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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Tonly Electronics Holdings Limited (the “Company”), you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee, or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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### TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

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

**(Stock Code: 01249)**

#### CONTINUING CONNECTED TRANSACTIONS

#### **(1) REVISION OF ANNUAL CAP OF MASTER SALE AND PURCHASE (2019) AGREEMENT**

#### **(2) RENEWAL OF EXISTING**

#### CONTINUING CONNECTED TRANSACTIONS

#### **(3) MAJOR TRANSACTION IN RESPECT OF MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT AND**

#### **(4) ADVANCE TO AN ENTITY IN RESPECT OF DEPOSIT SERVICES UNDER THE MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT**

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



**Pelican Financial Limited**

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A letter from the Board is set out on pages 11 to 49 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 50 to 51 of this circular. A letter from Pelican Financial, the independent financial adviser in relation to the Revision and the Agreements, containing its advice in respect of the aforesaid matter to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 83 of this circular.

A notice convening the EGM 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 on 21 November 2019, Thursday at 10:30 a.m. is set out on pages 97 to 99 of this circular.

Whether or not you are able to attend the EGM or any adjournment thereof (as the case may be) in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

6 November 2019

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## DEFINITIONS

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

“Agreements”	(i) the Master Financial Services (2019 Renewal) Agreement; and (ii) the Master Sale and Purchase (2019 Renewal) Agreement
“Announcement”	the announcement of the Company dated 31 October 2019 relating to, among others, the Revision and the Agreements
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Brand AV Business”	means the research and development, manufacturing and sales relating to Brand AV Products
“Brand AV Products”	means audio-visual products (excluding television sets) with the “TCL” brands, other self-owned brands and authorised brands of TCL Corporation, TCL Industries and their associates (excluding the Group) from time to time
“Business Day”	a day on which banks in Hong Kong are open to conduct business generally throughout their normal business hours and the Stock Exchange is open for trading, excluding a Saturday, Sunday, public holidays and days on which a tropical cyclone warning no. 8 or above or a black rainstorm warning signal is issued in Hong Kong at any time between 09:00 and 17:00 on weekdays
“CBRC”	China Banking Regulatory Commission
“Company”	Tonly Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 01249)
“connected person(s)”	has the meanings ascribed to it under the Listing Rules

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## DEFINITIONS

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“Covenantors”	TCL Corporation and TCL Industries
“Deed of Non-Competition”	the deed of non-competition entered into among the Company and the Covenantors on 15 July 2013
“Deed of Variation”	the deed of variation in relation to the Deed of Non-Competition entered into among the Company and the Covenantors on 21 July 2017
“Deposit Services”	deposit of money by Tonly Qualified Members with Finance Company (HK) and/or other TCL Financial Services Associates pursuant to the Master Financial Services (2019 Renewal) Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, on 21 November 2019, Thursday at 10:30 a.m. for the purposes of considering and, if thought fit, approving the Revision, and the Agreements, the transactions contemplated thereunder and the proposed annual caps
“Electronic Products”	electronic products (including information technology, software, audio-visual products), equipment and tools manufactured, produced or otherwise sold by the Group, whether or not the raw materials for the production of such Electronic Products are to be supplied by the Supplier Group
“Equity Transfer Agreement”	the equity transfer agreement entered into on 20 June 2019 among Guangdong Regency and Vendors
“Finance Company”	TCL Finance Co., Ltd.* (TCL集團財務有限公司), a company established in the PRC with limited liability and a Subsidiary of TCL Corporation
“Finance Company (HK)”	TCL Finance (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability

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## DEFINITIONS

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“Financing Services”	the services of money lending and other financing (including loans, guarantees, receivable factoring, bill acceptance and bill discounting) which may be provided by TCL Financial Services Associates to Tonly Qualified Members pursuant to the Master Financial Services (2019 Renewal) Agreement
“Goods”	the Electronic Products or the TCL Associates Products (as the case may be) and the articles, things, components or raw materials, equipment or tools required for the manufacture or production of such products and waste products arising from manufacturing or production of any such products
“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
“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
“Independent Board Committee”	an independent committee of the Board, comprising all independent non-executive Directors, established for the purpose of reviewing the terms of and the proposed annual caps of transactions contemplated under the Agreements and the Revision

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## DEFINITIONS

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“Independent Financial Adviser” or “Pelican Financial”	Pelican Financial Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreements and the Revision
“Independent Shareholders”	Shareholders other than those who are required to abstain from voting on the resolution at the EGM approving the transactions contemplated under and the proposed annual caps of the Agreements and the Revision
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its Subsidiaries and their respective associates
“Latest Practicable Date”	31 October 2019, being the latest practicable date prior to the bulk printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange
“Master Financial Services (2015 Renewal) Agreement”	the master financial services (2015 renewal) agreement dated 16 November 2015 entered into among the Company, TCL Corporation and Finance Company
“Master Financial Services (2017 Renewal) Agreement”	the master financial services (2017 renewal) agreement dated 12 July 2017 entered into among the Company, the Finance Company, the Finance Company (HK) and TCL Corporation
“Master Financial Services (2018 Renewal) Agreement”	the master financial services (2018 renewal) agreement dated 18 October 2018 entered into among the Company, Finance Company (HK), Finance Company and TCL Corporation

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## DEFINITIONS

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“Master Financial Services (2019 Renewal) Agreement”	the master financial services (2019 renewal) agreement dated 31 October 2019 entered into among the Company, TCL Holdings and Finance Company (HK)
“Master Lease (Tenant) (2018 Renewal) Agreement”	the master lease (tenant) (2018 renewal) agreement entered into between the Company and TCL Corporation on 18 October 2018
“Master Rental (2019) Agreement”	the master rental (2019) agreement dated 25 April 2019 entered into between the Company and TCL Industries
“Master Rental (2019 Renewal) Agreement”	the master rental (2019 renewal) agreement dated 31 October 2019 entered into between the Company and TCL Holdings
“Master Sale and Purchase (2015 Renewal) Agreement”	the master sale and purchase (2015 renewal) agreement dated 16 November 2015 entered into between the Company and TCL Corporation
“Master Sale and Purchase (2018 Renewal) Agreement”	the master sale and purchase (2018 renewal) agreement dated 18 October 2018 entered into between the Company and TCL Corporation
“Master Sale and Purchase (2019) Agreement”	the master sale and purchase (2019) agreement dated 25 April 2019 entered into between the Company and TCL Industries
“Master Sale and Purchase (2019 Renewal) Agreement”	the master sale and purchase (2019 renewal) agreement dated 31 October 2019 entered into between the Company and TCL Holdings
“Non-Exempt Transactions”	the transactions under the Agreements together with their proposed annual caps
“Old Master Financial Services Agreements”	collectively (i) the Master Financial Services (2015 Renewal) Agreement; (ii) the Master Financial Services (2017 Renewal) Agreement; and (iii) the Master Financial Services (2018 Renewal) Agreement

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## DEFINITIONS

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“Old Master Sale and Purchase Agreements”	collectively (i) the Master Sale and Purchase (2015 Renewal) Agreement; (ii) the Master Sale and Purchase (2018 Renewal) Agreement; and (iii) the Master Sale and Purchase (2019) Agreement
“Other Financial Services”	all financial services which may be provided by Finance Company (HK) and/or other TCL Financial Services Associates for Tonly Qualified Members under the Master Financial Services (2019 Renewal) Agreement other than the Deposit Services and the Financing Services including but not limited to financial advisory services, settlement advisory services, insurance agency services, agency lending and borrowings, bills, letter of credit discounting and documentary bills services
“PBOC”	the People’s Bank of China, the central bank of the PRC
“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 circular
“Qualified Member(s)”	all companies to which TCL Financial Services Associates will be allowed to provide services pursuant to the Administrative Measures on Group Finance Companies (企業集團財務公司管理辦法) promulgated by the CBRC, which shall only include TCL Holdings, any Subsidiary of which TCL Holdings owns an equity interest of 51% or more, any company in which TCL Holdings or any of its Subsidiaries own, individually or collectively, an equity interest of over 20% and any company in which TCL Holdings or any of its Subsidiaries are, individually or collectively, the largest shareholder (for the avoidance of doubt, the aforesaid equity interest includes both direct and indirect equity interest owned by TCL Holdings)
“Restructuring”	the series of transactions contemplated under the Restructuring Agreement



