

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

CONNECTED TRANSACTION

EQUITY TRANSFER AGREEMENT

The Board announces that on 20 June 2019 (after the trading hours), Guangdong Regency (an indirect subsidiary of the Company) and the Vendors entered into the Equity Transfer Agreement, pursuant to which Guangdong Regency conditionally agreed to purchase, and the Vendors agreed to sell, the Target Equity Interest at the Consideration, subject to the terms and conditions of the Equity Transfer Agreement. The Consideration is satisfied by Guangdong Regency by way of (i) the payment of the Cash Consideration and (ii) the Allotment and issuance of the Consideration Shares by Guangdong Regency to the Vendors.

As at the date of the Equity Transfer Agreement, 51% of the equity interest of the Target Company was held by Guangdong Regency, while approximately 29.82%, 13.31% and 5.87% of the equity interest of the Target Company was held by Mr. Ling, Mr. Hu and Mr. Deng (being the Vendors) respectively. Immediately after completion of the Acquisition, Guangdong Regency would hold the entire equity interest of the Target Company and therefore, the Target Company would become a wholly-owned Subsidiary of Guangdong Regency.

Upon the Allotment and issuance of the Consideration Shares on Completion, the issued share capital indirectly held by the Company in Guangdong Regency will be diluted from approximately 56.39% to approximately 44.02%. Nevertheless, by virtue of the Acting-in-Concert Agreement, Guangdong Regency will still remain a Subsidiary of the Company.

LISTING RULES IMPLICATIONS

Upon the Allotment and issuance of the Consideration Shares on Completion, the issued share capital indirectly held by the Company in Guangdong Regency will be diluted from approximately 56.39% to approximately 44.02% and hence the Allotment constitutes a deemed disposal of interest in Guangdong Regency by the Company pursuant to Rule 14.29 of the Listing Rules.

As at the date of this announcement, (i) Mr. Ling is the general manager and a director of both Guangdong Regency and the Target Company; (ii) Mr. Hu is a director of the Target Company; and (iii) Mr. Deng is the supervisor of both Guangdong Regency and the Target Company, thus all of the Vendors are connected persons at subsidiary level of the Company pursuant to Rule 14A.06(9) of the Listing Rules. Accordingly, each of the Acquisition and the Allotment constitutes a connected transaction of the Company at subsidiary level under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) in respect of each of the Acquisition and the Allotment exceeds 1% but are all less than 5%, each of the Acquisition and the Allotment is exempted from the circular (including independent financial advice) and independent Shareholders' approval requirement under Rule 14A.76(2)(a) of the Listing Rules but is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14.24 of the Listing Rules, as the Acquisition and the deemed disposal as a result of the Allotment constitute one transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the acquisition or disposal, and subject to the reporting, disclosure and/or shareholder approval requirements applicable to such classification. Nevertheless, as all of the applicable percentage ratios in respect of each of the Acquisition and the Allotment (and hence the deemed disposal arisen pursuant to Rule 14.29 of the Listing Rules thereunder) fall below 5%, pursuant to Chapter 14 of the Listing Rules, the Acquisition and the Allotment is fully exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Board announces that on 20 June 2019 (after the trading hours), Guangdong Regency (an indirect subsidiary of the Company) and the Vendors entered into the Equity Transfer Agreement, pursuant to which Guangdong Regency conditionally agreed to purchase, and the Vendors agreed to sell, the Target Equity Interest at the Consideration, subject to the terms and conditions of the Equity Transfer Agreement. The Consideration is satisfied by Guangdong Regency by way of (i) the payment of the Cash Consideration and (ii) the Allotment and issuance of the Consideration Shares to the Vendors.

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

EQUITY TRANSFER AGREEMENT

Date: 20 June 2019

Parties: (i) Guangdong Regency
(ii) Mr. Ling;
(iii) Mr. Hu; and
(iv) Mr. Deng

The Acquisition: Guangdong Regency agreed to acquire from the Vendors and the Vendors agreed to transfer to Guangdong Regency the Target Equity Interest, representing 49% of the total equity interest of the Target Company subject to the terms and conditions of the Equity Transfer Agreement.

