings to the attention of the Company that it is a proxy holder acting under the direction of an Investor Participant; and (ii) provides to the chairman of the Court Meeting the original or printout monthly statement issued by HKSCC Nominees/HKSCC to the relevant Investor Participant (showing the name and participant ID of the Investor Participant and the number of Shares held by such Investor Participant via CCASS for the month in which the date of the Court Meeting falls, or if that is not available, for the month immediately preceding the date of the Court Meeting) and/or other supporting evidence reasonably satisfactory to the chairman of the Court Meeting showing that it is duly appointed to represent such Investor Participant at the Court Meeting (i.e. Investor Participant Proof), it shall be treated, for the purposes of the “majority in number” test, as one “head” attributable to HKSCC Nominees with such head counted as a single shareholder voting on the Scheme in the manner indicated by the vote of HKSCC Nominees cast on behalf of such Investor Participant; and
- (g) Each of the Registered Owners shall be permitted to vote, either in person or by proxy, in favour of the Scheme, or against the Scheme, or abstain from voting, but not a combination of more than one of these options. If such Registered Owner is present and casts its vote in the Court Meeting, whether in person or by proxy, such Registered Owner shall be treated, for the purpose of the “majority in number” test, as one “head”.

For the avoidance of doubt, where a vote is cast by a proxy holder representing an Investor Participant who fails to provide to the chairman of the Court Meeting the Investor Participant Proof, no “head” shall be attributed to HKSCC Nominees for the purpose of “majority in number” test, but for the purpose of ascertaining whether or not the “majority in value test” has been satisfied, the number of shares included in and covered by the vote of such proxy holder shall be counted in the same manner as other Registered Owners voting in person or by proxy.

If you are a Beneficial Owner whose Shares are deposited with a Non-Investor Participant, you should note that, where a vote is cast by and pursuant to a Non-Investor Participant Proxy, the number of Shares in respect of such a Non-Investor Participant Proxy shall be counted for the purpose of ascertaining whether or not the “majority in value” test has been satisfied, but no “head” shall be attributed to HKSCC Nominees for the purpose of the “majority in number” test.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Registered Owner, and thereby have the right to attend and vote at the Court Meeting (if you are a Disinterested Scheme Shareholder) and the EGM (as a Shareholder). You can become a Registered Owner by withdrawing all or any of your Shares from CCASS. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name. Beneficial Owners who wish to individually vote or be counted for the purpose of ascertaining whether a “majority in number” of Disinterested Scheme Shareholders have approved the Scheme should make arrangements to withdraw their Scheme Shares (or a board lot) from CCASS and become registered as a member of the Company in their own name prior to the Meeting Record Date.

Petition Hearing in the Court

Prior to the despatch of this Scheme Document, the Company obtained directions from the Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with Sections 14, 15 and 86 of the Companies Act, if the resolution to approve the Scheme at the Court Meeting and the relevant resolutions at the EGM (which are (i) a special resolution in relation to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares, and the withdrawal of listing of the Shares upon the Scheme becoming effective; and (ii) an ordinary resolution in relation to the restoration of the number of issued Shares in the share capital of the Company to its former amount by the issue of the same number of Shares as the number of the Scheme Shares cancelled and extinguished, at par credited as fully paid, to the Offeror; and resolutions of authorisation to any one of the Directors to do all acts and things considered by him to be necessary or desirable in connection with the above) are passed, the Company must then make a further application to the Court to sanction the

Scheme and to confirm the resolution reducing the share capital of the Company. The Company and the Offeror cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company has filed a petition with the Court seeking these approvals which will be heard on Tuesday, 2 March 2021 (Cayman Islands time).

For the avoidance of doubt, the EGM will also include a vote on the resolution in relation to the Rollover Arrangement, but the Offeror and the Company will follow the same procedures irrespective of the outcome of that vote. For resolutions at the Court Meeting and the EGM, please see the notice of Court Meeting set out in Appendix V to this Scheme Document and the notice of EGM set out in Appendix VI to this Scheme Document for details.

In determining whether to exercise its discretion and sanction the Scheme, the Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the Disinterested Scheme Shareholders and whether the Scheme is fair to the Disinterested Scheme Shareholders. At the hearing of the petition, the Court may impose such conditions as it deems appropriate in relation to the Scheme but may not impose any material changes without the joint consent of the Company and the Offeror. The Company may consent on behalf of its Shareholders to any modification of the Scheme which the Court may think fit to approve or impose.

If the Court sanctions the Scheme and if all of the other Conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to file the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Thursday, 4 March 2021 (Cayman Islands time) or as otherwise directed by the Court, at which time the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GAVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTED AT THE COURT MEETING) SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR AT THE COURT HEARING EXPECTED TO BE ON TUESDAY, 2 MARCH 2021 (CAYMAN ISLANDS TIME) AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

Actions to be taken by Option Holders

The Option Offer Letter is being sent to each Option Holder separately. Option Holders should refer to those letters, the form of which is substantially set out in Appendix III to this Scheme Document. Any Option Holder on the Scheme Record Date who wishes to accept the Option Offer must complete and return the duly completed and executed YELLOW Form of Acceptance by 4:30 p.m. (Hong Kong time) on Wednesday, 7 April 2021 (or such later date and time as may be notified to the Option Holders by the Offeror, Citigroup and the Company or by way of joint announcement by the Offeror and Company

on the respective websites of the Stock Exchange and the Company) and delivered to the Human Resources Department of the Company and marked “Tonly Electronics Holdings Limited – Option Offer”. No acknowledgement of receipt of any Form of Acceptance or any other document will be given.

The Option Holders should also note the instructions and other terms and conditions of the Option Offer printed on the Option Offer Letter and the YELLOW Form of Acceptance.

19. SHARE CERTIFICATES, DEALINGS AND WITHDRAWAL OF LISTING

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Thursday, 4 March 2021 (Cayman Islands time).

The Company does not intend to maintain its listing on the Stock Exchange and 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.

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 withdrawn, not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

A detailed timetable of the Scheme has been included in “Part III – Expected Timetable” in this Scheme Document.

20. REGISTRATION AND PAYMENT

Closure of Register

In order to determine the entitlement of Scheme Shareholders to the Scheme Share Consideration under the Scheme, the Register will be closed from Tuesday, 2 March 2021 onwards (or such other date as may be notified to Scheme Shareholders by way of an announcement). In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that their Shares are registered or lodged for registration in their names or in

the names of their nominees before the closure of the Register. The Company's branch Share Registrar in Hong Kong is Tricor Investor Services Limited, which is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Payment of the Scheme Share Consideration

Upon the Scheme becoming effective, payment of the Scheme Share Consideration for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the Register at 4:00 p.m. on the Scheme Record Date as soon as possible, but in any event within 7 Business Days following the Effective Date. On the basis that the Scheme becomes effective on Thursday, 4 March 2021 (Cayman Islands time), cheques for payment of the Scheme Share Consideration payable under the Scheme are expected to be despatched on or before Monday, 15 March 2021.

In the absence of any specific instructions to the contrary received in writing by the Share Registrar, cheques will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses on the Register or, in the case of joint holders, to the registered address of that joint holder whose name first appears on the Register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and none of the Offeror, the Company, Citigroup, Somerley, any of their respective directors, officers, employees, agents, affiliates, or advisers or any other person involved in the Proposal will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the date of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the name of the Offeror (or any of its subsidiaries) with a licensed bank in Hong Kong selected by the Offeror.

The Offeror shall hold all monies in respect of uncashed cheques on trust for those entitled under the terms of the Scheme until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name (or the name of any of its subsidiaries), including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses incurred.

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

Payment of the Option Consideration

Subject to the Scheme becoming effective, the Offeror shall, as soon as possible, and in any event within 7 Business Days of the Effective Date, or in the case of Forms of Acceptance received after the Effective Date, within 7 Business Days of receipt of the relevant Forms of Acceptance, make payment to the Option Holders who have duly completed and lodged the YELLOW Forms of Acceptance to the Human Resources Department of the Company by 4:30 p.m. on Wednesday, 7 April 2021 to accept the Option Offer.

Payment can be made either by way of (i) electronic bank transfer into a brokerage account held with BOCI Securities Limited as instructed by the Option Holder in his/her Form of Acceptance in Hong Kong dollars, (ii) physical delivery to the Option Holder of a cheque in Hong Kong dollars to the correspondence address in Hong Kong as provided by the Option Holder in his/her Form of Acceptance or (iii) electronic bank transfer into a bank account in the PRC as instructed by the Option Holder in his/her Form of Acceptance, or payment in cash, through an intermediate recipient, i.e. an affiliate of the Offeror in the PRC in RMB. Each Option Holder will be able to elect any one of the payment mechanism in his/her Form of Acceptance.

As at the Latest Practicable Date, 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).

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

21. OVERSEAS SCHEME SHAREHOLDERS AND OPTION HOLDERS

The making of the Proposal to, and acceptance of the Proposal by, Scheme Shareholders and the Option Offer to Option Holders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and/or Option Holders are located. Such Scheme Shareholders and Option Holders 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 and Option Holders wishing to accept the

Proposal and Option Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdictions 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 by such accepting Scheme Shareholders or Option Holders in such jurisdictions. Any acceptance by such Scheme Shareholders and Option Holders 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.

As at the Latest Practicable Date, there were 22 Shareholders whose addresses as shown in the Register were in the PRC and those Shareholders together held 40,000 Shares (representing approximately 0.01% of the issued share capital of the Company). The directors of the Offeror and the Directors had been advised by the local counsel in the PRC that this Scheme Document may be sent to such overseas Scheme Shareholders, and will do so accordingly.

22. COSTS OF THE SCHEME

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

Since the Independent Board Committee and the Independent Financial Adviser have both recommended the Proposal, the Company and the Offeror have agreed that each party will bear its own costs, charges and expenses whether the Proposal is approved at the Court Meeting or not.

23. TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the Option Offer and the payment of the Option Consideration for the cancellation of the Share Options does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) under the Option Offer and the payment of the Option Consideration.

Scheme Shareholders and Option Holders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme or Option Offer and in particular, whether receipt of the Scheme Share Consideration or the Option Consideration would make such Scheme Shareholder or Option Holder liable to taxation in Hong Kong or in other jurisdictions.

None of the Offeror, the Company, Citigroup, Somerley, any of their respective directors, officers, employees, agents, affiliates, or advisers or any other person involved in the Proposal accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme or the Option Offer.

24. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the Register as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Registered Owners so that they can attend the Court Meeting in the capacity as members of the Company or to be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Act in their capacity as members of the Company;
- (b) provided the Beneficial Owners have become Registered Owners, to enable the Company to properly classify members of the Company as Disinterested Scheme Shareholders who are entitled to attend and vote at the Court Meeting for the purposes of the headcount test under Section 86 of the Companies Act; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM. To the extent that any Registered Owner (other than HKSCC Nominees) requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, an Other CCASS Participant regarding

voting instructions to be given to such persons if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the Extraordinary General Meeting set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

25. GENERAL

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

The Board comprises 7 Directors, of which 3 are executive Directors, namely Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong. Mr. LIAO Qian is a non-executive Director and the remaining three of whom (namely, Mr. LEONG Yue Wing, Mr. POON Chiu Kwok, and Mr. LI Qi) are independent non-executive Directors.

An Independent Board Committee, which comprises the following non-executive Directors, Mr. LEONG Yue Wing, Mr. POON Chiu Kwok and Mr. LI Qi, has been established by the Board to make a recommendation: (a) to the Disinterested Scheme Shareholders as to: (i) whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and whether to vote in favour of the Scheme at the Court Meeting and the EGM; (ii) whether terms of the Rollover Arrangement are, or are not, fair and reasonable and whether to vote in favour of the Rollover Arrangement at the EGM; and (b) to the Option Holders as to whether the terms of the Option Offer are, or are not, fair and reasonable and whether to accept the Option Offer.

Mr. LIAO Qian, a non-executive Director, was not involved in the preparation of the Proposal and was only notified of the Proposal, together with the other members of the Board, upon the receipt of the Proposal from the Offeror to the Board. Considering Mr. LIAO Qian's equity interests of (i) approximately 1.8604% interests in Lida Zhihui (a controlling shareholder of TCL Holdings, which is the Offeror's parent company) and (ii) approximately 9% interests in Lida Tiancheng (the general partner of Lida Zhihui), the Board and Mr. LIAO Qian recognised that Mr. LIAO Qian has an economic exposure (albeit insignificant and minimal) to the outcome of the Proposal, the Board did not appoint Mr. LIAO Qian to the Independent Board Committee. Nevertheless, Mr. LIAO Qian did not participate in considering and approving the Proposal at the Board meetings.

In addition, Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal, the Scheme, the Option Offer and the Rollover Arrangement. The appointment of Somerley as the Independent Financial Adviser has been approved by the Independent Board Committee.

Save for the Rollover Arrangement and the Irrevocable Undertakings, there are no arrangements (whether by way of option, indemnity or otherwise) relating to relevant securities which may be an inducement to deal or refrain from dealing as described in Note 8 to Rule 22 of the Takeovers Code between the Offeror or its Concert Parties and any other person in relation to shares of the Offeror or the Shares.

As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

The Offeror and its Concert Parties have not borrowed or lent any Shares or any other securities of the Company as at the Latest Practicable Date.