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## DEFINITIONS

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“Restructuring Agreement”	the material assets sale agreement dated 7 December 2018 entered into among (i) TCL Holdings; (ii) TCL Corporation; (iii) Huizhou TCL Light Electrical Appliances Co., Ltd.* (惠州TCL照明電器有限公司), a wholly-owned Subsidiary of TCL Corporation; and (iv) TCL Financial Holdings Group (Guangzhou) Co., Ltd.* (TCL金融控股集團(廣州)有限公司), a wholly-owned Subsidiary of TCL Corporation, in relation to the sale and purchase of all of the issued share capital of TCL Industries and the Restructuring
“Revision”	the revision of the annual cap of the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Sale of Goods”	the sale of the Goods by the Group to TCL Industries Associates or TCL Associates pursuant to the Master Sale and Purchase (2019) Agreement or the Master Sale and Purchase (2019 Renewal) Agreement (as the case may be)
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Sourcing of Goods”	the purchase of the Goods by the Group from TCL Industries Associates or TCL Associates pursuant to the Master Sale and Purchase (2019) Agreement or the Master Sale and Purchase (2019 Renewal) Agreement (as the case may be)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly
“Supplier”	TCL Industries or TCL Holdings (as the case may be)
“Supplier Group”	TCL Industries Group or TCL Holdings Group (as the case may be)
“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 and an indirect Subsidiary of the Company with the principal business in research and development, manufacturing and sales of optical film in the PRC
“TCL Associate(s)”	the associate(s) of TCL Holdings
“TCL Associates Products”	any goods and appliances (including electronic, telecommunications, information technology or electrical and audio-visual products (including but not limited to refrigerators, dishwashers, air conditioners, home use telephones, electrical accessories and their components)), equipment and tools designed, developed, manufactured, produced or otherwise sold, marketed, supplied or distributed by TCL Industries Associates or TCL Associates pursuant to the Master Sale and Purchase (2019) Agreement or the Master Sale and Purchase (2019 Renewal) Agreement (as the case may be)
“TCL Corporation”	TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000100), which ceased to be a connected person of the Company in July 2019, the details of which are set out in the section “Renewal of Existing Continuing Connected Transactions – 1. Master Financial Services (2019 Renewal) Agreement” in the “Letter from the Board” of this circular

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## DEFINITIONS

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“TCL Corporation Group”	TCL Corporation and its Subsidiaries
“TCL Electronics”	TCL Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 01070)
“TCL Financial Services Associates”	the existing TCL Associates and any entity that may become TCL Associates from time to time during the term of the Master Financial Services (2019 Renewal) Agreement which carry on businesses in deposit, clearing, bill discounting and securities, factoring finance, financial leasing and guarantees and other financial services, including but not limited to Finance Company (HK)
“TCL Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司) (formerly known as TCL Industries Holdings (Guangdong) Inc.* (TCL實業控股(廣東)股份有限公司)), a joint stock company established under the laws of the PRC and the holding company of TCL Industries which in turn held 48.65% of the total number of issued Shares as at the Latest Practicable Date
“TCL Holdings Group”	TCL Holdings and its Subsidiaries and TCL Associates, but for the purpose of the Agreements excluding the Group
“TCL Industries”	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong and the immediate controlling Shareholder of the Company
“TCL Industries Associates”	associates of TCL Industries
“TCL Industries Group”	TCL Industries, its Subsidiaries and associates, but for the purpose of the Master Sale and Purchase (2019) Agreement excluding the Group
“Technology Support Services and Trade Names Licence (2018 Renewal) Agreement”	the technology support services and trade names licence (2018 renewal) agreement entered into between the Company and TCL Corporation on 18 October 2018

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## DEFINITIONS

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“Tonly Qualified Member(s)”	such member(s) of the Group which is a/are Qualified Member(s), i.e. Subsidiaries of the Company and therefore entities in which TCL Holdings owns not less than 20% equity interest via the Company and thereby falling within the definition of Qualified Members
“Vendors”	collectively (i) Mr. Ling Gaode (a shareholder of the Target Company and also a director and general manager of both the Target Company and Guangdong Regency as at the date of the Equity Transfer Agreement); (ii) Mr. Hu Qingde (a shareholder and director of the Target Company as at the date of the Equity Transfer Agreement); and (iii) Mr. Deng Gaofeng (a shareholder and supervisor of the Target Company and also a supervisor of Guangdong Regency as at the date of the Equity Transfer Agreement)
“%”	per cent

*The English translation of Chinese names or words in this circular, 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.*

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## LETTER FROM THE BOARD

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### TONLY ELECTRONICS HOLDINGS LIMITED

### 通力電子控股有限公司

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

**(Stock Code: 01249)**

*Executive Directors:*

Mr. YU Guanghui

Mr. SONG Yonghong

Mr. REN Xuenong

*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.

6 November 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) REVISION OF ANNUAL CAP OF MASTER SALE AND  
PURCHASE (2019) AGREEMENT  
(2) RENEWAL OF EXISTING  
CONTINUING CONNECTED TRANSACTIONS  
(3) MAJOR TRANSACTION IN RESPECT OF  
MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT  
AND  
(4) ADVANCE TO AN ENTITY IN RESPECT OF DEPOSIT SERVICES  
UNDER THE MASTER FINANCIAL SERVICES  
(2019 RENEWAL) AGREEMENT**

#### INTRODUCTION

Reference is made to the announcements of the Company dated 25 April 2019 and 14 June 2019 and the Announcement. As stated in the Announcement, in light of the business expansion and increased needs of the Group, the Board proposes to revise the annual cap for the period from 25

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## LETTER FROM THE BOARD

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April 2019 to 31 December 2019 under the Master Sale and Purchase (2019) Agreement. Further, on 31 October 2019, the Company entered into (i) the Master Financial Services (2019 Renewal) Agreement with TCL Holdings and Finance Company (HK); and (ii) the Master Sale and Purchase (2019 Renewal) Agreement with TCL Holdings, and the transactions contemplated thereunder constitute continuing connected transactions.

The above Agreements are in substance renewal of the existing agreements and the terms of the renewal agreements are substantially the same as the existing agreements.

The purposes of this circular are:

- (i) to provide the Shareholders with further details of the Revision, and the Agreements and the transactions contemplated thereunder (including particulars in compliance of requirements for a major transaction) and their relevant proposed annual caps as mentioned in the Announcement;
- (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders and the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Revision, and the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps; and
- (iii) to give the Shareholders the notice of the EGM and other information in accordance with the requirements of the Listing Rules.

The notice of EGM is enclosed herein as part of this circular.

### **REVISION OF THE ANNUAL CAP OF MASTER SALE AND PURCHASE (2019) AGREEMENT**

Details of the Master Sale and Purchase (2019) Agreement are set out below.

<b>Date:</b>	25 April 2019
<b>Parties:</b>	(i) the Company (for itself and on behalf of its Subsidiaries) (ii) TCL Industries (for itself and on behalf of its associates)
<b>Duration:</b>	From 25 April 2019 to 31 December 2019 (both dates inclusive)

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## LETTER FROM THE BOARD

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**Major terms:**

The Company may from time to time sell and TCL Industries may from time to time purchase and procure members of the TCL Industries Group to purchase the Electronics Products.

The Company may from time to time purchase and TCL Industries may from time to time sell and procure members of the TCL Industries Group to sell the TCL Associates Products.

Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of the TCL Industries Group on the one hand, and the relevant members of the Group on the other hand, provided that the terms of such sale and purchase contracts are consistent with the Master Sale and Purchase (2019) Agreement.

**Sourcing of Goods**

The Company may purchase part of the Group's required Goods from the relevant members of the TCL Industries Group provided that they can offer terms (including price and payment terms) no less favourable than terms available from Independent Third Parties of the Company and the relevant Supplier Group is capable of meeting the timeline, quality and quantity of the relevant order placed.

**Sale of Goods**

If the relevant member of the TCL Industries Group requests or makes a written offer to any member of the Group to purchase any Goods from the Group for its business including distribution, resale or otherwise, the member of the Group is entitled to offer to supply to or accept such offer to purchase made by relevant member of the TCL Industries Group provided that the terms (including price and payment terms) of the offer by the relevant member of the said Supplier Group are no less favourable than terms available to the Group from Independent Third Parties of the Group.

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## LETTER FROM THE BOARD

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**Payment terms:**

The Master Sale and Purchase (2019) Agreement does not contain specific payment terms for the sale and purchase which shall be governed by individual sale and purchase agreements to be entered into between the relevant member of the Group and the relevant member of the TCL Industries Group. The usual payment terms of the Goods provided in the individual sale and purchase agreements are within 90 days of the receipt of the relevant Goods by the relevant member of the Group or the Supplier Group (as the case may be), which is in line with the payment terms to the Group for purchases from or sale to Independent Third Parties for similar Goods.

**Pricing policy and price determination:**

1. The terms (including price and payment terms) shall be agreed between the parties based on normal commercial terms after arm's length negotiations and with reference to the fair market price ranges of products comparable to Goods offered in the market as at the time when the relevant sale and purchase are performed.
2. The prices charged for the Goods are under regular review and may be adjusted from time to time on mutual agreement. In determining if the prices charged are on normal commercial terms, the Group shall obtain quotations from the relevant members of the Supplier Groups and at least two Independent Third Parties of the Company for comparable goods on a periodic basis and make comparisons. The Group would consider, compare and take reference of the said price quotations in determining the final prices charged.
3. If at any time during the term of the Master Sale and Purchase (2019) Agreement, the relevant member of the TCL Industries Group provides Goods to other Independent Third Parties at more favourable terms, the relevant member of the Supplier Group shall immediately offer to provide Goods to the Group at equivalent terms accorded to such other Independent Third Parties starting from the next applicable period.