Completion: The transfer of the Target Equity Interest shall be completed and the relevant changes in relation thereto shall be duly registered with the relevant government authorities in the PRC within 60 days from the date on which all the conditions precedent (as set out in the paragraph “Conditions Precedent” hereinafter) of the Equity Transfer Agreement have been fulfilled.

Consideration: The Consideration shall be RMB32,590,000, out of which (i) RMB7,000,000 shall be satisfied by payment in cash (i.e. the Cash Consideration) and (ii) RMB25,590,000 shall be satisfied by the Allotment and issuance of the Consideration Shares to the Vendors.

The Cash Consideration shall be RMB7,000,000, of which RMB4,260,000, RMB1,900,000 and RMB840,000 shall be payable by Guangdong Regency to Mr. Ling, Mr. Hu, and Mr. Deng respectively.

The Consideration Shares shall be 10,680,000 new ordinary shares of Guangdong Regency, at the issue price of RMB2.39 per Consideration Share, to be allotted and issued to the Vendors, among which 6,500,000 shares, 2,900,000 shares and 1,280,000 shares shall be allotted and issued to Mr. Ling, Mr. Hu and Mr. Deng respectively.

Payment of the Consideration: Guangdong Regency shall pay the Cash Consideration to the respective Vendors within 30 days of the completion of the transfer of the Target Equity Interest.

The Allotment shall be completed and the Consideration Shares shall be duly registered under the names of the respective Vendors with the relevant government authorities in the PRC within 30 days of the completion of the transfer of the Target Equity Interest.

Conditions Precedent: The Equity Transfer Agreement shall be effective upon the fulfilment of the following conditions precedent:

- (i) the obtaining of the approval of the board of directors and the shareholders of Guangdong Regency in relation to the Acquisition;
- (ii) the shareholders of the Target Company have approved the Acquisition in accordance of the requirements of the relevant laws and regulations, memorandum and articles of association and internal management system of the Target Company, and the other shareholder(s) of the Target Company has waived their right of pre-emption in relation to the Target Equity Interest (if any); and
- (iii) the obtaining of the necessary permission or approval of the other regulatory body(ies) (if any).

As at the date of the Equity Transfer Agreement, 51% of the equity interest of the Target Company was held by Guangdong Regency, while approximately 29.82%, 13.31% and 5.87% of the equity interest of the Target Company was held by Mr. Ling, Mr. Hu and Mr. Deng (i.e. the Vendors) respectively. Immediately after completion of the Acquisition, Guangdong Regency would hold the entire equity interest of the Target Company and therefore, the Target Company would become a wholly-owned Subsidiary of Guangdong Regency.

Upon the Allotment and issuance of the Consideration Shares on Completion, the issued share capital indirectly held by the Company in Guangdong Regency will be diluted from approximately 56.39% to approximately 44.02%. Nevertheless, by virtue of the Acting-in-Concert Agreement (as more particularly set out in the section “Information of Guangdong Regency” below), Guangdong Regency will still remain a Subsidiary of the Company.

BASIS OF THE CONSIDERATION

Target Company

According to a valuation report issued by an independent valuer of the PRC, the appraised value of the Target Equity Interest as at 31 December 2018 is in the range of RMB32,300,000 to RMB36,100,000 (depending on the equity liquidity (marketability) discount rate and the minority interest discount rate applicable). After arm's length negotiation between Guangdong Regency and the Vendors based on the principle of fairness, Guangdong Regency and the Vendors agreed to the Consideration being set at RMB32,590,000.

Guangdong Regency

In determining the issue price of the Consideration Shares, Guangdong Regency and the Vendors made reference to the P/E ratio of companies carrying on similar business as Guangdong Regency in the same industry in the PRC. Whilst Guangdong Regency is a private company, having considered that the financial information of private companies in the same industry is not available to the public and that the P/E ratio of public companies may not be of any significant reference value due to the difference in terms of company scale, Guangdong Regency and the Vendors agreed that the Target Company is a comparable company and adopted the P/E ratio of the Target Company as its reference for valuation of the shares of Guangdong Regency.