Associates of the Company or the Offeror (as defined in the Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Offeror) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

26. RECOMMENDATION

Your attention is drawn to the following:

- (i) the letter from the Board set out in Part IV of this Scheme Document;
- (ii) the letter from the Independent Board Committee to the Disinterested Scheme Shareholders and the Option Holders, set out in Part V of this Scheme Document;
- (iii) the letter from Somerley, the independent financial adviser to the Independent Board Committee and the Scheme Shareholders, set out in Part VI of this Scheme Document; and
- (iv) the terms of the Scheme set out in Appendix IV to this Scheme Document.

27. ADDITIONAL INFORMATION

Additional information is set out in the appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated financial results of the Group for each of the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the unaudited consolidated financial results of the Group for the six months ended 30 June 2020, as extracted from the relevant published annual reports of the Company for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the Company's interim report for the six months ended 30 June 2020, respectively.

	For the six months ended 30 June 2020 (unaudited) HK\$'000	For the year ended 31 December		
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	3,141,317	8,146,641	7,302,951	5,912,479
Profit before tax	81,748	302,098	282,308	251,885
Income tax expense	(11,311)	(30,885)	(61,149)	(53,379)
Profit/(Loss) attributable to				
– Owners of the Company	68,251	268,746	223,135	198,648
– Non-controlling interests	2,186	2,467	(1,976)	(142)
Comprehensive income for the period attributable to				
– Owners of the Company	46,598	228,593	192,540	286,056
– Non-controlling interests	167	1,546	(2,486)	(130)
Earnings per share attributable to ordinary equity holders				
– Basic	HK25.41 cents	HK103 cents	HK87.24 cents	HK78.96 cents
– Diluted	HK25.24 cents	HK100 cents	HK84.61 cents	HK76.71 cents
Total dividends	Nil	95,361	80,542	93,867
Dividends per share	Nil	HK35 cents	HK30 cents	HK35 cents

The Group had no items of any income or expense that are material for each of the financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

The auditors of the Company for the three years ended 31 December 2017, 2018 and 2019 were Ernst & Young. Their opinions on the consolidated financial statements of the Group for each of the three years ended 31 December 2017, 2018 and 2019 were unqualified. There was no modified opinion, emphasis of matter, or material uncertainty related to going concern contained in the auditor's report of the Group for each of the three years ended 31 December 2017, 2018 and 2019.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019

The Company is required to set out or refer to in this Scheme Document the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2017, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2017 Financial Statements**”); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2018, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2018 Financial Statements**”); and (iii) audited consolidated financial statements of the Group for the year ended 31 December 2019, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2019 Financial Statements**”).

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

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0329/ltn201803291441.pdf>

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

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0404/ltn20190404547.pdf>

The 2019 Financial Statements are set out on pages 90 to 212 in the 2019 Annual Report which was published on 16 April 2020. The 2019 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.tonlyele.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600385.pdf>

The 2017 Financial Statements, 2018 Financial Statements and 2019 Financial Statements (but not any other parts of the 2017 Annual Report, 2018 Annual Report and 2019 Annual Report, in which they respectively appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Company is required to set out or refer to in this Scheme Document the consolidated statement of profit or loss and the consolidated statement of financial position as shown in the unaudited financial results of the Group for the six months ended 30 June 2020, and significant accounting policies together with any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (“**2020 Interim Financial Statements**”).

The 2020 Interim Financial Statements are set out on pages 3 to 16 in the 2020 Interim Report which was published on 14 August 2020. The 2020 Interim Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.tonlyele.com/>), and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0814/2020081400631.pdf>

The 2020 Interim Financial Statements (but not any other parts of the 2020 Interim Report) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

4. INDEBTEDNESS OF THE GROUP

Borrowings

As at the close of business of 31 October 2020, the guaranteed and unguaranteed bank borrowings of the Group were HK\$171.8 million and HK\$17.5 million, respectively, and bore contractual interest rates of LIBOR+0.075% per annum and ranging from 4.35% to 4.75% per annum, respectively. The Group did not have any secured bank borrowings.

Lease Liabilities

As at 31 October 2020, the Group had unguaranteed and unsecured lease liabilities of HK\$66.8 million.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 October 2020.

Pledge of assets

Save as aforesaid, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 October 2020.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 31 October 2020 up to and including the Latest Practicable Date.

5. MATERIAL CHANGE

The Directors confirm that, save for the following matters, there has been no other material change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (i) the Proposal and the Scheme as set out in this Scheme Document; and
- (ii) as disclosed in the Company's 2019 Annual Report, the novel coronavirus (COVID-19) epidemic posed challenges to overall economic development for the first half of 2020 and has been spreading in Europe and the US, the major markets of the Group, since March 2020. As disclosed in the Company's 2020 Interim Report, part of the Group's order amount has gradually recovered since May 2020. The long-term prospects of the Group are generally positive, but uncertainties around the pandemic and global economy remain. The Group and its management will continue to monitor the situation closely and actively respond to the impacts on the Group's financial position and operating results.

1. RESPONSIBILITY STATEMENT

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of information contained in this Scheme Document (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 Scheme Document (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 Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information relating to the Group contained in this Scheme Document and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (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 Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>500,000,000</u> Shares	<u>500,000,000.00</u>
<i>Issued and fully paid up:</i>	
<u>273,393,448</u> Shares	<u>273,393,448.00</u>

All of the Shares in issue were fully paid or credited as fully paid and rank *pari passu* in all respects with each other, including the rights to dividends, voting and capital. Other than the Shares, there are no other classes of securities in the share capital of the Company in issue.

As at the Latest Practicable Date, there were 501,864 outstanding Share Options, details of which were as follows:

Date of grant	Exercise price (HK\$ per Share)	Number of outstanding Share Options			Number of underlying Shares
		Exercisable	Not exercisable	Exercisable period	
21 May 2018	7.84	501,864	–	15 June 2020 – 15 June 2024	501,864

The Company does not have any other outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

Since 31 December 2020 (being the end of the last financial year of the Company) up to and including the Latest Practicable Date, no Shares had been issued by the Company.

3. MARKET PRICES OF THE SHARES

The table below shows the closing prices of the Shares on the Stock Exchange (i) on the last Trading Day of each of the calendar months during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date.

Date	Closing price HK\$
29 April 2020	5.75
29 May 2020	6.38
30 June 2020	7.00
31 July 2020	7.89
31 August 2020	8.85
30 September 2020	8.92
29 October 2020 (Last Trading Day)	10.08
30 November 2020	11.56
31 December 2020	11.52
27 January 2021 (Latest Practicable Date)	11.50

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$12.00 per Share on 13 August 2020 and HK\$5.74 per Share on 6 May and 7 May 2020, respectively.

4. IRREVOCABLE UNDERTAKINGS AND ROLLOVER ARRANGEMENT

Your attention is drawn to the section headed “ Irrevocable Undertakings” under “2. Terms of the Proposal” and the section under “4. Rollover Arrangement” in Part VII – Explanatory Memorandum of this Scheme Document.

Except for the Irrevocable Undertakings and Rollover Arrangement, there are no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between (x) the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate and (y) any other persons.

Except for the Irrevocable Undertakings and Rollover Arrangement, there are no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between (x) the Offeror or any of its Concert Parties and (y) any other persons.

5. CONTROLLING PERSONS OF THE OFFEROR

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

The directors of the Offeror are Mr. LI Dongsheng, Mr. DU Yuanhua and Ms. XIONG Yan.

As of the Latest Practicable Date, the Offeror was wholly-owned by TCL Holdings. The directors of TCL Holdings are Mr. LI Dongsheng, Ms. DU Juan, Mr. YANG Yang, Mr. LIU Lefei and Mr. ZOU Wenchao. Controlling shareholder of TCL Holdings is Lida Zhihui (owning approximately 33.3333% 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.

6. DISCLOSURE OF INTERESTS

(a) Interests and dealings in the securities of the Company

For the purpose of this subsection (a), unless stated otherwise, “shareholdings” means holdings of (x) the Shares and (y) convertible securities, warrants, options and derivatives in respect of the Shares.

I. Directors of the Company

For the purpose of this subsection (a)(I), references to the Directors being “interested” in shareholdings are interpreted in the manner described in Part XV of the SFO.

- (i) As at the Latest Practicable Date, save as disclosed below, none of the Directors had any interest in shareholdings in the Company.

Interests in the Shares

Directors	Personal Interest	Capacity Family Interest/ Corporate interests	Number of Shares held under equity derivatives	Total	Percentage of issued share capital of the Company (Note 5)
YU Guanghui	2,212,259	11,869,339 (Note 1)	–	14,081,598	5.15%
SONG Yonghong	1,661,398	13,399,268 (Note 2)	–	15,060,666	5.51%
REN Xuenong	1,100,963	– (Note 3)	–	1,100,963	0.40%
LIAO Qian	97,746	–	19,875 (Note 4)	117,621	0.04%
LEONG Yue Wing	394,200	–	–	394,200	0.14%
POON Chiu Kwok	20,000	–	–	20,000	0.01%
LI Qi	20,000	–	–	20,000	0.01%

Notes:

- (1) For the purpose of Part XV of the SFO, as at the Latest Practicable Date, (i) other than the personal interests and the other interests (if any) as stated in the above table, Mr. YU Guanghui was deemed to be interested in the 11,869,339 Shares held by Vast Bright Investment Limited, a company wholly owned by Mr. YU Guanghui; and (ii) Mr. YU Guanghui was not deemed to be interested in Shares held by Run Fu Holdings Limited which is further disclosed in 6.(a)III.(i) of this Appendix.
 - (2) For the purpose of Part XV of the SFO, as at the Latest Practicable Date, other than the personal interests and the other interests (if any) as stated in the above table, Mr. SONG Yonghong was deemed to be interested in the 13,399,268 Shares held by Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. SONG Yonghong held a 37.03% equity interest as a limited partner.
 - (3) For the purpose of Part XV of the SFO, as at the Latest Practicable Date, Mr. REN Xuenong was not deemed to be interested in Shares held by Run Fu Holdings Limited which is further disclosed in 6.(a)III.(i) of this Appendix.
 - (4) These equity derivatives were outstanding Share Options granted to the relevant Director under the Share Option Scheme on 21 May 2018.
 - (5) Such percentage was calculated based on the number of issued Shares of the Company as at the Latest Practicable Date, being 273,393,448 Shares.
- (ii) Save as disclosed below, none of the Directors had dealt for value in any shareholdings in the Company during the Relevant Period:

Identity	Dealing	Trading date	Number of Shares involved	Unit price of Shares (HK\$)
LIAO Qian	Vesting of Share Awards	15 June 2020	5,070	N/A
	Vesting of Share Options	15 June 2020	19,875	N/A
YU Guanghui	Cancellation of Share Options	12 May 2020	2,503,392	N/A
SONG Yonghong	Cancellation of Share Options	12 May 2020	1,919,267	N/A
REN Xuenong	Cancellation of Share Options	12 May 2020	995,396	N/A

- (iii) As at the Latest Practicable Date, none of the Directors nor the Company had borrowed or lent any shareholdings in the Company, save for any borrowed Shares which have been either on-lent or sold.
- (iv) As at the Latest Practicable Date, save as disclosed below, none of the Directors had irrevocably committed himself to accept or reject the Proposal:
 - 1. Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong (each being also a Management Shareholder) were committed to the Rollover Arrangement in accordance with the terms under the Rollover Agreement, among others, (x) subject to the Scheme becoming effective, they will undertake to the Court to be bound by the Scheme; (y) if the Scheme is approved at the Court Meeting, they shall 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 (z) they shall otherwise support the Scheme and provide such undertakings to the Court as are appropriate and necessary for the Scheme to be approved, for details, please refer to the section headed “4. Rollover Arrangement” in “Part VII – Explanatory Memorandum”; and
 - 2. Mr. LIAO Qian was committed to accept the Option Offer under the Irrevocable Undertaking.
- (v) As at the Latest Practicable Date, there were 7 Directors. Each of Mr. LEONG Yue Wing, Mr. POON Chiu Kwok and Mr. LI Qi has indicated that, he intends, in respect of his own beneficial shareholdings in the Company, to vote in favour of the Scheme at the Court Meeting and the resolutions at the EGM. Each of Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong and Mr. LIAO Qian, as a Concert Party, shall abstain from voting on the Scheme at the Court Meeting and on the Rollover Arrangement at the EGM. Each of Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong, in accordance with the Rollover Agreement, has committed to, in respect of his own beneficial shareholdings in the Company, vote in favour of the other resolutions to be proposed at the EGM; and Mr. LIAO Qian has indicated that, he intends, in respect of his own beneficial shareholdings in the Company, to vote in favour of the other resolutions to be proposed at the EGM.

II. Certain persons related to the Company

- (i) As of the Latest Practicable Date, none of the following persons owned or controlled any shareholdings in the Company:

1. subsidiary of the Company;
2. pension fund of the Group; and
3. person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” in the Takeovers Code (but excluding any exempt principal traders or exempt fund managers).

During the period commencing from the Announcement Date and ending on the Latest Practicable Date, no person falling under any of the above categories had dealt for value in any shareholdings in the Company.