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## LETTER FROM THE BOARD

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4. If no comparable transactions are available for references, the Group shall obtain quotations from Independent Third Parties of the Company for provision of products similar to the Goods and the terms (including price and payment terms) shall be no less favourable than those available to or from the Independent Third Parties of the Company for provision of products similar to the Goods.
5. The relevant member of the Group has the absolute discretion to decide whether to accept an offer from the relevant member of the TCL Industries Group.
6. The relevant member of the Group has the right to sell or resell the Goods which it has acquired from the relevant member of the TCL Industries Group at such price as it may in its absolute discretion determine.
7. The relevant member of the Group may demand the relevant member of the TCL Industries Group to purchase back the Goods at the original selling price offered to the Group if they remain unsold to third parties for six months or longer.

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## LETTER FROM THE BOARD

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### Historical Figures and Annual Caps

Due to expansion of business and increased needs of the Group, the Board expects that the original annual cap for Sale of Goods under the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019 as disclosed in the announcement of the Company dated 25 April 2019 will not be sufficient. The Board therefore proposes the original annual cap for Sale of Goods under the Master Sale and Purchase (2019) Agreement be revised as follows:

		<b>For the period from 25 April 2019 to 30 September 2019 (unaudited) (for actual amount only)/ for the period from 25 April 2019 to 31 December 2019 (for original / proposed revised annual cap only)</b> <i>HK\$'000</i>
<b>Continuing Connected Transaction</b>		
<b>Master Sale and Purchase (2019) Agreement</b>	Actual:	
	– Sourcing of Goods	54
	– Sale of Goods	48,914
	Original annual caps:	
	– Sourcing of Goods	10,000
	– Sale of Goods	80,000
	Proposed revised annual caps:	
	– Sourcing of Goods	10,000 (no proposed revision)
	– Sale of Goods	130,000

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## LETTER FROM THE BOARD

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### **Reasons for and Basis of the Proposed Revised Annual Cap**

As disclosed in the announcement of the Company dated 25 April 2019, the Master Sale and Purchase (2019) Agreement was entered as a short-term temporary arrangement to accommodate the Group's immediate business needs. The original annual caps for Sale of Goods under the Old Master Sale and Purchase Agreements were approximately HK\$132 million, HK\$142 million and HK\$152 million for the years ended 31 December 2017, 2018 and 2019 respectively. Nevertheless, the original proposed annual cap for Sale of Goods under the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019 was only HK\$80 million, which was far below the said annual caps for Sale of Goods for the previous financial years.

As of 30 September 2019, the actual (unaudited) amount for Sale of Goods under the Master Sale and Purchase (2019) Agreement had reached approximately HK\$48,914,000 and therefore only approximately HK\$31,086,000 in the annual cap for the period from 25 April 2019 to 31 December 2019 (representing approximately 38.86% of the annual cap for the said period) remained available for utilisation for the remaining term of the agreement. Based on past business records of the Group, the Group tends to experience a higher amount of turnover and also Sale of Goods in the last quarter of a year due to holiday season and the potential increase in demand by TCL Industries Associates for Electronic Products when compared to the second quarter of a year. In this regard, it is expected that the Sale of Goods for the three months ending 31 December 2019 would reach HK\$47,700,000 and therefore the amount of Sale of Goods for the period from 25 April 2019 to 31 December 2019 would reach HK\$96,614,000 and therefore the original cap for Sale of Goods for the said period would not be sufficient to keep up with the business growth of the Group. Considering that it would be essential for a business to have flexibility in operations and to allow a buffer in conducting transactions, the Group therefore proposed to revise the annual cap for the Sale of Goods for the period from 25 April 2019 to 31 December 2019 to HK\$130 million.

In determining the proposed revised annual cap for Sale of Goods under the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019, the Company has taken into account (i) the actual sales amount of Goods by the Group to TCL Industries Associates under the Old Master Sale and Purchase Agreements; (ii) the expected amount of Sale of Goods in the remaining term of the Master Sale and Purchase (2019) Agreement based on past business records of the Group.

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## LETTER FROM THE BOARD

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### RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

#### 1. MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT

The Company has entered into the Master Financial Services (2018 Renewal) Agreement on 18 October 2018 which will expire on 31 December 2021. As stated in the announcement of the Company dated 14 June 2019, TCL Corporation underwent the Restructuring in April 2019. Immediately upon completion of the Restructuring, notwithstanding that TCL Corporation was no longer a holding company of TCL Industries, it remained a connected person of the Company by virtue of its interest in Guangdong Regency. TCL Corporation held over 50% equity interest in Huizhou Kaichuang, which in turn held 10% equity interest in Guangdong Regency, a Subsidiary of the Company, hence TCL Corporation was a substantial shareholder of a Subsidiary of the Company and therefore a connected person at subsidiary level of the Company. However, on 20 June 2019, Guangdong Regency entered into the Equity Transfer Agreement which provided that Guangdong Regency was to issue certain number of consideration shares to the Vendors as part of the consideration for the acquisition of equity interest in the Target Company upon completion. Completion of the said equity transfer and allotment of consideration shares took place in July 2019 and as a result the equity interest of Huizhou Kaichuang in Guangdong Regency was diluted from 10% to 7.81% and hence each of TCL Corporation and Finance Company, a Subsidiary of TCL Corporation, ceased to be a connected person of the Company. For details of the Equity Transfer Agreement, please refer to the announcements of the Company dated 20 June 2019 and 10 July 2019. On the other hand, Finance Company (HK), which became a subsidiary of TCL Holdings as a result of the Restructuring, remains to be a connected person of the Company.

As the Company wishes to continue the transactions contemplated under the Master Financial Services (2018 Renewal) Agreement with Finance Company (HK), the Company entered into the Master Financial Services (2019 Renewal) Agreement, the terms of the former are substantially the same as the Master Financial Services (2018 Renewal) Agreement, save and except (i) for the change of contracting parties and (ii) that the promotion services covered in the Master Financial Services (2018 Renewal) Agreement are no longer covered in the Master Financial Services (2019 Renewal) Agreement as the Group does not intend to provide such promotion services under the Master Financial Services (2019 Renewal) Agreement. After the entering into of the Master Financial Services (2019 Renewal) Agreement, notwithstanding that the Master Financial Services (2018 Renewal) Agreement remains in effect, the Company will conduct all continuing connected transactions constituted under the Deposit Services, the Financing Services and Other Financial Services with Finance Company (HK) only under the Master Financial Services (2019 Renewal) Agreement but not the Master Financial Services (2018 Renewal) Agreement.

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## LETTER FROM THE BOARD

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The details of the Master Financial Services (2019 Renewal) Agreement are set out below.

**Date:** 31 October 2019

**Parties:**

- (i) the Company (for itself and on behalf of its Subsidiaries)
- (ii) TCL Holdings (for itself and on behalf of TCL Financial Services Associates)
- (iii) Finance Company (HK)

**Duration:** From 1 January 2020 to 31 December 2022 (both dates inclusive) (subject to approval by the Independent Shareholders)

**Transaction Details:** **Deposit Services**

Any Tonly Qualified Member may from time to time and in its absolute discretion deposit money with Finance Company (HK) and/or other TCL Financial Services Associates. If Finance Company (HK) and/or any TCL Financial Services Associates decides to accept any amount of cash deposits from a Tonly Qualified Member (including current deposits, fixed deposits or any other form of deposits), the interest rates offered by Finance Company (HK) and/or the relevant TCL Financial Services Associates, as the case may be, shall:

- (1) for deposits made within the PRC, not be lower than the highest of:
  - i. the minimum interest rate promulgated by the PBOC for the same type of deposit services from time to time;

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## LETTER FROM THE BOARD

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- ii. the interest rates for the same type of deposits offered by major commercial banks of the PRC; and
- iii. the interest rates for the same type of deposits offered by Finance Company (HK) and/or the relevant TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties; and

other terms and conditions offered by Finance Company (HK) and/or the relevant TCL Financial Services Associates as a whole shall also not be less favourable than those offered by major commercial banks of the PRC and Finance Company (HK) and/or the relevant TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties and shall be on normal commercial terms; and

- (2) for deposits made outside the PRC, not be lower than the higher of:
  - i. the interest rates for the same type of deposits offered by major commercial banks located in the place where the relevant Tonly Qualified Member is located; and
  - ii. the interest rates for the same type of deposits offered by the Finance Company (HK) and/or the relevant TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties; and

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## LETTER FROM THE BOARD

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other terms and conditions offered by Finance Company (HK) and/or the relevant TCL Financial Services Associates as a whole shall also not be less favourable than those offered by major commercial banks located in the place where the relevant Tonly Qualified Member is located and the Finance Company (HK) and/or the relevant TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties and shall be on normal commercial terms.