For the year ended 31 December 2018, the net profit after tax of the Target Company was approximately RMB9,500,000 and thus its P/E ratio as at 31 December 2018 calculated with reference to the Consideration is approximately 7 times.

For the year ended 31 December 2018, the net profit after tax of Guangdong Regency was approximately RMB13,000,000 and thus the value of the entire equity interest of Guangdong Regency as at 31 December 2018 calculated based on a P/E ratio of 7 times would be around RMB91,000,000. The total number of issued shares of Guangdong Regency as at 31 December 2018 was 38,000,000. The value per share of Guangdong Regency as at 31 December 2018 deduced based on the foregoing information was approximately RMB2.39 per share, which is therefore adopted as the issue price of the Consideration Shares to be allotted.

Mr. Ling, Mr. Hu and Mr. Deng contributed RMB8.95 million, RMB3.99 million and RMB1.76 million respectively as capital contribution to the Target Company on its establishment in 2017 for their respective 29.82%, 13.31% and 5.87% equity interest in the Target Company.

INFORMATION OF THE TARGET GROUP

The Target Company is a company established in the PRC with limited liability. The Target Group is principally engaged in the business of research and development, manufacturing and sales of optical film in the PRC.

Set out below is certain financial information of the Target Group (on a consolidated basis) for the years ended 31 December 2018 and 31 December 2017 respectively, as extracted from the Target Group's audited financial statements (on a consolidated basis) prepared in accordance with the PRC Accounting Standards for Business Enterprises:

	For the year ended 31 December 2017 RMB'000 (Note 1)	For the year ended 31 December 2018 RMB'000
Revenue	35,244	122,838
Net profit before tax	2,949	11,407
Net profit after tax	2,212	9,500
		For the year ended 31 December 2018 RMB'000
Total assets		100,244
Net assets		40,807

Note 1: As the Target Company was established on 7 June 2017, the financial figures of the Target Group for the year ended 31 December 2017 was only for the period from 7 June 2017 to 31 December 2017.

INFORMATION OF GUANGDONG REGENCY

Guangdong Regency is a company established in the PRC with limited liability. Guangdong Regency is principally engaged in the business of research and development, manufacturing and sales of diffuser and optical film in the PRC.

Set out below is the shareholding structure of the Guangdong Regency immediately before completion of and after completion of the Allotment:

Shareholder	Percentage Shareholding immediately before completion of the Allotment (approximately)	Percentage Shareholding immediately after completion of the Allotment (approximately)
TCL Technoly	56.39%	44.02%
Huizhou Kaichuang	10.00%	7.81%
Mr. Yu Guanghui	4.21%	3.29%
Mr. Ren Xuenong	2.10%	1.64%
Ms. Li Yuchun (spouse of Mr. Song Yonghong)	2.10%	1.64%
Mr. Ling	0%	13.35%
Mr. Hu	0%	5.96%
Mr. Deng	0%	2.63%
Other shareholders	27.30%	21.31%

On 6 June 2019, TCL Technoly and Huizhou Kaichuang have entered into the Acting-in-Concert Agreement, pursuant to which the parties confirm, among others, that they have been acting and will act in concert in respect of matters and affairs in relation to Guangdong Regency in their capacity as shareholders of Guangdong Regency, and that should there be any disagreement between TCL Technoly and Huizhou Kaichuang in exercising their respective rights as shareholders of Guangdong Regency, Huizhou Kaichuang shall follow the decision of TCL Technoly.

As such, although the Company's indirect interest in Guangdong Regency will be diluted to drop below 50% after completion of the Allotment, in view of the Acting-in-Concert Agreement and the fact that the aggregate interest of TCL Technoly and Huizhou Kaichuang in Guangdong Regency immediately after completion of the Allotment still remains over 50%, the auditor of the Company has confirmed that Guangdong Regency will remain as a Subsidiary of the Company and that the financial results of Guangdong Regency will continue to be consolidated to the Group's financial results.

On 9 November 2018, TCL Technoly, (being an indirect Subsidiary of the Company) agreed to acquire 30.08% of the issued shares of Guangdong Regency at a consideration of RMB29,040,000, which was completed on 30 November 2018. For details, please refer to the announcement of the Company dated 9 November 2018.