- (ii) As at the Latest Practicable Date, no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (x) the Company; (y) a person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code; or (z) a person who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under Takeovers Code owned or controlled any shareholdings in the Company, except for the following:

1. The Management Shareholders had agreed, among others, not to dispose of any securities of the Company pursuant to the Rollover Arrangement, and these Management Shareholders beneficially owned an aggregate of 32,277,094 Shares; and
2. All Option Holders had agreed to accept the Option Offer under the Irrevocable Undertakings, and these Option Holders owned Share Options exercisable to subscribe for an aggregate of 501,864 Shares and the 37 Option Holders who were also Shareholders of the Company in aggregate were beneficially interested in 1,372,946 Shares.

During the period commencing from the Announcement Date and ending on the Latest Practicable Date, save as disclosed in 6.(a)I.(ii) and 6.(a)III.(iii) of this section and below, none of the aforesaid Management Shareholders and Option Holders had dealt for value in the securities of the Company.

- (iii) As at the Latest Practicable Date, no discretionary fund managers (other than exempt fund managers) connected with the Company owned or controlled any shareholdings in the Company.

During the period commencing on the Announcement Date and up to the Latest Practicable Date, no discretionary fund managers (other than exempt fund managers) connected with the Company had dealt for value in any shareholdings in the Company.

III. Offeror and certain persons related to the Offeror

- (i) The table below sets forth, as at the Latest Practicable Date, the shareholdings in the Company owned or controlled by persons falling within one or more of the following categories:
1. The Offeror;
 2. The Offeror Directors;
 3. TCL Holdings, the sole parent of the Offeror, which is a person presumed to be acting in concert with the Offeror;
 4. The Trustee, which is a person presumed to be acting in concert with the Offeror;
 5. The Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui) and Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), which are (x) persons presumed to be acting in concert with the Offeror; (y) persons who prior to the posting of this Scheme Document, have irrevocably committed themselves to support the Proposal under the Rollover Agreement; and (z) persons who had committed not to dispose of their shareholdings in the Company to any person other than the Offeror under the Rollover Agreement, which are arrangements with the Offeror or any Concert Parties of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;
 6. Mr. LIAO Qian; and

7. The Option Holders, which are (x) persons who prior to the posting of this Scheme Document, have irrevocably committed themselves to support the Proposal under the Irrevocable Undertakings, (y) persons who had committed to accept the Option Offer in favour of the Offeror and the Company under the Irrevocable Undertakings, which are arrangements with the Offeror or any Concert Parties of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

	As at the Latest Practicable Date		As at the Latest Practicable Date		As at the Latest Practicable Date (on the assumption that all outstanding Share Options are exercised)	
	Number of Shares owned	% of the total issued Shares of the Company (Note 1)	Number of Share Options owned (Note 15)	% of the total issued Shares of the Company (Note 1)	Number of Shares owned	% of the total issued share capital of the Company (Note 2)
TCL Holdings (Note 3)	167,452,239	61.25%	0	0%	167,452,239	61.14%
Offeror	167,452,239	61.25%	0	0%	167,452,239	61.14%
Offeror Directors (Note 4)						
Mr. LI Dongsheng and his spouse (Note 5)	1,043,901	0.38%	160,916	0.06%	1,204,817	0.44%
Ms. XIONG Yan (Note 6)	18,656	0.01%	6,750	0.00%	25,406	0.01%
Mr. DU Yuanhua (Note 7)	15,540	0.01%	11,125	0.00%	26,665	0.01%
Trustee (Note 8)	3,386,385	1.24%	0	0%	3,386,385	1.24%
Management Shareholders						
Mr. YU Guanghui (Note 9)	15,351,671	5.62%	0	0%	15,351,671	5.60%
Mr. SONG Yonghong (Note 10)	6,622,620	2.42%	0	0%	6,622,620	2.42%
Mr. REN Xuenong (Note 11)	3,783,992	1.38%	0	0%	3,783,992	1.38%
Mr. WANG Xiaofeng (Note 12)	3,293,637	1.20%	0	0%	3,293,637	1.20%
Mr. HUANG Wei (Note 13)	3,225,174	1.18%	0	0%	3,225,174	1.18%
Mr. LIAO Qian (Note 14)	97,746	0.04%	19,875	0.01%	117,621	0.04%
Option Holders (Note 16)	197,103	0.07%	303,198	0.11%	500,301	0.18%

Note:

- (1) The percentages in this column were calculated on the basis that there were 273,393,448 Shares in issue, which represent all of the issued share capital of the Company.
- (2) The percentages in this column were calculated on the basis that there were 273,895,312 Shares in issue, assuming all of the 501,864 outstanding Share Options had been exercised.
- (3) TCL Holdings was deemed to be interested in the 167,452,239 Shares held by the Offeror, which is wholly owned by TCL Holdings.
- (4) Includes shareholding owned or controlled by their close relatives, related trusts and companies controlled by any of such directors, their close relatives or related trusts.

- (5) Mr. LI Dongsheng is also a director of TCL Holdings. Consisting of (x) 894,777 Shares in which Mr. LI Dongsheng is beneficially interested (which included 35,077 Unreleased Vested Shares) and 137,500 Shares issuable as a result of the exercise of 137,500 Share Options held directly by Mr. LI Dongsheng (applicable when assuming that all outstanding Share Options are exercised); (y) 149,124 Shares in which Mr. LI Dongsheng's spouse is beneficially interested (which included 5,794 Unreleased Vested Shares) and 23,416 Shares issuable as a result of the exercise of 23,416 Share Options held directly by Mr. LI's spouse (applicable when assuming that all outstanding Share Options are exercised).
- (6) Consisting of 18,656 Shares in which Ms. XIONG Yan is beneficially interested (which included 1,722 Unreleased Vested Shares) and 6,750 Shares issuable as a result of the exercise of 6,750 Share Options held directly by Ms. XIONG Yan (applicable when assuming that all outstanding Share Options are exercised).
- (7) Consisting of 15,540 Shares in which Mr. DU Yuanhua is beneficially interested (which included 2,838 Unreleased Vested Shares) and 11,125 Shares issuable as a result of the exercise of 11,125 Share Options held directly by Mr. DU Yuanhua (applicable when assuming that all outstanding Share Options are exercised).
- (8) Including 45,431 Unreleased Vested Shares, among which, 40,871, 1,722 and 2,838 Shares were held for the benefit of Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua, respectively. The Unreleased Vested Shares are also included in the numbers of Shares under "Offeror Directors" in the table.
- (9) Consisting of 2,212,259 Shares held directly by Mr. YU Guanghui; 11,869,339 Shares held through Vast Bright Investment Limited, a company wholly owned by Mr. YU Guanghui; and his pro rata share of the 13,399,268 Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. YU Guanghui has an approximate 9.48% equity interest as a limited partner as at the Latest Practicable Date.
- (10) Consisting of 1,661,398 Shares held directly by Mr. SONG Yonghong and his pro rata share of the 13,399,268 Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. SONG Yonghong holds an approximate 37.03% equity interest as a limited partner as at the Latest Practicable Date.
- (11) Consisting of 1,100,963 Shares held directly by Mr. REN Xuenong and his pro rata share of the 13,399,268 Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. REN Xuenong has an approximate 20.02% equity interest as a limited partner as at the Latest Practicable Date.
- (12) Consisting of 1,279,381 Shares held directly by Mr. WANG Xiaofeng and his pro rata share of the 13,399,268 Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. WANG Xiaofeng has an approximate 15.03% equity interest as a limited partner as at the Latest Practicable Date.

- (13) Consisting of 754,486 Shares held directly by Mr. HUANG Wei and his pro rata share of the 13,399,268 Shares held through Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng in which Mr. HUANG Wei serves as general partner and has an approximate 18.44% equity interest as a limited partner as at the Latest Practicable Date.
- (14) Consisting of 97,746 Shares held directly by Mr. LIAO Qian and 19,875 Shares issuable as a result of the exercise of 19,875 Share Options held directly by Mr. LIAO Qian (applicable when assuming that all outstanding Share Options are exercised).
- (15) The exercise period of the Share Options is from 15 June 2020 to 15 June 2024 and the exercise price of such Share Options is HK\$7.84.
- (16) Consisting of Shares and Share Options held by the Option Holders who had entered into the Irrevocable Undertakings as of the Latest Practicable Date, other than Mr. LI Dongsheng and his spouse, Mr. DU Yuanhua, Ms. XIONG Yan and Mr. LIAO Qian, which were disclosed separately in the table. As at the Latest Practicable Date, there were 37 Option Holders who were also Shareholders of the Company, gave Irrevocable Undertakings in favor of the Offeror and the Company, and among them, 4 were directors of the Offeror and the spouse of one of such directors and 1 was a non-executive Director. The shareholdings in the Company owned or controlled by the Option Holders (other than the directors of the Offeror and the spouse of one of such directors and Mr. LIAO Qian) were disclosed on a group basis.

Except as disclosed in the above table, as at the Latest Practicable Date, no other Concert Parties of the Offeror owned or controlled any shareholdings in the Company. In particular, 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 presumed to be acting in concert with the Offeror by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code, did not own or control any shareholdings in the Company.

As at the Latest Practicable Date, no discretionary fund managers (other than exempt fund managers) and principal traders connected with the Offeror owned any shareholdings in the Company. During Relevant Period, no discretionary fund managers (other than exempt fund managers) and principal traders connected with the Offeror had dealt for value in any shareholdings in the Company.

Except for the Management Shareholders and Option Holders, whose shareholdings were disclosed in the above table, as of the Latest Practicable Date, there were no other persons who, prior to the posting of this Scheme Document, have irrevocably committed themselves to accept or reject the Proposal; or who have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror and/or the Concert Parties.

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

All Concert Parties of the Offeror, including the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited, Run Fu Holdings Limited, Mr. LIAO Qian and the Trustee, shall abstain from voting on the Scheme at the Court Meeting and on the Rollover Arrangement at the EGM.

- (ii) As of the Latest Practicable Date, there were no persons with whom the Offeror nor any of its Concert Parties borrowed or lent any shareholdings in the Company (save for any borrowed shares that have been either on-lent or sold);
- (iii) The table below sets forth persons stated in item (i) of paragraph 6. (a) III – “6. Disclosure of Interests – (a) Interests and dealings in the securities of the Company – III. Offeror and certain persons related to the Offeror” who had dealt for value in any shareholdings in the Company during the Relevant Period:

Identity	Dealing (Note 1)	Trading date	Number of Shares involved	Unit price of Shares (HK\$)
Mr. LI Dongsheng	Vesting of Share Awards	15 June 2020	35,076	N/A
	Vesting of Share Options	15 June 2020	137,500	N/A
Mr. LI Dongsheng's spouse	Vesting of Share Awards	15 June 2020	4,577	N/A
	Vesting of Share Options	15 June 2020	23,416	N/A
Mr. DU Yuanhua	Vesting of Share Awards	15 June 2020	2,838	N/A
	Vesting of Share Options	15 June 2020	11,125	N/A
Ms. XIONG Yan	Vesting of Share Awards	15 June 2020	1,722	N/A
	Vesting of Share Options	15 June 2020	6,750	N/A
Mr. YU Guanghui	Cancellation of Share Options	12 May 2020	2,503,392	N/A
Mr. SONG Yonghong	Cancellation of Share Options	12 May 2020	1,919,267	N/A
Mr. REN Xuenong	Cancellation of Share Options	12 May 2020	995,396	N/A

Identity	Dealing (Note 1)	Trading date	Number of Shares involved	Unit price of Shares (HK\$)
Mr. WANG Xiaofeng	Cancellation of Share Options	12 May 2020	995,396	N/A
Mr. HUANG Wei	Cancellation of Share Options	12 May 2020	995,396	N/A
Mr. LIAO Qian	Vesting of Share Awards	15 June 2020	5,070	N/A
	Vesting of Share Options	15 June 2020	19,875	N/A
Trustee	Vesting of Share Awards onto the relevant Grantees	15 May 2020	1,345,000	N/A
	Vesting of Share Awards onto the relevant Grantees	15 June 2020	189,664	N/A
Option Holders (Note 2)	Vesting of Share Options	15 June 2020	303,198	N/A
	Vesting of Share Awards	15 June 2020	88,427	N/A
Ms. DENG Yinghao (Note 3)	Exercise of Share Options	14 August 2020	77	N/A
	Exercise of Share Options	14 August 2020	7,000	N/A
	Disposal on the Stock Exchange	14 August 2020	7,000	11.00
	Disposal on the Stock Exchange	21 August 2020	2,000	11.80
Ms. PENG Ling (Note 3)	Disposal on the Stock Exchange	4 June 2020	761	6.52
Mr. LIU Hailong (Note 3)	Exercise of Share Options	13 August 2020	2,000	N/A
	Disposal on the Stock Exchange	13 August 2020	994	10.10
	Disposal on the Stock Exchange	13 August 2020	2,000	10.60
Mr. SU Boyu (Note 3)	Exercise of Share Options	17 August 2020	3,000	N/A
	Disposal on the Stock Exchange	17 August 2020	3,000	11.12
	Disposal on the Stock Exchange	17 August 2020	1,493	11.10
Mr. WU Yingjun (Note 3)	Disposal on the Stock Exchange	13 August 2020	9,000	12.00