TCL Holdings undertakes, and will procure all its TCL Financial Services Associates to jointly and severally with TCL Holdings undertake, with the Group that at any time during the term of the Master Financial Services (2019 Renewal) Agreement, the maximum amount of loans, financing and guarantees available under the facility line under the Master Financial Services (2019 Renewal) Agreement provided by TCL Financial Services Associates to Tonly Qualified Members shall not be less than the total amount of deposits (including normal cash deposit and deposit of cash or bank instruments as security) placed by the Tonly Qualified Members with Finance Company (HK) and/or other TCL Financial Services Associates. (see Note 1 at page 25)

If any Tonly Qualified Member demands repayment of any money deposited by it with Finance Company (HK) and/or any TCL Financial Services Associates in accordance with the relevant terms and procedure and Finance Company (HK) and/or the relevant TCL Financial Services Associates fail to follow the repayment demand, such Tonly Qualified Member shall then have the right to:

- a) offset the relevant outstanding deposit amount against up to the same amount of any outstanding loans owed by it and/or any financing provided to it by TCL Financial Services Associates and/or TCL Holdings; and/or

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## LETTER FROM THE BOARD

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- b) transfer the right mentioned in (a) above to other Tonly Qualified Members, so that other Tonly Qualified Members have the right to offset the relevant outstanding deposit amount against up to the same amount of any outstanding loans owed by them and/or any financing provided to them by TCL Financial Services Associates and/or TCL Holdings; and/or
- c) request TCL Holdings to repay the outstanding deposit amount on behalf of Finance Company (HK) and/or the relevant TCL Financial Services Associates in full.

### **Financing Services (see Note 2 at page 26)**

Any Tonly Qualified Member may from time to time and in its absolute discretion request any Financing Services from TCL Financial Services Associates. If any of the TCL Financial Services Associates decides to provide any Financing Services to a Tonly Qualified Member within the PRC, the interest rates charged by such TCL Financial Services Associate shall not be higher than the lowest of (i) the maximum interest rates promulgated by the PBOC from time to time in respect of same type of financing services; (ii) the interest rates offered by major commercial banks of the PRC for same type of financing services; and (iii) the interest rates for same type of financing services provided by such TCL Financial Services Associate to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating, and the other terms and conditions offered by such TCL Financial Services Associate in respect of the Financing Services as a whole shall not be less favourable than those offered by other major commercial banks and by TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating in respect of same type of financing services and shall be on normal commercial terms.



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## LETTER FROM THE BOARD

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If any of the TCL Financial Services Associates decides to provide any Financing Services to a Tonly Qualified Member outside the PRC, the interest rates charged by such TCL Financial Services Associate shall not be higher than the lower of (i) the interest rates offered by major commercial banks located in the place where the relevant Tonly Qualified Member is located for same type of financing services; and (ii) the interest rates for same type of financing services provided by such TCL Financial Services Associate to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating, and the other terms and conditions offered by such TCL Financial Services Associate in respect of the Financing Services as a whole shall be on normal commercial terms and shall not be less favourable than those offered by such TCL Financial Services Associate to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating and major commercial banks located in the place where the relevant Tonly Qualified Member is located in respect of same type of financing services.

TCL Financial Services Associates and the relevant Tonly Qualified Members may enter into specific agreements in compliance with the Listing Rules in respect of any Financing Services to be provided with a view to setting out the detailed terms of the transactions as long as such terms comply with the requirements of the Listing Rules and the Master Financial Services (2019 Renewal) Agreement.

TCL Financial Services Associates may request Tonly Qualified Member(s) to provide security to TCL Financial Services Associates in respect of the Financing Services provided by TCL Financial Services Associates.

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## LETTER FROM THE BOARD

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### **Other Financial Services**

Any Tonly Qualified Member may from time to time and in its absolute discretion request any TCL Financial Services Associates to provide Other Financial Services.

The fees charged by TCL Financial Services Associates in respect of provision of Other Financial Services within the PRC shall not be higher than the lowest of (i) the fees promulgated by PBOC (if applicable) for relevant services from time to time; (ii) the fees charged by major commercial banks of the PRC in respect of relevant services; and (iii) the fees charged for the relevant services offered by TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating. There will be at least more than one referencing rate available regarding each of the Other Financial Services since all Other Financial Services are ordinary financial services approved by the CBRC and TCL Financial Services Associates are not the only entities which provide such financial services in the market.

Other terms and conditions of the Other Financial Services offered by TCL Financial Services Associates within the PRC shall not be less favorable than those offered by PBOC, major commercial banks of the PRC and by TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating for the relevant services and shall be on normal commercial terms.

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## LETTER FROM THE BOARD

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The fees (see note 3 at page 26) charged by TCL Financial Services Associates in respect of provision of Other Financial Services outside the PRC shall not be higher than the lower of (i) the fees promulgated by the major commercial banks located in the place where the relevant Tonly Qualified Member is located for relevant services; and (ii) the fees charged for the relevant services offered by TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating. Other terms and conditions of the Other Financial Services offered by TCL Financial Services Associates outside the PRC shall not be less favorable than those offered by the major commercial banks located in the place where the relevant Tonly Qualified Member is located and by TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties with the same credit rating for the relevant services and shall be on normal commercial terms.

The relevant Tonly Qualified Member determine in its absolute discretion to use Other Financing Services provided by TCL Financial Services Associates or any other independent financial institutions.

The relevant Tonly Qualified Member may enter into separate written agreements with TCL Financial Services Associates in relation to the provision of the specific services under Other Financial Services with a view to setting out the detailed terms of the transactions, as long as such terms comply with the requirements of the Listing Rules and the Master Financial Services (2019 Renewal) Agreement.

*Notes:*

1. With this undertaking, Tonly Qualified Members could be assured that facilities available to them under the Master Financial Services (2019 Renewal) Agreement could be of at least the amount of deposits they maintain with Finance Company (HK) and other TCL Financial Services Associates.

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## LETTER FROM THE BOARD

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2. Whilst it is not a term of the Master Financial Services (2019 Renewal) Agreement, the Group has no intention to obtain secured loans, financing and guarantees involving pledge of the Group's assets as security under the Master Financial Services (2019 Renewal) Agreement. In the event that the Group pledges any of its assets as security under the Master Financial Services (2019 Renewal) Agreement, the Company will comply with all the applicable requirements under the Listing Rules.
3. The pricing method of Other Financial Services may be divided into 3 main categories, namely:
  - a) fees based on quotation for a particular project/transaction;
  - b) fees charged with reference to the amount of the principal involved; and
  - c) fixed fees irrespective of the amount of the principal involved.

The pricing method to be adopted for a particular type of Other Financial Services would be negotiated among the contracting parties when individual contracts are entered into. Pricing method (a) is commonly adopted for Other Financial Services.

### **2. MASTER SALE AND PURCHASE (2019 RENEWAL) AGREEMENT**

The Company has entered into the Master Sale and Purchase (2019) Agreement on 25 April 2019 which will expire on 31 December 2019. As the Company wishes to continue the continuing connected transactions contemplated thereunder, the Company entered into the Master Sale and Purchase (2019 Renewal) Agreement, the terms of which are substantially the same as the Master Sale and Purchase (2019) Agreement, save and except that (i) the Company entered into the Master Sale and Purchase (2019 Renewal) Agreement with TCL Holdings (for itself and on behalf of its associates) instead of TCL Industries (for itself and on behalf of its associates); and (ii) the sale and sourcing of equipment and tools to and from TCL Associates are covered under the Master Sale and Purchase (2019 Renewal) Agreement.

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## LETTER FROM THE BOARD

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The Company expects that the Sale of Goods will mainly involve the sale of audio-video products, speakers, components and raw materials for television whilst the Sourcing of Goods will mainly involve the sourcing of home appliances, televisions, air-conditioners, lighting devices, LED display units.

The details of the Master Sale and Purchase (2019 Renewal) Agreement are set out below.

<b>Date:</b>	31 October 2019
<b>Parties:</b>	(i) the Company (for itself and on behalf of its Subsidiaries)  (ii) TCL Holdings (for itself and on behalf of its associates)
<b>Duration:</b>	From 1 January 2020 to 31 December 2022 (both dates inclusive) (subject to approval by the Independent Shareholders)
<b>Major terms:</b>	The Company may from time to time sell and the Supplier may from time to time purchase and procure members of the Supplier Group to purchase the Electronics Products, whether or not the raw materials for the production of such Goods are to be supplied by the Supplier Group. The Company may from time to time purchase and the relevant Supplier may from time to time sell and procure members of the Supplier Group to sell the TCL Associates Products.

Such sale and purchase shall be in accordance with individual sale and purchase contracts to be entered into with the relevant member of Supplier Group on the one hand, and the relevant members of the Group on the other hand, provided that the terms of such sale and purchase contracts are consistent with the Master Sale and Purchase (2019 Renewal) Agreement.

### **Sourcing of Goods**

The Company may purchase part of the Group's required Goods from the relevant members of the Supplier Group provided that they can offer terms (including price and payment terms) no less favourable than terms available from Independent Third Parties of the Company and the relevant Supplier Group is capable of meeting the timeline, quality and quantity of the relevant order placed.

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## LETTER FROM THE BOARD

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### **Sale of Goods**

If the relevant member of the Supplier Group requests or makes a written offer to any member of the Group to purchase any Goods from the Group for its business including distribution, resale or otherwise, the member of the Group is entitled to offer to supply to or accept such offer to purchase made by the relevant member of the Supplier Group provided that the terms (including price and payment terms) of the offer by the relevant member of the said Supplier Group are no less favourable than terms available to the Group from Independent Third Parties of the Group.