No gain or loss is expected to accrue to the Company as a result of the transactions contemplated under the Equity Transfer Agreement as the Guangdong Regency together with the Target Group remain to be Subsidiaries of the Group. Shareholders should note that the actual amount of gain or loss (if any) is subject to review and final audit by the auditors of the Company.

REASONS AND BENEFITS OF THE ACQUISITION

The Group has been actively expanding its optical component business as the Company believes that it is a business area with significant development potential and that its efforts in optical component business will bring synergy effect with the Group's development of smart home products in lighting.

Against such background, the Group acquired 30.08% of the issued share capital of Guangdong Regency on 9 November 2018. Upon completion of the said acquisition, Guangdong Regency has become a Subsidiary of the Company and that its financial statements have been consolidated into the accounts of the Group. The aforesaid acquisition represented an important step of the Group in its pursuit of the optical component business. For details of the aforesaid acquisition please refer to the announcement of the Company dated 9 November 2018.

The development potential of the optical component business and more particularly the Target Group is evidenced by the Target Group's fast growth in its revenue and profit in the last financial year.

Hence, the Company is of the view that the acquisition of the minority interest of the Target Group would allow the Group to further strengthen its optical component business and also the synergy between the Target Group and Guangdong Regency as well as to elicit greater support from existing clients of the Target Company.

The Company is further of the view that the Allotment would incentivize the Vendors to achieve performance targets as management of Guangdong Regency while at the same time not to prejudice the role of Guangdong Regency as a Subsidiary of the Group.

The terms of the Equity Transfer Agreement were determined after arm's length negotiations between the parties thereto and on normal commercial terms. The Directors (including the independent non-executive Directors) are of the view that (i) the terms of the Equity Transfer Agreement are fair and reasonable; (ii) the Equity Transfer Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms; and (iii) the entering into of the Equity Transfer Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Upon the Allotment and issuance of the Consideration Shares on Completion, the issued share capital indirectly held by the Company in Guangdong Regency will be diluted from approximately 56.39% to approximately 44.02% and hence the Allotment constitutes a deemed disposal of interest in Guangdong Regency by the Company pursuant to Rule 14.29 of the Listing Rules.

As at the date of this announcement, (i) Mr. Ling is the general manager and a director of both Guangdong Regency and the Target Company; (ii) Mr. Hu is a director of the Target Company; and (iii) Mr. Deng is the supervisor of both Guangdong Regency and the Target Company, thus all of the Vendors are connected persons at subsidiary level of the Company pursuant to Rule 14A.06(9) of the Listing Rules. Accordingly, each of the Acquisition and the Allotment constitutes a connected transaction of the Company at subsidiary level under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) in respect of each of the Acquisition and the Allotment exceeds 1% but are all less than 5%, each of the Acquisition and the Allotment is exempted from the circular (including independent financial advice) and independent Shareholders' approval requirement under Rule 14A.76(2)(a) but is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14.24 of the Listing Rules, as the Acquisition and the deemed disposal as a result of the Allotment constitute one transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the acquisition or disposal, and subject to the reporting, disclosure and/or shareholder approval requirements applicable to such classification. However, as all of the applicable percentage ratios in respect of each of the Acquisition and the Allotment (and hence the deemed disposal arisen pursuant to Rule 14.29 of the Listing Rules thereunder) fall below 5%, pursuant to Chapter 14 of the Listing Rules, the Acquisition and the Allotment is fully exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

INFORMATION OF THE GROUP

The Group is principally engaged in the research and development, manufacturing and sales of audio visual products (excluding TV sets) for third parties' brands on an ODM (original design manufacture) basis. For more information on the Group, please visit its official website at <http://www.tonlyele.com> (the information that appears in that website does not form part of this announcement).