Identity	Dealing (Note 1)	Trading date	Number of Shares involved	Unit price of Shares (HK\$)
Ms. JIANG Nan (Note 3)	Disposal on the Stock Exchange	19 May 2020	16,464	6.63
	Disposal on the Stock Exchange	2 July 2020	2,000	7.09
	Exercise of Share Options	26 August 2020	1,000	N/A
	Disposal on the Stock Exchange	26 August 2020	1,000	11.52
	Exercise of Share Options	1 September 2020	2,000	N/A
Mr. HUANG Xubin (Note 3)	Disposal on the Stock Exchange	27 August 2020	50,000	11.58
Mr. MA Songling (Note 3)	Exercise of Share Options	17 August 2020	7,000	N/A
	Disposal on the Stock Exchange	17 August 2020	7,000	11.50
	Exercise of Share Options	18 August 2020	5,000	N/A
	Disposal on the Stock Exchange	18 August 2020	5,000	11.90
Ms. LIU Zhi (Note 3)	Disposal on the Stock Exchange	30 June 2020	5,000	7.00
	Disposal on the Stock Exchange	7 August 2020	304	7.60
Mr. FENG Wanliang (Note 3)	Disposal on the Stock Exchange	25 August 2020	2,146	11.83
	Exercise of Share Options	17 August 2020	11,000	N/A
	Disposal on the Stock Exchange	17 August 2020	11,000	11.62
	Disposal on the Stock Exchange	13 August 2020	4,000	11.07
Mr. LIU Liang (Note 3)	Disposal on the Stock Exchange	7 July 2020	1,000	7.05
	Exercise of Share Options	14 October 2020	1,706	N/A
Mr. YANG Changhe (Note 3)	Disposal on the Stock Exchange	30 June 2020	1,000	7.02
	Disposal on the Stock Exchange	3 July 2020	534	6.98
	Exercise of Share Options	17 August 2020	3,000	N/A
	Disposal on the Stock Exchange	17 August 2020	3,000	11.42

Identity	Dealing (Note 1)	Trading date	Number of Shares involved	Unit price of Shares (HK\$)
Ms. JI ping (Note 3)	Disposal on the Stock Exchange	17 August 2020	1,138	11.74
Mr. WANG Rui (Note 3)	Disposal on the Stock Exchange	13 August 2020	9,000	10.30
	Disposal on the Stock Exchange	3 June 2020	46,000	6.60
Mr. XIA Bin (Note 3)	Disposal on the Stock Exchange	28 August 2020	1,000	8.80
	Exercise of Share Options	31 August 2020	3,000	N/A
	Disposal on the Stock Exchange	31 August 2020	3,000	9.18
Mr. FU Dong (Note 3)	Exercise of Share Options	14 August 2020	24,000	N/A
	Disposal on the Stock Exchange	14 August 2020	24,000	11.70
Ms. ZHONG Huiqing (Note 3)	Exercise of Share Options	20 August 2020	3,000	N/A
	Disposal on the Stock Exchange	20 August 2020	3,000	11.44
	Exercise of Share Options	21 August 2020	2,000	N/A
	Disposal on the Stock Exchange	21 August 2020	2,000	11.40
Mr. XIE Taocheng (Note 3)	Exercise of Share Options	28 August 2020	4,000	N/A
	Disposal on the Stock Exchange	28 August 2020	4,000	11.40
	Disposal on the Stock Exchange	3 September 2020	4,000	9.00

Notes:

- (1) In relation to dealings involving Share Options, the date of granting of the relevant Share Options was 21 May 2018. The exercise period of the Share Options involved was from 15 June 2020 to 15 June 2024 with the exercise price being HK\$7.84. There was no option money paid or received for dealings involving vesting or cancellation of Share Options. For dealings involving exercise of Share Options, there was no option money received and the option money paid was HK\$7.84 per Share Option.
- (2) Excluding vesting of Share Options and Share Awards onto Mr. LI Dongsheng and his spouse, Mr. DU Yuanhua, Ms. XIONG Yan and Mr. LIAO Qian, which were disclosed separately in the table.

- (3) Such person is an Option Holder.

Save as disclosed in the table above, no person falling within one or more of the following categories had dealt for value in the shareholdings in the Company during the Relevant Period:

1. The Offeror;
2. The Offeror Directors;
3. Concert Parties of the Offeror;
4. Persons, who, prior to the posting of this Scheme Document, have irrevocably committed themselves to accept or reject the Proposal (including the Option Holders);
5. Persons with whom the Offeror or its Concert Parties have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code; and
6. Persons with whom the Offeror or its Concert Parties have borrowed or lent any shareholdings in the Company, save for any borrowed shares which have been either on-lent or sold.

(b) Interests and dealings in the securities of the Offeror

For the purpose of this subsection (b), unless stated otherwise, “shareholdings” means holdings of (x) the equity share capital of the Offeror; and (y) convertible securities, warrants, options and derivatives in respect of the equity share capital of the Offeror.

As at the Latest Practicable Date, the Offeror’s equity share capital consisted of 1,541,971,690 ordinary shares in issue. The Offeror did not have any convertible securities, warrants, options and derivatives in respect of the ordinary shares.

I. The Company

- (i) The Company does not have any interest in the shareholdings of the Offeror.
- (ii) During the Relevant Period, the Company had not dealt for value in the shareholdings in the Offeror.

II. Directors of the Company

- (i) The Offeror is wholly owned by TCL Holdings, a limited liability company established in the PRC. As at the Latest Practicable Date, Mr. LIAO Qian, a non-executive Director, is indirectly interested in the issued share capital of TCL Holdings. Mr. LIAO Qian's ownership of shareholdings in TCL Holdings consisted of (x) a 1.8604% limited partnership interest in Lida Zhihui, a limited liability partnership established in the PRC and a controlling shareholder of TCL Holdings, and (y) 9% equity interests in Lida Tiancheng, a limited liability company established in the PRC, a shareholder of the TCL Holdings and the general partner of Lida Zhihui.

Other than the indirect interests of Mr. LIAO Qian in the Offeror as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in the shareholdings of the Offeror.

- (ii) During the Relevant Period, no Directors had dealt for value in the shareholdings in the Offeror.

7. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL**(a) Arrangements with Directors**

As at the Latest Practicable Date, except for the Irrevocable Undertakings and the Rollover Arrangement,

- (i) there was no agreement, arrangement or understanding (including any compensation arrangement) between (x) the Offeror or its Concert Parties and (y) any of the Directors, recent directors of the Company having any connection with or dependence upon the Proposal;
- (ii) no benefit was or would be given to any Directors as compensation for loss of office or otherwise in connection with the Proposal; and
- (iii) no material contract had been entered into by the Offeror in which any Director had a material personal interest.

The following Directors are parties to the Irrevocable Undertakings and/or the Rollover Arrangement with the Offeror:

1. Mr. YU Guanghui, who is an executive Director and the Chief Executive Officer of the Company and was interested in 15,351,671 Shares as at the Latest Practicable Date, intends to accept the Proposal in respect of all of his own beneficial shareholding pursuant to the terms of the Rollover Agreement;

2. Mr. SONG Yonghong, who is an executive Director and the Chief Operating Officer of the Company and was interested in 6,622,620 Shares as at the Latest Practicable Date, intends to accept the Proposal in respect of all of his own beneficial shareholding pursuant to the terms of the Rollover Agreement;
3. Mr. REN Xuenong, who is an executive Director and the Chief Financial Officer of the Company and was interested in 3,783,992 Shares as at the Latest Practicable Date, intends to accept the Proposal in respect of all of his own beneficial shareholding pursuant to the terms of the Rollover Agreement; and
4. Mr. LIAO Qian, who is a non-executive Director, intends to accept the Option Offer in full pursuant to the Irrevocable Undertakings. As of the Latest Practicable Date, Mr. LIAO Qian held 19,875 Share Options.

(b) Arrangements with Shareholders of the Company

As at the Latest Practicable Date, except for the Irrevocable Undertakings and the Rollover Arrangement, there was no agreement, arrangement or understanding (including any compensation arrangement) between (x) the Offeror or its Concert Parties and (y) any of the Shareholders or recent shareholders of the Company having any connection with or dependence upon the Proposal.

The following Shareholders (who are not Directors) are parties to the Irrevocable Undertakings and/or the Rollover Arrangement with the Offeror:

1. Mr. WANG Xiaofeng, who is a senior vice president and chief marketing officer of the Company and was interested in 3,293,637 Shares as at the Latest Practicable Date, intends to accept the Proposal in respect of all of his own beneficial shareholding pursuant to the terms of the Rollover Agreement;
2. Mr. HUANG Wei, who is a senior vice president of the Company and was interested in 3,225,174 Shares as at the Latest Practicable Date, intends to accept the Proposal in respect of his own beneficial shareholding pursuant to the terms of the Rollover Agreement; and
3. 37 Option Holders who were also Shareholders of the Company had agreed to accept the Option Offers under the Irrevocable Undertakings. As of the Latest Practicable Date, these Option Holders were beneficially interested in 1,372,946 Shares in the aggregate.

(c) Arrangements relating to the Shares held by the Offeror

The proceeds procured by the Offeror to finance the payment of the Scheme Amount consists of a term facility from Industrial and Commercial Bank of China (Asia) Limited as lender. Subject to the completion of the Scheme, the Offeror may draw down up to HK\$1,200,000,000 under the term facility.

In connection with the external debt financing, as at the Latest Practicable Date, 129,280,110 Shares owned by the Offeror had been deposited into a custodian account, for which ICBC (Asia) Nominee Limited (nominee entity of Industrial and Commercial Bank of China (Asia) Limited) is the custodian.

When the Scheme becomes effective, the Offeror may initiate a draw down under the facility and the proceeds thereof will be used to settle the Scheme Amount. The liabilities of the Offeror under the facility will be secured by, among others, a share charge over all of the Shares in the Company owned by the Offeror at the time of drawdown and from time to time. There is no arrangement in the facility that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company.

Save for such arrangement, there was no agreement, arrangement or understanding that any Shares acquired by the Offeror in pursuance of the Scheme would be transferred, charged or pledged to any other persons.

(d) Other arrangements

As at the Latest Practicable Date, there was no agreements or arrangements to which the Offeror is a party that relate to the circumstances in which the Offeror may or may not invoke or seek to invoke as a condition to the completion of the transactions under the Proposal.

As at the Latest Practicable Date, save for the Rollover Arrangement and the Irrevocable Undertakings, (i) apart from the Scheme Share Consideration for the Scheme Shares and the Option Consideration under the Option Offer, there was no other consideration, compensation or benefit in whatever form paid or to be paid by the Offeror or its Concert Parties to any Scheme Shareholder or any party acting in concert with it in connection with the Proposal; (ii) there was no other understanding, arrangement, agreement or special deal between the Offeror or its Concert Parties on the one hand, and any Scheme Shareholder and any party acting in concert with it on the other hand; and (iii) there was no understanding, arrangement or agreement or special deal between (1) any Shareholder; and (2)(x) the Offeror and its Concert Parties, or (y) the Company, its subsidiaries or associated companies.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

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

- (a) the master financial services (2019 renewal) agreement dated 31 October 2019 entered into among the Company, TCL Holdings and Finance Company (HK) for a term from 1 January 2020 to 31 December 2022 in relation to the money deposit services with annual caps of HK\$720 million in 2020, HK\$840 million in 2021 and HK\$900 million in 2022, financing services and other financial services with annual caps of HK\$3.6 million in 2020, HK\$4.2 million in 2021 and HK\$4.5 million in 2022 provided by Finance Company (HK) and/or other associates of TCL Holdings to the Group;
- (b) the master rental (2019) agreement dated 25 April 2019 entered into between the Company and the Offeror for a term from 25 April 2019 to 31 December 2019, pursuant to which the Group and the Offeror (including its subsidiaries and its associates as defined under the Listing Rules) agreed to rent, lease and/or license, share and/or make available the use of certain properties and vehicles which the lessor owns or otherwise has the right to rent, lease and/or license, share and/or make available the use to the other party at a monthly rent/license fee, payable to member(s) of another with the cap of HK\$30 million for the period from 25 April 2019 to 31 December 2019;
- (c) the master rental (2019 renewal) agreement dated 31 October 2019 entered into between the Company and TCL Holdings for a term from 1 January 2020 to 31 December 2022, pursuant to which the Group and TCL Holdings (including its subsidiaries and its associates as defined under the Listing Rules) agreed to rent, lease and/or license, share and/or make available the use of certain properties and vehicles which the lessor owns or otherwise has the right to rent, lease and/or license, share and/or make available the use to the other party at a monthly rent/license fee, payable to member(s) of another with annual caps of HK\$19,871,000 in 2020, HK\$17,949,000 in 2021 and HK\$16,038,000 in 2022;
- (d) the equity transfer agreement dated 20 June 2019 entered into among Guangdong Regency, an indirect subsidiary of the Company and Mr. Ling Gaode (“**Mr. Ling**”), Mr. Hu Qingde (“**Mr. Hu**”) and Mr. Deng Gaofeng (“**Mr. Deng**”), pursuant to which

Guangdong Regency conditionally agreed to purchase, and Mr. Ling, Mr. Hu and Mr. Deng agreed to sell, 8,946,000, 3,993,000 and 1,761,000 shares of the Huizhou Nikko Optoelectronics Co.,Ltd.* (惠州尼日科光電有限公司) respectively at total consideration of RMB32,590,000, which is satisfied by Guangdong Regency by way of (i) the payment of the cash consideration of RMB7,000,000; and (ii) the allotment and issuance of an aggregate of 10,680,000 shares by Guangdong Regency to Mr. Ling, Mr. Hu and Mr. Deng; and

- (e) the subcontract agreement dated 8 September 2020 entered into between the Company (for itself and on behalf of its subsidiaries) and 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 Group Corporation, “**Huizhou TCL**”)(for itself and on behalf of its associates as defined under the Listing Rules), for a term from 8 September 2020 to 31 December 2021, pursuant to which the Group may from time to time engage Huizhou TCL and its associates as defined under the Listing Rules to provide human resources and human resources management services to the Group with annual caps of HK\$88,000,000 from 8 September 2020 to 31 December 2020 and HK\$115,000,000 for the year ended 31 December 2021 subject to the terms and conditions thereof.

10. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within six months prior to the commencement of the Offer Period (i.e., the Announcement Date of 30 October 2020), (ii) are continuous contracts with a notice period of 12 months or more, or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

11. EXPERTS

- (a) The following are the qualifications of each of the experts who have been named in this Scheme Document or given their opinion or advice which are contained in this Scheme Document:

Name	Qualification
Citigroup	Citigroup Global Markets Asia Limited (花旗環球金融亞洲有限公司), a licensed corporation under the SFO, registered to conduct 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 under the SFO
Somerley	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the Independent Financial Adviser to the Independent Board Committee

12. CONSENTS

Each of the experts has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion in this Scheme Document of the text of their respective letters, reports or opinions as the case may be and references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of such experts has any shareholding in the Company and in the Offeror (except for Citigroup's holdings in the capacity of exempt principal traders and exempt fund managers).

13. COSTS OF THE SCHEME

The costs of the Scheme and of its implementation are expected to amount to approximately HK\$32.57 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

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

Since the Independent Board Committee and the Independent Financial Adviser have both recommended the Proposal, the Company and the Offeror have agreed that each party will bear its own costs, charges and expenses whether the Proposal is approved at the Court Meeting or not.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m. on Business Days at (i) the principal place of business of the Company in Hong Kong at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong; (ii) the website of the Company at <http://www.tonlyele.com/>; and (iii) the website of SFC at www.sfc.hk from the date when this Scheme Document is published until the Effective Date or the date on which the Scheme is withdrawn or lapses, whichever is earliest:

- (a) the memorandum of association and the Articles of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports containing the audited consolidated financial statements of the Company for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019;
- (d) the interim report of the Company for the six months ended 30 June 2020;
- (e) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (f) the letter of recommendation from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (g) the letter of advice from Somerley, the text of which is set out in Part VI of this Scheme Document;
- (h) the Rollover Agreement;
- (i) the Irrevocable Undertakings given by 46 Option Holders in favour of the Offeror and the Company not to exercise any outstanding Share Options and to accept the Option Offer;
- (j) the Material Contracts referred to in the paragraph headed “9. Material Contracts” in this Appendix II;
- (k) the written consents referred to in the section headed “12. Consents” in this Appendix II;

- (l) the Option Offer Letter dated 29 January 2021 and the form of which is set out in Appendix III to this Scheme Document;
- (m) the facility agreement dated 30 October 2020 regarding banking facility granted by Industrial and Commercial Bank of China (Asia) Limited to the Offeror for a term facility of up to HK\$1,200,000,000 for the implementation of the Scheme; and
- (n) this Scheme Document.

15. MISCELLANEOUS

As at the Latest Practicable Date:

- (a) The registered office of the Company was at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The executive Directors are Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong. The non-executive Director is Mr. LIAO Qian. The independent non-executive Directors are Mr. LEONG Yue Wing, Mr. POON Chiu Kwok and Mr. LI Qi.
- (c) The company secretary of the Company is Ms. CHOY Fung Yee, who is a solicitor of the High Court of the Hong Kong Special Administrative Region and a partner at Messrs. Cheung Tong & Rosa Solicitors.
- (d) The principal place of business of the Company in Hong Kong was situated at 8th Floor, Building 22E 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (e) The principal share registrar and transfer office of the Company was Suntera (Cayman) Limited, Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.
- (f) The Hong Kong branch Share Registrar and transfer office of the Company was situated at Tricor Investor Services Limited, which is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (g) The registered office of the Offeror was situated at 8/F, Building 22E, Phase Three, Hong Kong Science Park, Park Shek Kok, New Territories, Hong Kong.
- (h) The directors of the Offeror are Mr. LI Dongsheng, Ms. XIONG Yan and Mr. DU Yuanhua.

- (i) In relation to the members of the Offeror's concert group:

the principal members are:

- (i) TCL Holdings;
- (ii) the directors of the Offeror and the spouse of one of such directors, namely Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua;

other members are:

- (iii) the Management Shareholders, namely Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong, Mr. WANG Xiaofeng and Mr. HUANG Wei;
 - (iv) Vast Bright Investment Limited, a company wholly owned by Mr. YU Guanghui, a Management Shareholder;
 - (v) Run Fu Holdings Limited, a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders;
 - (vi) Mr. LIAO Qian; and
 - (vii) the Trustee.
- (j) The registered office and correspondence address of TCL Holdings was 22/F, TCL Science and Technology Building, No. 17 Huifeng Third Road, Zhong Kai Gaoxin District, Huizhou City, Guangdong Province, the PRC. The directors of TCL Holdings are Mr. LI Dongsheng, Ms. DU Juan, Mr. YANG Yang, Mr. LIU Lefei and Mr. ZOU Wenchao. The controlling shareholder of TCL Holdings is Lida Zhihui (owning approximately 33.3333% interests in TCL Holdings). Lida Zhihui is a PRC limited liability partnership with its general partner being Lida Tiancheng. The registered office of Lida Zhihui was Rooms 102-276, Building 39, No. 128 Yongfeng Road, Daxie Development Zone, Ningbo City, Zhejiang Province (the declared domicile for the committed pilot area), the PRC and the registered office of Lida Tiancheng was 22/F, TCL Technology Building, No. 17 Huifeng 3rd Road, Zhongkai High-tech Zone, Huizhou City, the PRC. 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. Information of the other shareholders of TCL Holdings is as follows:

APPENDIX II

GENERAL INFORMATION

Shareholders of TCL Holdings (each an “Offeror Shareholder”)	Director(s)/General partner of Offeror Shareholder	Ultimate parent company of Offeror Shareholder (Note 1)	Director(s) of ultimate parent company of Offeror Shareholder
Suning.com Co., Ltd.* (蘇寧易購集團股份有限公司)(stock code on Shenzhen Stock Exchange: 002024) (owning approximately 23.2558% interests in TCL Holdings)	<ol style="list-style-type: none"> 1. ZHANG Jindong 2. SUN Weimin 3. MENG Xiangsheng 4. REN Jun 5. YANG Guang 6. XU Hong 7. LIU Shiping 8. FANG Xianming 9. CHEN Zhenyu 	There is no shareholder owning more than 50% interests in Offeror Shareholder.	N/A
Pan Mao (Shanghai) Investment Center (L.P.)* (磐茂(上海)投資中心(有限合夥))(owning approximately 18.6047% interests in TCL Holdings)	General partner: Shanghai Pannuo Enterprise Management Service Co., Ltd.* (上海磐諾企業管理服務有限公司), the director of which is TIAN Yu	N/A	N/A
Beijing Xinrunheng Equity Investment Partnership (L.P.)* (北京信潤恒股權投資合夥企業(有限合夥))(owning approximately 4.6512% interests in TCL Holdings)	General partner: CITIC Capital (Tianjin) Investment Management Partnership (Limited Partnership)* (中信資本(天津)投資管理合夥企業(有限合夥)), the general partner of which is Tianjin Yuebo Investment Consulting Co., Ltd.* (天津躍波投資諮詢有限公司). The director of Tianjin Yuebo Investment Consulting Co., Ltd.* is ZHAO Yan	N/A	N/A
Huizhou State-owned Asset Management Co., Ltd.* (惠州市國有資產管理有限公司)(owning approximately 9.3023% interests in TCL Holdings)	<ol style="list-style-type: none"> 1. ZOU Wenchao 2. LIN Xionghua 3. LIAO Jiangcheng 	State-owned Assets Supervision and Administration Commission of Huizhou Municipal People’s Government* (惠州市人民政府國有資產監督管理委員會)	See note 2.

Shareholders of TCL Holdings (each an “Offeror Shareholder”)	Director(s)/General partner of Offeror Shareholder	Ultimate parent company of Offeror Shareholder (Note 1)	Director(s) of ultimate parent company of Offeror Shareholder
Xiaomi Inc.* (小米科技有限责任公司)(owning approximately 9.3023% interests in TCL Holdings)	1. LEI Jun 2. LIN Bin 3. LIU Qin	Xiaomi Corporation (stock code on the Stock Exchange: 1810) (Note 3)	1. Lei Jun 2. Lin Bin 3. Chew Shou Zi 4. Liu Qin 5. Chen Dongsheng 6. Wong Shun Tak 7. Tong Wai Cheung Timothy
Shenzhen Qifu Guolong Small and Medium Micro-Enterprise Equity Investment Fund Partnership (L.P.)* (深圳市啟賦國隆中小微企業股權投資基金合夥企業(有限合伙))(owning approximately 1.5504% interests in TCL Holdings)	General partner: Shenzhen Guolong Capital Equity Investment Management Co., Ltd.* (深圳市國隆資本股權投資管理有限公司), the director of which is HUANG Yanhua	N/A	N/A

Notes:

1. Only shareholders with over 50% interests in the chain of ownership of the Offeror Shareholder will be disclosed.
 2. There is no information on the directorship of State-owned Assets Supervision and Administration Commission of Huizhou Municipal People’s Government*. The legal representative of such entity is WANG Zhengyin.
 3. As disclosed in Xiaomi Corporation’s annual report 2019, Xiaomi Inc.* and its equity holders had entered into a series of contractual arrangements with a wholly owned subsidiary of Xiaomi Corporation (stock code on the Stock Exchange: 1810), as a result it was considered that Xiaomi Corporation has rights to exercise power over Xiaomi Inc.* and its subsidiaries, receives variable returns, has the ability to affect those returns and is considered to control Xiaomi Inc.* and its subsidiaries and Xiaomi Corporation has consolidated the assets, liabilities and results of operations of Xiaomi Inc.* and its subsidiaries in the consolidated financial information of Xiaomi Corporation.
- (k) The address of Mr. LI Dongsheng was 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.
- (l) The address of Mr. LI Dongsheng’s spouse was C6 TCL International E City, No. 1006 Zhongshan Park Road, Nanshan, Shenzhen, the PRC.

- (m) The address of Ms. XIONG Yan was Room A, 7/F, Block 9, Double Cove-Summit, 8 Wu Kai Sha Road, Ma On Shan, New Territories, Hong Kong.
- (n) The address of Mr. DU Yuanhua was Flat A, 12/F, Tower 11, Discovery Park, Tsuen Wan, New Territories, Hong Kong.
- (o) The address of Mr. YU Guanghui was 2C Block, Mangrove Bay Citic, Sandriver Road, Nanshan District, Shenzhen, Guangdong Province, the PRC.
- (p) The address of Mr. SONG Yonghong was 9-8B Hai Yin Greatwall, Nanshan District, Shenzhen, Guangdong Province, the PRC.
- (q) The address of Mr. REN Xuenong was Room 407, Block 4, Qiaocheng Haoyuan, Baishizhou, Nanshan District, Shenzhen, Guangdong Province, the PRC.
- (r) The address of Mr. WANG Xiaofeng was Room 6A, Building 3, Nanhai Rose Garden Phase 3, No. 3 Jinshiji Road, Nanshan District, Shenzhen, the PRC.
- (s) The address of Mr. HUANG Wei was 5A, Yueshan Pavilion, No. 10 Dongbin Road, Nanshan District, Shenzhen, Guangdong, the PRC.
- (t) The address of Vast Bright Investment Limited was Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- (u) The director of Vast Bright Investment Limited is Ms. CHENG Feifei, the spouse of Mr. YU Guanghui. Vast Bright Investment Limited is wholly owned by Mr. YU Guanghui.
- (v) The address of Run Fu Holdings Limited was OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.
- (w) The directors of Run Fu Holdings Limited are Mr. HUANG Wei and Mr. REN Xuenong. Run Fu Holdings Limited is wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders. The general partner of Huizhou Guangsheng is Mr. HUANG Wei.
- (x) The address of Mr. LIAO Qian was 3A, 201, Xintian International Famous Garden, Qiao Xiang Road, Futian District, Shenzhen, Guangdong, the PRC.
- (y) The address of Trustee was 12/F Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (z) The principal place of business of Citigroup was situated at 50/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

- (aa) The principal place of business of Somerley was situated at 20/F China Building, 29 Queen's Road Central, Hong Kong.
- (bb) The English language text of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language text.

The following is a form of the Option Offer Letter being sent to each Option Holder in connection with the Option Offer.