### **Payment terms:**

The Master Sale and Purchase (2019 Renewal) Agreement does not contain specific payment terms for the sale and purchase which shall be governed by individual sale and purchase agreements to be entered into between the relevant member of the Group and the relevant member of the TCL Holdings Group. The usual payment terms of the Goods are within 90 days of the receipt of the relevant Goods by the relevant member of the Group or the Supplier Group (as the case may be), which is in line with the payment terms to the Group for purchases from or sale to Independent Third Parties for similar Goods.

### **Price Determination and Pricing Policy of the Group:**

1. The terms (including price and payment terms) shall be agreed between the parties based on normal commercial terms after arm's length negotiations and with reference to the fair market price ranges of products comparable to components and parts with similar terms offered in the market as at the time when the relevant sale and purchase is performed.
2. The prices charged for the Goods are under regular review and may be adjusted from time to time on mutual agreement. In determining if the prices charged are on normal commercial terms, the Group shall obtain quotations from the relevant members of the Supplier Groups and Independent Third Parties of the Company for comparable goods on a periodic basis and make comparisons. The Group would consider, compare and take reference of the said price quotations in determining the final prices charged.

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## LETTER FROM THE BOARD

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3. If at any time during the term of the Master Sale and Purchase (2019 Renewal) Agreement, the relevant member of the Supplier Group provides Goods to other Independent Third Parties at more favourable terms, the relevant member of the Supplier Group shall immediately offer to provide Goods to the Group at equivalent terms accorded to such other Independent Third Parties starting from the next applicable period.
4. If no comparable transactions are available for references, the Group shall obtain quotations from Independent Third Parties of the Company for provision of products similar to the Goods and the terms (including price and payment terms) shall be no less favourable than those available to or from the Independent Third Parties of the Company for provision of products similar to the Goods.
5. The relevant member of the Group has the absolute discretion to decide whether to accept an offer from the relevant member of the Supplier Group.
6. The relevant member of the Group has the right to sell or resell the Goods which it has acquired from the relevant member of the Supplier Group at such price as it may in its absolute discretion determine.

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## LETTER FROM THE BOARD

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7. The relevant member of the Group may demand the relevant member of the Supplier Group to purchase back the Goods at the original selling price offered to the Group if they remain unsold to third parties for six months or longer.

Notwithstanding the absence of specific pricing terms for certain continuing connected transactions above, the Directors are of the view that given the methods and procedures adopted allow comprehensive comparison between these pricing terms with market standards, they can ensure the fairness and reasonableness of these pricing terms and that the continuing connected transactions are conducted on normal commercial terms, hence the interests of the Company as a whole and its minority shareholders are not prejudiced.

### HISTORICAL FIGURES

The following table sets out (i) the actual amounts and original annual caps for the two years ended 31 December 2017 and 31 December 2018; and (ii) the actual amounts for the nine months ended 30 September 2019 with the original annual caps for the year ending 31 December 2019, under the Old Master Financial Services Agreements.

Old Master Financial Services Agreements (Note 1)	For the year ended 31 December		For the nine months ended 30 September 2019 (unaudited) (for actual amount only)/ for the year ending 31 December 2019 (for original annual cap only)
	2017 (audited) HK\$'000	2018 (audited) HK\$'000	HK\$'000
<i>Deposit Services</i>			
– Actual	782,572	791,410	471,126
– Original annual cap	905,000	1,000,000	1,100,000
<i>Financing Services and Other Financial Services</i>			
– Actual	47	0	0
– Original annual cap	1,500	1,650	1,815



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## LETTER FROM THE BOARD

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The following table sets out the (i) the actual amounts and original annual caps for the two years ended 31 December 2017 and 31 December 2018 under the Master Sale and Purchase (2015 Renewal) Agreement; (ii) the actual amounts for the 3 months ended 31 March 2019 with the original annual caps for the year ending 31 December 2019 under the Master Sale and Purchase (2018 Renewal) Agreement; and (iii) the actual amounts for the period from 25 April 2019 to 30 September 2019 with the original annual caps for the period from 25 April 2019 to 31 December 2019 under the Master Sale and Purchase (2019) Agreement.

			For the 3 months ended 31 March 2019 (unaudited) (for actual amount only)/	For the period from 25 April 2019 to 30 September 2019 (unaudited) (for actual amount only)/
	For the year ended 31 December 2017 (audited) HK\$'000	2018 (audited) HK\$'000	for the year ending 31 December 2019 (for original annual cap only) HK\$'000	for the period from 25 April 2019 to 31 December 2019 (for original/ proposed revised annual cap only) HK\$'000
<b>Old Master Sale and Purchase Agreements</b> <i>(Note 2) (Note 3)</i>				
<i>Sourcing of Goods</i>				
– Actual	209	7,506	3	54
– Original annual cap	50,250	54,270	10,000 <i>(Note 4)</i>	10,000
<i>Sale of Goods</i>				
– Actual	11,287	3,905	6,566	48,914
– Original annual cap	131,760	142,301	152,183 <i>(Note 4)</i>	80,000
– Proposed revised annual cap <i>(Note 5)</i>	–	–	–	130,000

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## LETTER FROM THE BOARD

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*Note 1:* The continuing connected transactions under the Old Master Financial Services Agreements are governed by:

- a) for the year ended 31 December 2017, the Master Financial Services (2015 Renewal) Agreement (from 1 January 2017 to 25 August 2017) and the Master Financial Services (2017 Renewal) Agreement (from 25 August 2017 to 31 December 2017);
- b) for the year ended 31 December 2018, the Master Financial Services (2017 Renewal) Agreement; and
- c) for the year ending 31 December 2019, the Master Financial Services (2018 Renewal) Agreement.

*Note 2:* The continuing connected transactions under the Old Master Sale and Purchase Agreements are governed by:

- a) for the year ended 31 December 2017, the Master Sale and Purchase (2015 Renewal) Agreement;
- b) for the year ended 31 December 2018, the Master Sale and Purchase (2015 Renewal) Agreement; and
- c) for the year ending 31 December 2019, the Master Sale and Purchase (2018 Renewal) Agreement (from 1 January 2019 to 31 December 2019) and the Master Sale and Purchase (2019) Agreement (from 25 April 2019 to 31 December 2019).

*Note 3:* The Master Sale and Purchase (2018 Renewal) Agreement was entered into between the Company and TCL Corporation whilst the Master Sale and Purchase (2019) Agreement was entered into between the Company and TCL Industries.

The Company has ceased to transact with TCL Corporation under the Master Sale and Purchase (2018 Renewal) Agreement after the Restructuring.

*Note 4:* As disclosed in the announcement of the Company dated 14 June 2019, upon entering into of the Master Sale and Purchase (2019) Agreement in April 2019, the Master Sale and Purchase (2018 Renewal) Agreement remains in full force and effect but the annual caps for the year ending 31 December 2019 thereunder were correspondingly lowered (i) from HK\$10,000,000 to nil (for Sourcing of Goods); and (ii) from HK\$152,183,000 to HK\$72,183,000 (for Sale of Goods) (the reduced amounts represent the amounts of the corresponding annual caps under the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019). For the avoidance of doubt, the annual caps for the year ending 31 December 2019 under the Master Sale and Purchase (2018 Renewal) Agreement have become no longer applicable since the date TCL Corporation ceased to be a connected person of the Company in July 2019, the details of which are set out in the section “Renewal of Existing Continuing Connected Transactions – 1. Master Financial Services (2019 Renewal) Agreement” in the “Letter from the Board” of this circular.

*Note 5:* The details of the proposed revised annual cap are disclosed in this circular.

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## LETTER FROM THE BOARD

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### PROPOSED ANNUAL CAPS

The following table sets out the respective proposed annual caps of the continuing connected transactions under the Agreements for the three years ending 31 December 2022:

Continuing Connected Transactions		For the year ending 31 December		
		2020	2021	2022
		HK\$'000	HK\$'000	HK\$'000
<b>Master Financial Services (2019 Renewal) Agreement</b>	Deposit Services	720,000	840,000	900,000
	Financing Services and Other Financial Services	3,600	4,200	4,500
<b>Master Sale and Purchase (2019 Renewal) Agreement</b>	Sourcing of Goods	28,346	23,346	23,346
	Sale of Goods	743,880	820,103	829,821

### BASIS OF THE PROPOSED ANNUAL CAPS

#### Master Financial Services (2019 Renewal) Agreement

The proposed annual caps in relation to the Master Financial Services (2019 Renewal) Agreement are determined by reference to the historical amounts of the relevant transactions and taking into account the following factors:

- (i) Having been satisfied with the services and the benefits provided by Finance Company (HK) such as better interest rates than those available from other financial institutions, it is expected the balance of deposits with Finance Company (HK) will increase;
- (ii) It is expected that the business of the Company will expand in the following years and as a result, the capital available for deposit with Finance Company (HK) and/or other TCL Financial Services Associates will also increase;