Mr. Ren Xuenong and Mr. Yu Guanghui (both being executive Directors) and spouse of Mr. Song Yonghong (executive Director), are shareholders of Guangdong Regency, each holding less than 5% shareholding thereof whether before or after the Allotment. As such interests are insignificant and Guangdong Regency is not an associate of any of the Directors, notwithstanding their respective interest in Guangdong Regency, none of the Directors is considered as having a material interest in the transaction contemplated under the Equity Transfer Agreement. Therefore, all Directors are entitled to vote for the resolutions proposed at the Board meeting held to approve the transaction contemplated under the Equity Transfer Agreement pursuant to the Company's articles of association.

DEFINITIONS

“Acquisition”	the acquisition of 49% of the issued share capital of the Target Company as contemplated under the Equity Transfer Agreement, which comprises
“Acting-in-Concert Agreement”	the acting-in-concert agreement entered into between TCL Technoly and Huizhou Kaichuang on 6 June 2019
“Allotment”	the allotment of shares of Guangdong Regency to the Vendors as the Consideration Shares for the Acquisition
“Board”	the Board of the Directors
“Cash Consideration”	the cash consideration payable by Guangdong Regency to the Vendors as part of the consideration for the Target Equity Interest, the value of which amounts to RMB7,000,000, of which RMB4,260,000 shall be payable to Mr. Ling, RMB1,900,000 shall be payable to Mr. Hu, and RMB840,000 shall be payable to Mr. Deng
“Company”	Tonly Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01249)
“Completion”	the completion of the Acquisition as specified in the paragraph headed “EQUITY TRANSFER AGREEMENT”
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Consideration”	RMB32,590,000, which is satisfied by (i) Guangdong Regency paying to the Vendors the Cash Consideration and (ii) Guangdong Regency allotting and issuing to the Vendors the Consideration Shares
“Consideration Shares”	the 10,680,000 new ordinary shares of Guangdong Regency (at per value of RMB1 each) to be allotted to the Vendors at the issue price of RMB2.39 per share as a part of the Consideration payable by Guangdong Regency to the Vendors for the Acquisition, the value of which amounts to RMB25,590,000, of which 6,500,000 shares shall be allotted to Mr. Ling, 2,900,000 shares shall be allotted to Mr. Hu, and 1,280,000 shares shall be allotted to Mr. Deng
“Director(s)”	the director(s) of the Company

“Equity Transfer Agreement”	the equity transfer agreement entered into on 20 June 2019 among Guangdong Regency and the Vendors
“Group”	the Company and its Subsidiaries
“Guangdong Regency”	Guangdong Regency Optics-electron Co., Ltd.* (廣東瑞捷光電股份有限公司), a private company established in the PRC with limited liability, and an indirect Subsidiary of the Company in which the Company holds approximately 56.39% equity interest
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huizhou Kaichuang”	Huizhou Kaichuang Venture Capital Partnership (Limited Partnership)* (惠州市愷創創業投資合伙企業(有限合伙)), a limited partnership established in the PRC
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange
“Mr. Deng”	Mr. Deng Gaofeng, a shareholder and the supervisor of the Target Company, also a supervisor of Guangdong Regency
“Mr. Hu”	Mr. Hu Qingde, a shareholder and a director of the Target Company
“Mr. Ling”	Mr. Ling Gaode, a shareholder of the Target Company, also a director and the general manager of both the Target Company and Guangdong Regency
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement
“P/E ratio”	price-to-earnings ratio
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subsidiary”/ “Subsidiaries”	has the meaning ascribed thereto under the Listing Rules and “Subsidiaries” shall be construed accordingly
“Target Company”	Huizhou Nikko Optoelectronics Co., Ltd.* (惠州尼日科光電有限公司), a company established in the PRC with limited liability
“Target Equity Interest”	the aggregate of the 8,946,000, 3,993,000 and 1,761,000 shares of the Target Company held by Mr. Ling, Mr. Hu and Mr. Deng respectively
“Target Group”	The Target Company and its Subsidiaries
“TCL Technoly”	TCL Technoly Electronics (Huizhou) Co., Ltd.* (TCL 通力電子(惠州)有限公司, a company established in the PRC with limited liability and an indirect wholly-owned Subsidiary of the Company)
“Vendors”	Mr. Ling, Mr. Hu and Mr. Deng
“%”	per cent

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

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 20 June 2019

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