To the Option Holders

29 January 2021

Dear Sir or Madam,

**OPTION OFFER
IN RELATION TO THE PROPOSED PRIVATISATION OF
TONLY ELECTRONICS HOLDINGS LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES ACT)**

A scheme document dated the same date as this letter issued jointly by T.C.L. Industries Holdings (H.K.) Limited (the “**Offeror**”) and Tonly Electronics Holdings Limited (the “**Company**”) (the “**Scheme Document**”) and a YELLOW form of acceptance (the “**Form of Acceptance**”) is provided to you together with this letter. Terms used but not defined in this letter shall have the same meanings as defined in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 30 October 2020, the Offeror and the Company jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders 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 (the “**Announcement**”). As stated in the Announcement, the Offeror will make an appropriate offer to all the holders of the outstanding Share Options in accordance with Rule 13 of the Takeovers Code (the “**Option Offer**”), conditional upon the Scheme becoming effective.

This letter explains the terms of the Option Offer and the actions you may take in relation to any Share Options held by you. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the documentation under which each of your Share Options was granted (including the terms of the Share Option Scheme).

TERMS OF THE OPTION OFFER

Any Share Options that are not exercised on or prior to the Latest Options Exercise Date or cancelled pursuant to the acceptance of the Option Offer will automatically lapse upon expiry of the period of 21 Business Days after the Scheme becoming effective. You may accept the Option Offer by lodging a completed YELLOW Form of Acceptance in respect of the Option Offer by the prescribed deadline.

Share Option**Option Consideration**

For each Share Option

HK\$12.00 minus the exercise price of the relevant outstanding Share Option*, being HK\$4.16.

* *The relevant exercise price applicable to each Share Option is HK\$7.84.*

The Option Offer is conditional upon the Scheme becoming effective. The Option Offer will become unconditional immediately upon the Scheme becomes effective. The Conditions of the Proposal and the Scheme are set out in the section headed “3. Conditions of the Proposal and the Scheme” in “Part VII – Explanatory Memorandum” of the Scheme Document.

In addition, all payments in respect of the Option Consideration will be made by cheques, cash or bank transfers in Hong Kong dollars or RMB. All rights and obligations under your Share Options will be immediately cancelled by the Offeror and the Company upon your acceptance.

Payment can be made either by way of (i) electronic bank transfer into a brokerage account held with BOCI Securities Limited as instructed by you in the YELLOW Form of Acceptance in Hong Kong dollars, (ii) physical delivery to you of a cheque in Hong Kong dollars to the correspondence address in Hong Kong as provided by you in the YELLOW Form of Acceptance or (iii) electronic bank transfer into a bank account in the PRC as instructed by you in the YELLOW Form of Acceptance, or payment in cash, through an intermediate recipient, i.e. an affiliate of the Offeror in the PRC in RMB. You will be able to elect one of the payment mechanism in your YELLOW Form of Acceptance.

You are further advised to refer to the sections headed “20. Registration and Payment”, “21. Overseas Scheme Shareholders and Option Holders”, and “23. Taxation” in “Part VII – Explanatory Memorandum” in the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee set out in Part V of the Scheme Document and the letter from Somerley set out in Part VI of the Scheme Document, which contain the recommendation of the Independent Board Committee and Somerley, respectively, in relation to the Proposal, the Scheme, the Option Offer and the Rollover Arrangement.

COURSES OF ACTION AVAILABLE TO OPTION HOLDERS

The choices available to you in respect of your Share Options are set out below.

(A) Accept the Option Offer

The Option Offer shall be in respect of all Share Options that you hold as at the Scheme Record Date (expected to be Thursday, 4 March 2021) and for which you (or your nominee) have not been registered as the holder of the underlying Shares as at the Scheme Record Date (expected to be Thursday, 4 March 2021).

You may choose to accept the Option Offer on the terms (including all declarations and undertakings) as set out in this letter and the enclosed YELLOW Form of Acceptance, by ticking the “Accept” box on the YELLOW Form of Acceptance and returning it in accordance with the instructions set out below. Such acceptance of the Option Offer will be in respect of all Share Options held by you as at the Scheme Record Date.

The latest time and date to accept the Option Offer as indicated in Part III of this Scheme Document is 4:30 p.m. on Wednesday, 7 April 2021 (or such other date and time as may be notified to you by the Offeror, Citigroup and the Company or by way of joint announcement by the Offeror and the Company on the respective websites of the Stock Exchange and the Company).

(B) Reject the Option Offer

If you choose to reject the Option Offer, please tick the “Reject” box on the enclosed YELLOW Form of Acceptance and return it in accordance with the instructions set out below. Such rejection of the Option Offer will be in respect of all Share Options held by you as at the Scheme Record Date.

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.

If you reject the Option Offer, you will not be entitled to receive the Option Consideration offered in respect of any of your Share Options.

Following receipt of this letter, if you (i) choose to do nothing (including not returning a YELLOW Form of Acceptance) or (ii) fail to tick either an “Accept” or “Reject” box on a returned YELLOW Form of Acceptance, and the Scheme becomes effective, you will be treated as if not having accepted the Option Offer in respect of all Share Options held by you as at the Scheme Record Date, your Share Options will automatically lapse upon expiry of the period of 21 Business Days after the Effective Date and you will not be entitled to receive the Option Consideration.

(C) Become a Scheme Shareholder

If any of your Share Options are or become exercisable, you may choose to pay the exercise price and applicable taxes and exercise your Share Options under their terms prior to the Latest Options Exercise Date. If, as a result, you are a registered holder of the underlying Shares as at the Scheme Record Date (expected to be Thursday, 4 March 2021), such Shares will form part of the Scheme Shares and will be cancelled and extinguished if the Scheme becomes effective. You will then be entitled to receive the Scheme Share Consideration for the Scheme Shares that you hold as at the Scheme Record Date. However, if you have exercised your Share Options but have not been registered as the legal owner of the underlying Shares as of the Scheme Record Date, you will remain as Option Holder.

Please note, however, that as the Option Consideration offered for each Share Option under the Option Offer is based on a “see-through price”, equal to the Scheme Share Consideration of HK\$12.00 minus the relevant exercise price of HK\$7.84, there is no monetary benefit to taking this course of action when compared to accepting the Option Offer. Nonetheless, Disinterested Scheme Shareholders or the Shareholders (as the case may be) as at the Meeting Record Date will be entitled, subject to the Takeovers Code, to attend and vote at the Court Meeting and the EGM, whereas you will not have such right to attend and vote if you are only an Option Holder. Please note that only Disinterested Scheme Shareholders may vote at the Court Meeting on the resolution to approve the Scheme and at the EGM on the resolutions regarding the Rollover Arrangement.

Option Holders who have given Irrevocable Undertakings to the Offeror and the Company are reminded to observe the terms of the Irrevocable Undertakings, among others, (i) not to exercise any of the Share Options held by him/her from the date of despatch of this Scheme Document to completion or, where applicable, lapse of the Scheme and the Option Offer (the later date is applicable and both dates inclusive) and (ii) to accept the Option Offer and sign all the documents and take all steps as necessary and appropriate to accept the Option Offer. The Offeror and the Company are entitled to claim damages, as well as the remedies of injunction, specific performance and other equitable relief for any threatened or actual breach of the obligations of such Option Holders under the Irrevocable Undertakings.

You are advised to refer to the sections headed “2. Terms of the Proposal – Irrevocable Undertakings” in “Part VII – Explanatory Memorandum” in the Scheme Document.

HOW TO RETURN THE FORM OF ACCEPTANCE

You should return the completed YELLOW Form of Acceptance to the Human Resources Department of the Company and marked “Tonly Electronics Holdings Limited – Option Offer”, by no later than 4:30 p.m. on Wednesday, 7 April 2021 (Hong Kong time) (or such other date and time as may be notified to you by the Offeror, Citigroup and the Company or by way of joint announcement by the Offeror and the Company on the respective websites of the Stock Exchange and the Company).

Before returning the YELLOW Form of Acceptance, please ensure that you have completed and signed the YELLOW Form of Acceptance and that your signature has been witnessed.

Subject to the Scheme becoming effective, the Offeror shall, as soon as possible, and in any event within 7 Business Days of the Effective Date, or in the case of Forms of Acceptance received after the Effective Date, within 7 Business Days of receipt of the relevant Forms of Acceptance, make payment to you if you have duly completed and lodged the Forms of Acceptance to accept the Option Offer.

No acknowledgment of receipt of the Form of Acceptance or any other documents will be given.

LAPSED SHARE OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Option which lapses, will lapse, or has already lapsed, under the terms of its grant or the Share Option Scheme. You cannot accept the Option Offer in respect of a Share Option which has lapsed or will have lapsed by the Scheme Record Date.

Any Share Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer will lapse automatically and not be exercisable at the expiry of the 21 Business Days period after the Effective Date.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

Your attention is drawn to the letter from the Independent Board Committee to the Disinterested Scheme Shareholders and the Option Holders set out in Part V of the Scheme Document and the letter from Somerley, the Independent Financial Adviser, set out in Part VI of the Scheme Document which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Proposal, the Scheme, the Option Offer and the Rollover Arrangement.

PROFESSIONAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document, the YELLOW Form of Acceptance or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By returning the YELLOW Form of Acceptance, you:

- (a) confirm that you have read, understood and agreed to the terms and conditions of the Option Offer (including, without limitation, those set out in this letter, the Form of Acceptance and the Scheme Document), and that you have received the Scheme Document and this letter;
- (b) confirm that each Share Option in respect of which you accept the Option Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
- (c) acknowledge that you cease to have any rights or obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of such Share Option you hold in respect of which you accept the Option Offer and agree that all rights and obligations under such Share Options will be cancelled;
- (d) confirm that any acceptance of the Option Offer cannot be withdrawn or altered;
- (e) authorise the Company and the Offeror, jointly and severally, or any director or officer of the Company or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to or in consequence of your acceptance of the Option Offer, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance (including consenting to the Company, the Board or the Offeror, as applicable, exercising its rights to amend the terms of your Share Options such that they may be transferred to the Offeror); and
- (f) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney or agent appointed by or pursuant to this letter or the Form of Acceptance.

GENERAL

- (a) All communications, notices, Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Option Holders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of Citigroup, the Offeror or the Company accepts any liability for any loss or any other liabilities whatsoever which may arise as a result. This letter shall be taken as having been received by you within 2 Business Days of its despatch.
- (b) The provisions set out in the YELLOW Form of Acceptance form part of the terms of the Option Offer.
- (c) The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (d) Due execution of the YELLOW Form of Acceptance in respect of the Option Offer will constitute an authority to Citigroup, the Offeror, the Company or such person(s) as any of them may direct to complete and execute any document on behalf of the Option Holders and to do any other act, that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the Option Holders in respect of the Share Options which are the subject of such acceptance.
- (e) The delivery of the YELLOW Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the instructions set out in the YELLOW Form of Acceptance and this letter.
- (f) By accepting the Option Offer in respect of a particular Share Option, you irrevocably and at your own risk elect to authorise the Offeror to send to you, or procure the sending to you of, the payment to which you are entitled.
- (g) Any acceptance of the Option Offer and the receipt of Option Consideration may trigger taxes subject to withholding obligations of the Offeror and/or the Company. Option Consideration under the Option Offer will be paid to you net of such applicable taxes, if any. All Option Holders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Option Offer.

RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this letter relating to the Group and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this letter (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 letter, the omission of which would make any statement in this letter misleading.

The directors of Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this letter (other than that relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this letter (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 letter, the omission of which would make any statement in this letter misleading.