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## LETTER FROM THE BOARD

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- (iii) It is expected that the Group's audio products business will progress and move away from the initial stage towards a more mature stage and will continue to grow in future. It is expected that the Group's audio products business, in particular the headphone business will continue to grow. Further, benefiting from the rapid growth of the global market for smart products, the Group expects that its smart speaker business and the components related to the smart products will expand significantly. In light of the above, it is expected that the cash flow of the Group at peak season of sales of the upcoming years will be strong and hence the Group's demand for deposit services from TCL Financial Services Associates may increase up to the proposed annual cap at the peak season;

### *Deposit Services*

- (iv) As at 30 June 2019, the Group's cash and cash equivalents were approximately HK\$704 million. Given that net cash is expected to generate from the business operation of the Group following the previous trend without significant cash outflow and that the business of the Company will experience a gradual growth, it is expected that the Group's cash and cash equivalents would have a stable increase over the three financial years ending 31 December 2022;
- (v) The Directors of the Company (other than the independent non-executive Directors whose views will be set out in the letter from the Independent Board Committee in this circular) believe that the proposed annual caps are reasonable, particularly having regard to the following factors:
- (a) Having considered the total daily balance of deposits placed by the Group (including both within the PRC and outside the PRC) as at the Latest Practicable Date exceeded HK\$707 million, the Group expects that the maximum amount of deposits to be maintained with TCL Financial Services Associates could be up to the proposed annual caps for the maximum outstanding daily balance of deposits for the 3 years ending 31 December 2022;
- (b) It is in the Group's absolute discretion to decide whether to deposit money with TCL Financial Services Associates under the Master Financial Services (2019 Renewal) Agreement and the Group would only do so if the terms offered by the TCL Financial Services Associates are of no less favourable than those offered by major commercial banks in the relevant jurisdiction, the Group expects that the proposed annual caps are reasonably set; and

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## LETTER FROM THE BOARD

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- (c) The Group expects that the Group's audio products business and smart products business will progress and move away from the relatively initial stage towards more mature stage and will continue to grow in future and the Group's increasing demand for deposit services arising therefrom as stated hereinabove;

### ***Financing Services and Other Financial Services***

- (vi) The Group may request TCL Financial Services Associates to provide Financing Services and Other Financial Services as and when needed. In view of the targeted gradual increase in the Group's sales for the three years ending 31 December 2022, the Group's need for facility from TCL Financial Services Associates would also increase. The Company expected that the growth rate of such services from TCL Financial Services Associates would be approximately 16.67% and 7.14% per annum for the years ending 31 December 2021 and 2022 respectively. Obtaining facility from TCL Financial Services Associates could allow the Group to flexibly obtain low costs facility in time to support the operation of the Group. This efficient alternative of financing could enable the Group to cope with the ever-changing markets and business needs in time. The facility is expected to be used in the general operation of the Group.

### **Master Sale and Purchase (2019 Renewal) Agreement**

The annual caps for the aggregated transactions under the Master Sale and Purchase (2019 Renewal) Agreement are determined by reference to, among other things,

- (i) the historical amounts of the relevant transactions under the Old Master Sale and Purchase Agreements;
- (ii) in respect of Sourcing of Goods, the possible requirements of raw materials, semi-finished materials, finished goods and equipment and tools with respect to the projected business volumes and the estimated growth rates of the relevant business lines of the Group (which in turn are estimated by reference to, among other things, the relevant industry demand and the target market share of the Group), together with the prevailing market rate for similar raw materials, semi-finished materials, finished goods and equipment and tools, in particular the expected sourcing of equipment and tools from TCL Electronics for the production base in Vietnam in the approximate amounts of HK\$10 million, HK\$5 million and HK\$5 million for the years ending 31 December 2020, 2021 and 2022 respectively; and

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## LETTER FROM THE BOARD

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- (iii) in respect of Sale of Goods, the relevant TCL Associates' projected requirements of raw materials, semi-finished materials, finished goods, equipment and tools for its operations, which is expected to increase substantially due to:
  - (a) the expected increase in the number of projects and production facility utilisation rate of optoelectronics products line of Guangdong Regency;
  - (b) the expected increase in sale of optoelectronics products to TCL Electronics;
  - (c) the expected increase in sale of soundbar audio products to TCL Associates;
  - (d) the possible cooperation in Brand AV Business with TCL Holdings Group; and
  - (e) the prevailing market rate for similar Goods.

With regard to (d) above, pursuant to the Deed of Non-Competition (as amended by the Deed of Variation), the Covenantors and their respective associates may engage in the Brand AV Business, nevertheless the request or written offers related to the OEM/ODM manufacturing and procurement of Brand AV Products shall be given to the Group first and shall remain valid and open for acceptance by the Group for a reasonable period of time for no more than 14 days. As the Group has the first right of refusal to accept the production in relation to the Brand AV Products, the Group shall be able to capture the business opportunities arising from and/or in connection with the Brand AV Business of the Covenantors and/or their associates through the production of such Brand AV Products.

Since entering into of the Deed of Variation in 2017, the Covenantors have commenced the Brand AV Business. Over the past two years, the Brand AV Business of the Covenantors was in developing stage and the overall scale of business remained relatively small. It was expected that TCL Holdings Group would increase the resources in the Brand AV Business starting from the year of 2020. The Brand AV Business of the Covenantors is mainly carried on via TCL Holdings Group after the Restructuring. Based on the business plan provided by the TCL Holdings Group, the cooperation in Brand AV Business for the three years ending 31 December 2022 is expected to be mainly in (i) the sound solution category adjacent to the home appliance category for synergistic advantage; (ii) the audio-visual category of smart speakers and sound solution for home appliance; and (iii) the television soundbar category, for the global market under various brands of the TCL Holdings Group. Therefore, the Group expects to experience gradual growth of its ODM/OEM business by obtaining potential product orders from TCL Holdings Group starting from the year of 2020.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE AGREEMENTS

#### Master Financial Services (2019 Renewal) Agreement

The Directors (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) consider that the continuing connected transactions under the Master Financial Services (2019 Renewal) Agreement are entered into in the ordinary and usual course of business of the Company, the terms thereof including the proposed annual caps are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole, for the following reasons:

1. The Master Financial Services (2019 Renewal) Agreement allows TCL Financial Services Associates to provide cost efficient finance and treasury services to all Tonly Qualified Members. The Company believes that TCL Financial Services Associates, which are financial institutions duly established in or outside the PRC and the pricing policies and the operation of which are subject to guidelines issued by the CBRC or relevant authorities where the financial institutions duly established outside the PRC, may also facilitate the Tonly Qualified Members to obtain cheaper financing from other financial institutions in or outside the PRC by taking advantage of the inter-bank lending rates which TCL Financial Services Associates may enjoy in respect of their own borrowings from other financial institutions. Since the credit ranking of TCL Holdings is better than that of Tonly Qualified Members, TCL Financial Services Associates may obtain better financing options from the financial institutions outside through TCL Holdings by making use of its advantage in credit ranking, and in turn the TCL Financial Services Associates may offer favourable financing options to Tonly Qualified Members. It is expected that the inter-bank interest rates are usually lower than the interest rates of other corporate commercial loans.
2. Further, Finance Company (HK) has been providing financial services to the Group and has a thorough understanding of the operations and development needs of the Group. Accordingly, it is expected that TCL Financial Services Associates (including Finance Company (HK)) will be more efficient in terms of processing transactions for the Group than other financial institutions given their close relationships.

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## LETTER FROM THE BOARD

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3. In the course of business of the Group, suppliers of the Group may request the Group to provide unsecured guarantee letters from major commercial banks in the PRC. Out of the Other Financial Services, the Group may request TCL Financial Services Associates to assist the Group in obtaining such unsecured guarantee letters. Since the credit ranking of TCL Financial Services Associates may be better than that of the Group, TCL Financial Services Associates may be able to obtain unsecured guarantee letters with better terms. The Group will benefit from such arrangement since it allows the Group to obtain such unsecured guarantee letters to facilitate the Group's business with its suppliers.

### **Master Sale and Purchase (2019 Renewal) Agreement**

The Directors consider that the transactions under the Sourcing of Goods will continue to facilitate the smooth operation of the Group's business by providing a stable and reliable source of supply of the necessary materials for the Group's manufacture of the Electronics Products and the necessary finished goods, equipment and tools for the Group's operations. The Sale of Goods will also allow the Group to better manage its level of raw materials by providing additional flexibility to the Group for managing its surplus materials/Goods (if any) and will allow the Group to widen its revenue base by supplying Goods to the relevant TCL Associates. Also, the sale of equipment and tools to the TCL Associates will provide the Group with a way to dispose of equipment and tools that are in excess of or not fit for its production needs and to realise assets for its financial needs.

The Master Sale and Purchase (2019 Renewal) Agreement would also enable the Group to source Goods from the relevant TCL Associates on normal commercial terms or better with a view to distributing such products for profits. It will continuously provide the Group with an additional source of revenue and margin by capitalising upon its established distribution network of the Group of Goods without incurring significant additional overheads; the Group will also benefit by securing a reliable source of high quality Goods for re-sale to customers and an additional income will be derived from reselling the Goods to customers by utilising the Group's existing distribution network in the territories concerned. The sourcing of equipment and tools from the TCL Associates will allow the Group's access to necessary equipment and tools to support its production, for replacing and upgrading existing obsolete equipment and tools and expanding scale of production.