Yours truly,

For and on behalf of

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

DU Yuanhua

Director

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 294 of 2020

IN THE MATTER OF SECTION 86 OF THE COMPANIES ACT (2020 REVISION)
(AS REVISED)
AND IN THE MATTER OF ORDER 102 OF THE GRAND COURT RULES 1995
(AS REVISED)
AND IN THE MATTER OF TONLY ELECTRONICS HOLDINGS LIMITED

SCHEME OF ARRANGEMENT

Between

TONLY ELECTRONICS HOLDINGS LIMITED
通力電子控股有限公司

and

THE SCHEME SHAREHOLDERS
(as hereinafter defined)

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“acting in concert”	has the meaning given to it under the Takeovers Code and “concert party” or “concert parties” shall be construed accordingly
“Board”	the board of Directors
“Business Day”	any day(s) 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 under the SFO, and the exclusive financial adviser to the Offeror in connection with the Proposal

“Companies Act”	The Companies Act (2020 Revision) of the Cayman Islands, as consolidated and revised
“Company”	Tonly Electronics Holdings Limited, an exempted 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)
“Concert Party(ies)”	those persons acting in concert or presumed to be acting in concert with the Offeror, including TCL Holdings, the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui, a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), Mr. LIAO Qian and Trustee
“Conditions”	the conditions to the implementation of the Proposal and the Scheme, as set out in “Part VII – Explanatory Memorandum – 3. Conditions of the Proposal and the Scheme” of the Scheme Document
“Court”	the Grand Court of the Cayman Islands
“Court Meeting”	a meeting of the Disinterested Scheme Shareholders to be convened at the direction of the Court and which is to be held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong at 10:00 a.m. on Tuesday, 23 February 2021 at which the Scheme (with or without modification) will be voted upon, notice of which is set out in “Appendix V Notice of Court Meeting” to the Scheme Document, or any adjournment thereof
“Court Order”	the order of the Court sanctioning the Scheme under section 86 of the Companies Act
“Director(s)”	the director(s) of the Company from time to time

“Disinterested Scheme Shareholders”

the Shareholders other than the Offeror and its Concert Parties (including the Offeror Directors, the Management Shareholders, Vast Bright Investment Limited (a company wholly owned by Mr. YU Guanghui, a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng, a limited partnership wholly owned by the Management Shareholders), Mr. LIAO Qian and Trustee). For the avoidance of doubt, each member of Citigroup which is an exempt principal trader is a Disinterested Scheme Shareholder but is not entitled to vote at the Court Meeting or on the resolution in relation to the Rollover Arrangement at the EGM, except in respect of the Shares held by it as a simple custodian for and on behalf of its non-discretionary clients where such client (i) controls the voting rights attaching to such Shares; (ii) if the Shares are voted, gives instructions as to how such Shares are to be voted; and (iii) is not the Offeror nor its Concert Parties; and where the Executive has confirmed that Rule 35.4 of the Takeovers Code does not apply to such Shares

“Effective Date”

the date on which the Scheme, if approved and sanctioned by the Court, becomes effective in accordance with its terms and the Companies Act, being the date on which a copy of the Court Order sanctioning the Scheme and confirming the reduction of issued share capital of the Company resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) and section 15 of the Companies Act, and which is expected to be Thursday, 4 March 2021 (Cayman Islands time)

“Executive”

the Executive Director of the Corporate Finance Division of the SFC or any delegate for the time being of the Executive Director

“HK\$”

Hong Kong dollar(s), the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“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 to make a recommendation to the Disinterested Scheme Shareholders and the Option Holders in respect of the Proposal, the Scheme, the Option Offer and the special deal relating to the Rollover Arrangement
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme, the Option Offer and the Rollover Arrangement
“Latest Practicable Date”	27 January 2021, being the latest practicable date prior to the printing of the Scheme Document for ascertaining certain information contained in the Scheme Document
“Long Stop Date”	30 June 2021 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
“Management Shareholders”	Mr. YU Guanghui, Mr. SONG Yonghong, Mr. REN Xuenong, Mr. WANG Xiaofeng and Mr. HUANG Wei
“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 Latest Practicable Date

“Offeror Directors”	the directors of the Offeror, namely Mr. LI Dongsheng, Ms. XIONG Yan and Mr. DU Yuanhua (together with their close relatives, related trusts and companies controlled by such directors, their close relatives and related trusts)
“Option Holder(s)”	holder(s) of the Share Options
“Option Offer”	the offer to be made by or on behalf of the Offeror to the Option Holders
“PRC”	the People’s Republic of China (for the purpose of this Scheme, excluding Hong Kong, Macau Special Administrative Region of the PRC 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 Scheme Document
“Record Date”	Thursday, 4 March 2021, or such other time and date as shall have been announced by the Company, being the record date for determining the entitlements of the Scheme Shareholders to the Scheme Share Consideration under the Scheme
“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
“Rollover Agreement”	the rollover agreement dated 30 October 2020 among the Management Shareholders and the Offeror, details of which are set out in “Part VII – Explanatory Memorandum – 4. Rollover Arrangement” of the Scheme Document
“Rollover Arrangement”	the arrangement under the Rollover Agreement, details of which are set out in “Part VII – Explanatory Memorandum – 4. The Rollover Arrangement” of the Scheme Document

“Scheme”	the scheme of arrangement under Section 86 of the Companies Act 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 Document”	the scheme document dated 29 January 2021 issued jointly by the Company and the Offeror, including each of the letters, statements, memorandum, appendices (including this Scheme) and notices in it
“Scheme Share(s)”	Share(s) in the Company in issue as of the Record Date other than those beneficially held by the Offeror
“Scheme Shareholder(s)”	Shareholder(s) other than the Offeror on the Record Date
“Scheme Share Consideration”	HK\$12.00 per Scheme Share cancelled and extinguished payable in cash by the Offeror to the Scheme Shareholders
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented and/or modified from time to time)
“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)
“Share Award(s)”	the Share(s) awarded under the Restricted Share Award Scheme from time to time that have not been vested to the grantees nor 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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers (as amended, supplemented and/or modified from time to time)
“Trustee”	BOCI-Prudential Trustee Limited, the trustee appointed by the Board for the administration of the Restricted Share Award Scheme
“Unreleased Vested Shares”	Shares that were granted to Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua which have met the relevant vesting conditions but have not been released by the Trustee. As at the Latest Practicable Date, among the Unreleased Vested Shares, 40,871 Shares were held by the Trustee for the benefit of Mr. LI Dongsheng and his spouse, and 1,722 and 2,838 Shares were held by the Trustee for the benefit of Ms. XIONG Yan and Mr. DU Yuanhua, respectively. These Shares were held by the Trustee under the Restricted Share Award Scheme in the same manner as the Share Awards that have not vested and the Trustee will release the Unreleased Vested Shares to the relevant grantee(s) upon its receipt of the relevant instructions from the Directors

- (B) The Company was incorporated as an exempted company on 8 February 2013 with limited liability in the Cayman Islands under the Companies Act.
- (C) As at the Latest Practicable Date, the authorised share capital of the Company was HK\$500,000,000.00 divided into 500,000,000 Shares of a single class with a par value of HK\$1.00 each. As at the Latest Practicable Date, the issued share capital of the Company is HK\$273,393,448.00 divided into 273,393,448 Shares, with the remainder being unissued. Since 15 August 2013, the issued Shares of the Company have been listed and traded on the Main Board of the Stock Exchange.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme.
- (E) The primary purpose of this Scheme is to privatise the Company as a result of cancelling and extinguishing all of the Scheme Shares in exchange for the payment of the Scheme Share Consideration so that the Company shall thereafter become wholly owned by the Offeror. Simultaneously with the cancellation and extinguishment of the Scheme Shares, 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.

(F) The shareholding structure of the Company as at the Latest Practicable Date is as follows:-

	As at the Latest Practicable Date (based on the existing issued share capital of the Company)	
	Number of Shares owned	% of the total issued Shares of the Company
Offeror and parties acting concert with it		
Offeror	167,452,239	61.25%
Offeror Directors		
Mr. LI Dongsheng and his spouse ⁽¹⁾	1,043,901	0.38%
Ms. XIONG Yan ⁽²⁾	18,656	0.01%
Mr. DU Yuanhua ⁽³⁾	15,540	0.01%
Management Shareholders		
Mr. YU Guanghui ⁽⁴⁾	15,351,671	5.62%
Mr. SONG Yonghong ⁽⁵⁾	6,622,620	2.42%
Mr. REN Xuenong ⁽⁶⁾	3,783,992	1.38%
Mr. WANG Xiaofeng ⁽⁷⁾	3,293,637	1.20%
Mr. HUANG Wei ⁽⁸⁾	3,225,174	1.18%
Mr. LIAO Qian ⁽⁹⁾	97,746	0.04%
Trustee ⁽¹⁰⁾	3,386,385	1.24%
Subtotal ⁽¹¹⁾	<u>204,246,130</u>	<u>74.71%</u>
Disinterested Scheme Shareholders	69,147,318	25.29%
Scheme shareholders ⁽¹²⁾	<u>105,941,209</u>	<u>38.75%</u>
Total	<u><u>273,393,448</u></u>	<u><u>100%</u></u>
Total number of Scheme Shares	<u><u>105,941,209</u></u>	<u><u>—</u></u>

Notes:

- (1) Consisting of (x) 894,777 Shares in which Mr. LI Dongsheng is beneficially interested (which included 35,077 Unreleased Vested Shares); (y) 149,124 Shares in which Mr. LI Dongsheng's spouse is beneficially interested (which included 5,794 Unreleased Vested Shares).
- (2) Consisting of 18,656 Shares in which Ms. XIONG Yan is beneficially interested (which included 1,722 Unreleased Vested Shares).
- (3) Consisting of 15,540 Shares in which Mr. DU Yuanhua is beneficially interested (which included 2,838 Unreleased Vested Shares).
- (4) Consisting of 2,212,259 Scheme Shares held directly by Mr. YU Guanghui; 11,869,339 Scheme Shares held through Vast Bright Investment Limited, a company wholly owned by Mr. YU Guanghui; 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 Guanghui has an approximate 9.48% equity interest as a limited partner as at the Latest Practicable Date.
- (5) Consisting of 1,661,398 Scheme Shares held directly by Mr. SONG Yonghong 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 Yonghong has an approximate 37.03% equity interest as a limited partner as at the Latest Practicable Date.
- (6) Consisting of 1,100,963 Scheme Shares held directly by Mr. REN Xuenong 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 Xuenong has an approximate 20.02% equity interest as a limited partner as at the Latest Practicable Date.
- (7) Consisting of 1,279,381 Scheme Shares held directly by Mr. WANG Xiaofeng 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 Xiaofeng has an approximate 15.03% equity interest as a limited partner as at the Latest Practicable Date.
- (8) Consisting of 754,486 Scheme Shares held directly by Mr. HUANG Wei 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 Wei serves as general partner and has an approximate 18.44% equity interest as a limited partner as at the Latest Practicable Date.
- (9) Consisting of 97,746 Shares held directly by Mr. LIAO Qian.
- (10) Including 45,431 Unreleased Vested Shares, among which 40,871, 1,722 and 2,838 Shares were held for the benefit of Mr. LI Dongsheng and his spouse, Ms. XIONG Yan and Mr. DU Yuanhua, respectively. The Unreleased Vested Shares are also included in the numbers of Shares under "Offeror Directors" in the table.
- (11) Numbers do not add up to total due to some shareholdings being disclosed more than once in the table. See Note 10 for further details.
- (12) The total number of Scheme Shares comprises the Shares held by the Management Shareholders, the Disinterested Scheme Shareholders and the Offeror's Concert Parties.

- (G) The Offeror and its Concert Parties will not vote at the Court Meeting convened at the direction of the Court for the purpose of considering and, if thought fit, approving the Scheme.
- (H) For the purpose of approving the Scheme, the Concert Parties are considered under the laws of Cayman Islands as having different interests from those of the Disinterested Scheme Shareholders. The Company would have been required to hold a formal meeting of the Concert Parties as a separate class to consider, and if thought fit, approve (with or without modification) the Scheme. Nevertheless, each of the Offeror and its Concert Parties has undertaken to the Court and the Company to be bound by the Scheme and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme. Therefore, such formal meeting of the Concert Parties is waived on the grounds that all such Concert Parties have undertaken to be bound by the terms of the Scheme if sanctioned.

THE SCHEME**PART I****CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES**

1. On the Effective Date:
 - (a) the Scheme Shares shall be cancelled and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except for the right to receive the Scheme Share Consideration;
 - (b) subject to and forthwith upon such reduction of issued share capital taking effect, 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; and
 - (c) the Company shall apply the reserve created in its books of account as a result of the cancellation of the Scheme Shares referred to in paragraph (a) above in paying up in full at par the new Shares so issued pursuant to paragraph (b) above, which shall be allotted and issued, credited as fully paid, to the Offeror.

PART II**CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT
OF THE SCHEME SHARES**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid the Scheme Share Consideration to each Scheme Shareholder.

PART III**GENERAL**

3. (a) As soon as possible and but in any event within seven Business Days following the Effective Date, the Offeror shall post or cause to be posted cheques to the Scheme Shareholders in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.

- (b) Unless otherwise indicated in writing to the Company's branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by ordinary mail addressed to such Scheme Shareholders at their respective registered addresses as appearing in the register of members of the Company as at the Record Date, or in the case of joint holders, at the address appearing in the register of members of the Company as at the Record Date of the joint holder whose name then stands first in the register of members of the Company in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.
- (d) All such cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, their respective advisers and share registrars, and any of their respective directors, officers, employees, agents, affiliates, or advisers and any other persons involved in the Proposal shall be liable for any loss or delay in despatch.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the name of the Offeror with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto, provided that the cheques referred to in the foregoing sentence of which they are payees have not been encashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
- (f) On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme, including accrued interest subject to any deduction required by law and expenses incurred.

- (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation and extinguishment of the Scheme Shares, the register of members of the Company shall be updated to reflect such cancellation and extinguishment.
- 4. As from and including the Effective Date:
 - (a) all certificates for the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
 - (b) all instruments of transfer validly subsisting as at the Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
 - (c) all mandates or other instructions to the Company in force as at the Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
- 5. Subject to the Conditions having been fulfilled or waived, as applicable, this Scheme shall become effective as soon as a copy of the order of the Court sanctioning this Scheme under section 86 of the Companies Act has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) and section 15 of the Companies Act.
- 6. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.
- 7. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the Court may see fit to approve or impose.
- 8. If the Proposal is either not recommended by the Independent Board Committee, or 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.
- 9. Since the Independent Board Committee and the Independent Financial Adviser have both recommended the Proposal, the Company and the Offeror have agreed that each party will bear its own costs, charges and expenses whether the Proposal is approved at the Court Meeting or not.