The Directors (other than the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) consider that the continuing connected transactions under the Master Sale and Purchase (2019 Renewal) Agreement and the respective proposed annual caps thereof are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE BOARD

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### **FINANCIAL EFFECT OF THE MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT**

The Company expects more cash will be available for deposit with the TCL Financial Services Associates during 2020 to 2022. Therefore, it expects that there will be an increase in interest income to be earned from the TCL Financial Services Associates in the same period. However, given that the interest income earned from Finance Company and/or Finance Company (HK) in the past years, which were in the sums of approximately HK\$2,481,747 and HK\$2,304,301 for the years ended 31 December 2017 and 31 December 2018 respectively, only represented a small proportion of its earnings and net assets, the Company anticipates that the interest income to be earned from the deposits will not have any material impact on its corresponding earnings (or losses) (as the case may be) and net assets.

### **INTERNAL CONTROL PROCEDURES**

In respect of all continuing connected transactions of the Group, the Group has adopted the following internal control procedures:

- (1) Before conducting any transactions contemplated under, or enter into any sub-contract pursuant to, an agreement for continuing connected transactions, the internal control department, legal department and finance department of the Group would review the terms of the proposed transactions and the draft sub-contract to ensure that the transactions would be conducted in accordance with the terms of the agreement and in accordance with the Company's pricing policy;

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## LETTER FROM THE BOARD

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- (2) For provision of services or supply of goods by the connected persons, to ensure that the transactions with connected persons are on normal commercial terms and terms no less favourable than those available from Independent Third Parties, where comparable services and/or goods are available on the market from Independent Third Parties, before requesting the connected persons to provide the service or the goods, the purchasing department of the Group would obtain a quotation from at least two Independent Third Parties for the comparable services or goods and conduct an overall assessment on the terms of provision of services and supply of goods. The relevant members of the Group would only engage the connected persons for the provision of the goods or the services when, according to the results of the overall assessment by the purchasing department of the Group, the connected persons offer the best terms of supply for the goods or services, and the internal control department and legal department of the Group have (i) reviewed the terms for the supply of goods or services and (ii) separately given their approval for engaging the connected persons. The quotations obtained from the Independent Third Parties would be recorded in an internal system maintained by the purchasing department of the Group which would be updated from time to time so that the members of the Group would have an easy access of information regarding market price and other terms of supply;
- (3) For sale of goods by the Group, to ensure that the transactions with connected persons are on normal commercial terms and terms no less favourable from the perspective of the Group than those available to Independent Third Parties, every time before conducting any such transactions, the sales department of the Group would first prepare the relevant contract for the sale of goods and submit it to the internal control department and legal department of the Group for review and approval. The internal control department and the legal department of the Group would review the terms of the proposed transaction and the draft sub-contract to be entered into (if any) to make sure that the terms are in compliance with the pricing policy of the Company and the overall terms (including payment terms, product warranty) are no more favourable to the connected persons than those which have been offered or to be offered by the Group to Independent Third Parties; The transactions could only be carried out after the internal control department and the legal department have separately given their approval therefor;

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## LETTER FROM THE BOARD

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

In respect of the transactions under the Master Financial Services (2019 Renewal) Agreement, the Company has adopted, in addition to the above measures, the following measures in order to further safeguard the interests of the Independent Shareholders,

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## LETTER FROM THE BOARD

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(5) Independent financial system:

The Group has established an independent finance department with a team of independent financial staff. The Group has adopted a sound and independent audit system and a comprehensive financial management system. Funds daily report will be obtained every Business Day morning on the amount of deposits and the situation of change in funds. Alerts will be issued to the finance department and other relevant departments of the Group when the aggregate deposits are close to the applicable annual caps. The Group's finance department will review such report and monitor the maximum daily balance of the deposits on a daily basis to ensure that the aggregate deposits do not exceed the applicable annual caps and where necessary adjust the funds strategy according to the funds daily report. The fund manager will compile the monthly fund plan at the beginning of each month to arrange the monthly fund balance in advance and make arrangements for the Group's needs of deposits, financial services and other financial services.

The Group also maintains accounts with independent banks. TCL Holdings Group does not share any bank account with the Group nor does it control the use of any of the Group's bank accounts. Should the balance at the end of any day exceed the maximum daily balance of deposits, the excess funds will be transferred to the Group's designated bank accounts with an independent commercial bank.

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## LETTER FROM THE BOARD

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(6) Risk control measures:

Finance Company (HK) and the relevant TCL Financial Services Associates utilise deposits placed with them, to the extent permitted by applicable laws and regulations, by lending the funds out to Qualified Members (including Tonly Qualified Members). Since the terms of the deposits and loans are often different, Finance Company (HK) and the relevant TCL Financial Services Associates face liquidity risks if any deposit becomes due and it does not have sufficient immediately available fund for repayment. The nature of such risk does not differ materially from the liquidity risks faced by PRC commercial banks. To manage such risks, the Group will request Finance Company (HK), the relevant TCL Financial Services Associates and TCL Holdings Group to provide the Group with sufficient information including various financial indicators, such as its asset size, liquidity ratios, operation ratios, level of bad assets and its risk rating assessed by PBOC (if and when available) at the end of every quarter as well as annual and interim financial statements to enable the Group to monitor and review their financial condition. Finance Company (HK), and the relevant TCL Financial Services Associates and TCL Holdings Group shall notify the Group, subject to compliance with applicable laws and regulations, should it be subject to any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on the financial condition of any of them. If the Group considers that there is any material adverse change in the financial condition of Finance Company (HK) and/or the relevant TCL Financial Services Associates, the Group will take appropriate measures (including early uplift of deposits and a moratorium on further deposits) to protect the Group's financial position.

Finance Company (HK) and the relevant TCL Financial Services Associates will also provide the Group with a monthly report on the status of the Group's deposits so as to enable the Group to monitor and ensure that the relevant annual caps under the Master Financial Services (2019 Renewal) Agreement has not been exceeded.

The Company will, from time to time at its sole discretion, request for the deposits with Finance Company (HK) and the relevant TCL Financial Services Associates to be withdrawn (either in full or in part) to assess and ensure the liquidity and safety of the Group's deposits.

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## LETTER FROM THE BOARD

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Pursuant to the Master Financial Services (2019 Renewal) Agreement, TCL Holdings has undertaken that if Finance Company (HK) and/or any of the TCL Financial Services Associates fails to make any repayment in accordance with the relevant terms and procedure, TCL Holdings shall repay any outstanding deposit amount on behalf of Finance Company (HK) and/or the relevant TCL Financial Services Associates in full; and/or offset the relevant outstanding deposit amount against and up to the same amount of any outstanding loans owed by it to and/or any trade financing provided to it by Finance Company (HK) and/or TCL Financial Services Associates. Such undertaking provides indemnification for the deposits with Finance Company (HK) and/or the relevant TCL Financial Services Associates under the Master Financial Services (2019 Renewal) Agreement.

(7) Internal control measures:

The management of Group will prepare risk assessment reports of the funds deposited with Finance Company (HK) and the relevant TCL Financial Services Associates every quarter which will be submitted to the Board for consideration. The contents of such risk assessment reports include the total balance and maximum daily balance of the deposits for the reporting period, a summary of the interest rates of the deposits with Finance Company (HK) and the relevant TCL Financial Services Associates during the reporting period, and the terms thereof. In addition, the management of the Group will issue a monthly management report to the Directors at the end of each month to inform the Directors of the information about the continuing connected transactions as at the end of the month such as the actual amount of transactions for the month and accumulated amount of transactions. The management of the Group will also report to the Board every six months with respect to the deposits under the Master Financial Services (2019 Renewal) Agreement including compliance with annual caps and any potential change in the risk profile of Finance Company (HK) and/or the relevant TCL Financial Services Associates. In the event that the aggregate deposits are close to the applicable annual caps, irregularity reports would be made by the management to the Board so as to bring the matter to the Board's attention and to ensure that the issues can be addressed timely as soon as they arise.

In particular, the Company's audit committee will scrutinize the implementation and enforcement of the transactions under the Master Financial Services (2019 Renewal) Agreement. If the Company's audit committee is of the view and decides that it would be in the Company's interests to reduce the level of deposits with Finance Company (HK) and the relevant TCL Financial Services Associates, the Group will take appropriate steps to implement its decision. Any material findings in the risk assessment reports, the views of the Company's audit committee on the deposits under the Master Financial Services (2019 Renewal) Agreement (including its views on how the terms of the Master Financial Services (2019 Renewal) Agreement have been complied with) and its decisions on matters in relation thereto will be disclosed in the Company's annual reports.