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 294 of 2020

IN THE MATTER OF SECTION 86 OF THE COMPANIES ACT (2020 REVISION)
(AS REVISED)
AND IN THE MATTER OF ORDER 102 OF THE GRAND COURT RULES 1995
(AS REVISED)
AND IN THE MATTER OF TONLY ELECTRONICS HOLDINGS LIMITED

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated the 26th day of January 2021 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Meeting**”) to be convened of the Disinterested Scheme Shareholders (as defined in the Scheme hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme**”) proposed to be made between the Company and the Scheme Shareholders (as defined in the Scheme), and that such Meeting will be held at 10:00 a.m. on Tuesday, 23 February 2021 at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong at which place and time the Disinterested Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of the explanatory memorandum (the “**Explanatory Memorandum**”) explaining the effect of the Scheme are incorporated in the composite scheme document of which this Notice forms part (the “**Scheme Document**”), which has been despatched by post to the Shareholders. A copy of the Scheme Document can also be obtained by any person entitled to attend the Meeting during usual business hours on any day prior to the day appointed for the Meeting (other than a Saturday, a Sunday or a public holiday in Hong Kong) from the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

The Disinterested Scheme Shareholders may vote in person at the Meeting or they may appoint one person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A PINK form of proxy for use at the Meeting is enclosed with the Scheme Document.

In the case of joint holders of a Disinterested Scheme Share (as defined in the Scheme Document), the vote of the most senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the Disinterested Scheme Share.

For the purposes of determining whether or not a majority in number of Disinterested Scheme Shareholders approved the Scheme pursuant to Section 86 of the Companies Act, where the same person is the holder of a number of Shares bearing different certificate numbers or account numbers, such person shall be entitled to be present at the Meeting personally or by proxy and vote such Shares in which case he/she/it will be treated as a single Shareholder. In accordance with articles 4.14 and 14.4 of the Articles of the Company, if a Share is held in the name of two or more persons, the person first named in the Register shall be deemed the sole Shareholder and be entitled to vote in respect of the relevant joint holding either in person or by proxy.

It is requested that forms appointing proxies, together with the letter or power of attorney or other authority (if any) under which they are signed or a notarially certified copy thereof (in the case of a corporation either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company), be lodged at the Company's branch share registrar and transfer office in Hong Kong as stated above no later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Alternatively, PINK forms of proxy may be handed to the chairman of the Meeting at the Meeting (who shall have absolute discretion as to whether or not to accept it) before the taking of the poll.

Completion and return of the form of proxy will not preclude a Disinterested Scheme Shareholder from attending and voting in person at the Meeting or any adjournment thereof. In the event that a Disinterested Scheme Shareholder attends and votes at the Meeting or any adjournment thereof after having lodged his/her/its form of proxy, his/her/its form of proxy shall be revoked by operation of law.

For the purpose of determining the entitlements of Disinterested Scheme Shareholder to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 17 February 2021 to Tuesday, 23 February 2021, both dates inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong as stated above before 4:30 p.m. (Hong Kong time) on Tuesday, 16 February 2021.

By the same order, the Court has appointed Mr. POON Chiu Kwok, an independent non-executive director of the Company or failing him, any other director of the Company at the time of the Meeting to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the result thereof to the Court.

The Scheme will be subject to the subsequent sanction of the Court as set out in the Explanatory Memorandum contained in the Scheme Document.

By Order of the Court
Tonly Electronics Holdings Limited
通力電子控股有限公司

Dated the 29th day of January 2021.

Registered office:

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

Principal place of business in Hong Kong:

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

Notes:

- (i) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme Document shall have the same meanings when used in this notice.
- (ii) At the Meeting, the Scheme will be voted on by way of poll as required under the Listing Rules and the Takeovers Code.
- (iii) A PINK form of proxy for use at the Meeting (or any adjournment thereof) is enclosed with the Scheme Document.
- (iv) A Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) entitled to attend and vote at the Meeting is entitled to appoint one proxy, whether a member of the Company or not, as his/her/its proxy(ies) to attend, speak and vote instead of him/her/it. Each Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) is only entitled to submit one proxy form for the Meeting. If more than one proxy form for the Meeting is submitted by a Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) and the voting instructions require the proxies to vote both FOR and AGAINST the Scheme, the proxy forms will not be accepted. If more than one proxy form for the Meeting is submitted by a Disinterested Scheme Shareholder who is a Registered Owner (other than HKSCC Nominees) and the voting instructions require the proxies to vote either FOR or AGAINST the Scheme but not both FOR and AGAINST the Scheme, the chairman of the Meeting shall have absolute discretion as to whether or not to accept those proxy forms.

- (v) The PINK form of proxy, together with the letter or power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof (in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company), should be lodged at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof although it may be handed to the chairman of the Meeting at the Meeting before the taking of the poll and the chairman of the Meeting shall have absolute discretion whether or not to accept it. Completion and return of the PINK form of proxy will not preclude a Disinterested Scheme Shareholder from attending and voting in person at the Meeting or any adjournment thereof. In the event that a Disinterested Scheme Shareholder attends and votes at the Meeting after having lodged his/her/its PINK form of proxy, his/her/its PINK form of proxy shall be revoked by operation of law.
- (vi) In the case of joint holders of a Disinterested Scheme Share, the vote of the most senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the Disinterested Scheme Share.
- (vii) For the purpose of determining the entitlements of holders of the Disinterested Scheme Shares to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 17 February 2021 to Tuesday, 23 February 2021, both dates inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 16 February 2021.
- (viii) The Disinterested Scheme Shareholders of the Company should note that the Meeting will be held as scheduled when tropical cyclone warning signal no. 8 (or above), black rainstorm or "extreme conditions" as defined under Chapter 1 of the Listing Rules is in force. In such event, Disinterested Scheme Shareholders of the Company should make their own decision as to whether they would attend the Meeting under bad weather conditions bearing in mind their own situations and if they should choose to do so, they are advised to exercise care and caution.
- (ix) Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Meeting to protect the Disinterested Scheme Shareholders from the risk of infection:
 - a. compulsory body temperature checks will be conducted for every attending Disinterested Scheme Shareholder and/or proxy at the entrance of the venue;
 - b. every attending Disinterested Scheme Shareholder and/or proxy is required to wear a surgical mask throughout the Meeting;
 - c. Disinterested Scheme Shareholders and/or their proxies who do not comply with the precautionary measures or have a body temperature of over 37.3 degrees Celsius but wish to attend the Meeting in person will be accommodated in designated area of the venue to attend the Meeting and exercise their voting rights;

- d. Seating in the Meeting venue will also be arranged so as to allow for appropriate social distancing. In view of the Regulation and the requirements for social distancing to ensure the health and safety of attendees, there will be limited capacity for Shareholders to attend the Meeting and only Disinterested Scheme Shareholders and/or their proxies and relevant Meeting staff will be allowed entry into Meeting venue and the attending Disinterested Scheme Shareholders (or their proxies) will be admitted to the main conference room at the venue on a “first-come-first-served” basis, whereas other attending Shareholders (or their proxies) will be accommodated in other room(s) at the venue after the main conference room is fully occupied. The Company may limit the number of attendees at the Meeting as may be necessary to avoid overcrowding; and
 - e. no refreshments will be served at the Meeting.
- (x) In order to facilitate the prevention and control of COVID-19, and to safeguard the health and safety of the Disinterested Scheme Shareholders, **the Company reminds all Disinterested Scheme Shareholders that physical attendance in person at the Meeting is not necessary for the purpose of exercising their voting rights and strongly advises the Disinterested Scheme Shareholders to appoint the chairman of the Meeting as a proxy to vote on the resolutions as an alternative to attending the Meeting in person** in light of the continuing risks posed by the COVID-19 pandemic. Disinterested Scheme Shareholders are requested (a) to consider carefully the risk of attending the Meeting, which will be held in an enclosed environment; (b) to follow and comply with any law and guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic in deciding whether or not to attend the Meeting; and (c) not to attend the Meeting if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

**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)****NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Tonly Electronics Holdings Limited (the “**Company**”) will be held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Tuesday, 23 February 2021 at 10:30 a.m. (or immediately after the conclusion or adjournment of the meeting of the Disinterested Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands (the “**Court**”) for the same day and place), for the purpose of considering and, if thought fit, passing, the following as a special resolution and ordinary resolutions respectively:

SPECIAL RESOLUTION1. “**THAT:**

- (a) pursuant to a scheme of arrangement dated 29 January 2021 (the “**Scheme of Arrangement**”) between the Company and the Scheme Shareholders (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to the EGM and for the purposes of identification signed by the chairman of the EGM, or in such other form and on such terms and conditions as may be approved or imposed by the Court, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement);
- (b) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of the issued share capital of the Company pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of the issued share capital of the Company which the Court may see fit to impose; and

- (c) subject to the Scheme becoming effective, the withdrawal of the listing of the Shares of the Company from The Stock Exchange of Hong Kong Limited be and is hereby approved, and any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the Shares of the Company.”

ORDINARY RESOLUTIONS

2. “THAT:
- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the issued share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares of HK\$1.00 each in the share capital of the Company as is equal to the number of Scheme Shares cancelled;
- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new ordinary shares allotted and issued to the Offeror pursuant to resolution 2(a) above, and any one of the directors of the Company be and is hereby authorised to allot and issue the same accordingly; and
- (c) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the restoration of capital pursuant to the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme of Arrangement or the restoration of capital, which the Court may see fit to impose.”
3. “THAT the rollover arrangement between the Offeror and the Management Shareholders (as defined in the Scheme of Arrangement) under the rollover agreement entered into among them on 30 October 2020 which constitutes a special deal under Rule 25 of the Takeovers Code is hereby approved.”

By order of the board
Tonly Electronics Holdings Limited
LIAO Qian
Chairman

Hong Kong, 29 January 2021

Notes:

- (i) The above mentioned resolution 3 shall be approved by the Disinterested Scheme Shareholders (as defined in the Scheme Document) as required by the Takeovers Code.
- (ii) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme of Arrangement shall have the same meanings when used in this notice.
- (iii) At the EGM, the chairman of the EGM will put forward the above resolutions to be voted on by way of poll as required under the Listing Rules and the Takeovers Code.
- (iv) A WHITE form of proxy for use at the EGM is enclosed with the Scheme Document.
- (v) A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the Meeting is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his/her/its stead. A proxy needs not be a member of the Company.
- (vi) In order to be valid, the WHITE form of proxy duly completed and signed in accordance with the instructions printed thereon together with a valid power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. If the WHITE form of proxy is not lodged in time, it will not be accepted and will be considered invalid. The chairman of the EGM may not, and does not have the discretion to, accept any WHITE form of proxy presented to him at the EGM. Completion and return of the WHITE form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting and any adjournment thereof should he so wish. In such event, his/her/its WHITE form of proxy will be deemed to have been revoked.
- (vii) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.
- (viii) For the purpose of determining the entitlements of Shareholders (or the Disinterested Scheme Shareholders, as the case may be) to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 17 February 2021 to Tuesday, 23 February 2021, both dates inclusive, and during such period, no transfer of Shares will be registered during the said period. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong time) on Tuesday, 16 February 2021.
- (ix) Shareholders of the Company should note that the EGM will be held as scheduled when tropical cyclone warning signal no. 8 (or above), black rainstorm or "extreme conditions" as defined under Chapter 1 of the Listing Rules is in force. In such event, Shareholders of the Company should make their own decision as to whether they would attend the EGM under bad weather conditions bearing in mind their own situations and if they should choose to do so, they are advised to exercise care and caution.

- (x) Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the EGM to protect Shareholders from the risk of infection:
- a. compulsory body temperature checks will be conducted for every attending Shareholder and/or proxy at the entrance of the venue;
 - b. every attending Shareholder and/or proxy is required to wear a surgical mask throughout the EGM;
 - c. Shareholders who do not comply with the precautionary measures or have a body temperature of over 37.3 degrees Celsius but wish to attend the EGM in person will be accommodated in designated area of the venue to attend the EGM and exercise their voting rights. Seating in the EGM venue will also be arranged so as to allow for appropriate social distancing;
 - d. In view of the Regulation and the requirements for social distancing to ensure the health and safety of attendees, there will be limited capacity for Shareholders to attend the EGM and only Shareholders and/or their proxies and relevant EGM staff will be allowed entry into EGM venue and the attending Shareholders (or their proxies) will be admitted to main conference room at the venue on a “first-come-first-served” basis, whereas other attending Shareholders (or their proxies) will be accommodated in other room(s) at the venue after the main conference room is fully occupied. The Company may limit the number of attendees at the EGM as may be necessary to avoid overcrowding; and
 - e. no refreshments will be served at the EGM.
- (xi) In order to facilitate the prevention and control of COVID-19, and to safeguard the health and safety of the Shareholders, **the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly advises the Shareholders to appoint the chairman of the EGM as a proxy to vote on the resolutions as an alternative to attending the EGM in person** in light of the continuing risks posed by the COVID-19 pandemic. Shareholders are requested (a) to consider carefully the risk of attending the EGM, which will be held in an enclosed environment; (b) to follow and comply with any law and guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic in deciding whether or not to attend the EGM; and (c) not to attend the EGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

In case of any inconsistency, the English version of this notice shall prevail.

As at the date of this notice, the board of directors comprises YU Guanghui, SONG Yonghong and REN Xuenong as executive directors, LIAO Qian as non-executive director and LEONG Yue Wing, POON Chiu Kwok and LI Qi as independent non-executive directors.