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## LETTER FROM THE BOARD

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### ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

The Non-Exempt Transactions will be subject to the following annual review requirements:

1. the independent non-executive Directors shall review annually the Non-Exempt Transactions and confirm in the Company's corresponding annual report that the Non-Exempt Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) on normal commercial terms and on terms no less favourable to the Group than those available from the Independent Third Parties; and
  - (c) in accordance with the respective agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
2. the auditors of the Company shall review annually the Non-Exempt Transactions and confirm in a letter to the Board (a copy of which shall be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) that the Non-Exempt Transactions:
  - (a) have received the approval of the Board;
  - (b) have been, in all material respects, in accordance with the pricing policies of the Group (for these Non-Exempt Transactions involving the provision of goods and services by the Group);
  - (c) have been entered into in accordance with the respective agreements; and
  - (d) have not exceeded the caps; and
3. the Directors shall state in the Company's annual report whether its auditors have confirmed the matters stated in Rule 14A.57 of the Listing Rules.

The Company shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (1) and/or (2) respectively.

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## LETTER FROM THE BOARD

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The Company shall allow, and shall procure that the counterparties shall allow the Company's auditors access to the relevant records for the purpose of the auditors' review of the Non-Exempt Transactions referred to in paragraph (2) above.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 130,741,170 Shares of the Company, representing approximately 48.65% of the total number of issued Shares, were held by TCL Industries, which in turn was held as to 100% by TCL Holdings. As such, TCL Industries is a substantial Shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules. As TCL Holdings is the holding company of TCL Industries, it is an associate of TCL Industries and therefore also a connected person of the Company under Chapter 14A of the Listing Rules. In addition, Finance Company (HK), being a Subsidiary of TCL Holdings, is also a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under each of the Master Sale and Purchase (2019) Agreement, the Master Financial Services (2019 Renewal) Agreement and the Master Sale and Purchase (2019 Renewal) Agreement constitute continuing connected transactions of the Company.

Mr. Yu Guanghui, an executive Director, is also the senior vice president of TCL Holdings. Notwithstanding his office held in TCL Holdings, as his respective direct or indirect interests in TCL Holdings are insignificant and that none of the TCL Associates are associates of any of the Directors, none of him or the other Directors are considered as having a material interest in the Revision or the Non-exempt Transactions, therefore all Directors are entitled to vote on the relevant board resolutions pursuant to the Company's articles of association.

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the annual caps of the Agreements and the Revision exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

Furthermore, as the applicable percentage ratios in relation to the Deposit Services under the Master Financial Services (2019 Renewal) Agreement exceed 25%, in addition to being continuing connected transactions, the above transaction constitutes a major transaction of the Company and is subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules.



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## LETTER FROM THE BOARD

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Further, as the assets ratio of the Deposit Services under the Master Financial Services (2019 Renewal) Agreement exceeds 8%, the Deposit Services under the Master Financial Services (2019 Renewal) Agreement also constitutes an advance to an entity and is subject to the relevant disclosure requirements under Chapter 13 of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders on the terms and the proposed annual caps of the Agreements and the Revision. The Company has appointed Pelican Financial as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, 130,741,170 Shares are held by TCL Industries, (which in turn is held as to 100% by TCL Holdings), representing approximately 48.65% of the total number of issued Shares. The holder of such Shares will abstain from voting in respect of the Revision and the Non-exempt Transactions to be put forward at the EGM. Save as the aforesaid, the Directors are not aware of any other Shareholders who are required to abstain from voting on the resolution in respect of the Revision or the Agreements to be put forward at the EGM.

### GENERAL INFORMATION ON THE PARTIES

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

TCL Holdings is principally engaged in equity investment, real estate leasing, conference services, software development, developing, manufacturing and distributing communication devices, audio/video products, electronic products and home appliances, market development, goods and technology import and export, computer information technology services, business management consultation and business information consultation.

TCL Industries is a company incorporated and subsisting under the laws of the Hong Kong with limited liability and is principally engaged in investment holding.

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## LETTER FROM THE BOARD

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Finance Company (HK) is principally engaged in obtaining and utilising funds required for operation of TCL Holdings Group (including the Group), the main functions of which include but not limited to financing of funds inside TCL Holdings Group (including the Group), the management cash pool and liquidity of funds, pay vendor or supplier, assistance of TCL Holdings Group (including the Group) to procure funds, and risk management.

### EGM

The Company will convene the EGM at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, on 21 November 2019, Thursday at 10:30 a.m., at which resolutions will be proposed for the purposes of considering and if thought fit, approving the Revisions and the terms and the proposed caps under the Agreements.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 November 2019, Friday to 21 November 2019, Thursday (both dates inclusive), for the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM. No transfer of the Shares may be registered during the said period. The record date for determining the aforesaid entitlements is 21 November 2019, Thursday. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 14 November 2019, Thursday.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on pages 50 to 51 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the Agreements, the transactions contemplated thereunder and their respective proposed annual caps and the Revision; (b) the letter from Pelican Financial, the Independent Financial Adviser, set out on pages 52 to 83 of this circular which contains its advice (together with the principal factors and reasons considered in arriving at such advice) to the Independent Board Committee and the Independent Shareholders in respect of the Revision, and the terms of the Agreements and the transactions contemplated thereunder and the proposed annual caps; and (c) additional information set out in the appendices to this circular.

The Independent Board Committee, having taken into account the advice of Pelican Financial, the Independent Financial Adviser, considers that the Agreements are entered into in the ordinary and usual course of business, and that the Revision, and the terms of the Agreements and the transactions contemplated thereunder and the proposed annual caps are fair and reasonable, on normal or better commercial terms, and they are in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Revision, and the Agreements and the transactions contemplated thereunder and the proposed annual caps.

The Board considers that the Agreements are entered into in the ordinary and usual course of business, and that the Revision, and the terms of the Agreements and the transactions contemplated thereunder and the proposed annual caps are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board also considers that the resolutions proposed in the notice of EGM are in the best interests of the Company and the Independent Shareholders and therefore recommend you to vote in favour of all the relevant resolutions to be proposed at the EGM.

Yours faithfully,  
On behalf of the Board  
**LIAO Qian**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

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

**(Stock Code: 01249)**

Date: 6 November 2019

*To: the Independent Shareholders*

Dear Sirs or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
(1) REVISION OF ANNUAL CAP OF MASTER SALE AND  
PURCHASE (2019) AGREEMENT  
(2) RENEWAL OF EXISTING  
CONTINUING CONNECTED TRANSACTIONS  
(3) MAJOR TRANSACTION IN RESPECT OF  
MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT  
AND  
(4) ADVANCE TO AN ENTITY IN RESPECT OF DEPOSIT SERVICES  
UNDER THE MASTER FINANCIAL SERVICES  
(2019 RENEWAL) AGREEMENT**

We refer to the circular of the Company dated 6 November 2019 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular bear the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Revision, and the Agreements and the transactions contemplated thereunder and the proposed annual caps, details of which are set out in the Circular.

We wish to draw your attention to the letter from the Board and the letter of advice (together with the principal factors and reasons considered in arriving at such advice) from Pelican Financial set out on pages 11 to 49 and pages 52 to 83 of the Circular respectively.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account of the advice of Pelican Financial (together with the principal factors and reasons considered in arriving at such advice), the independent financial adviser, we consider that the Revision, and the Agreements and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole and the terms thereof and the proposed annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Revision, and the Agreements and the transactions contemplated thereunder and the proposed annual caps.

Yours faithfully,

**POON Chiu Kwok, LI Qi and LEONG Yue Wing**

*Independent Board Committee*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PELICAN FINANCIAL LIMITED

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15/F, East Exchange Tower, 38-40 Leighton Road, Causeway Bay, Hong Kong

6 November 2019

*To the Independent Board Committee and the Independent Shareholders of  
Tonly Electronics Holdings Limited*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS  
(1) REVISION OF ANNUAL CAP OF MASTER SALE AND  
PURCHASE (2019) AGREEMENT  
(2) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS  
IN RESPECT OF  
MASTER FINANCIAL SERVICES (2019 RENEWAL) AGREEMENT  
AND  
MASTER SALE AND PURCHASE (2019 RENEWAL) AGREEMENT**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 6 November 2019 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As stated in the Announcement, due to the business expansion and increased needs of the Group, the Board proposes to revise the annual cap for the period from 25 April 2019 to 31 December 2019 under the Master Sale and Purchase (2019) Agreement. Further, on 31 October 2019, the Company entered into (i) the Master Financial Services (2019 Renewal) Agreement with TCL Holdings and Finance Company (HK); and (ii) the Master Sale and Purchase (2019 Renewal) Agreement with TCL Holdings, and the transactions contemplated thereunder constitute continuing connected transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the annual caps of the Agreements and the Revision exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

Furthermore, as the applicable percentage ratios in relation to the Deposit Services under the Master Financial Services (2019 Renewal) Agreement exceed 25%, in addition to being continuing connected transactions, the above transaction constitutes a major transaction of the Company and is subject to the relevant major transaction requirements under Chapter 14 of the Listing Rules.

Further, as the assets ratio of the Deposit Services under the Master Financial Services (2019 Renewal) Agreement exceeds 8%, the Deposit Services under the Master Financial Services (2019 Renewal) Agreement also constitutes an advance to an entity and is subject to the relevant disclosure requirements under Chapter 13 of the Listing Rules.

The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, Mr. Poon Chiu Kwok, Mr. Li Qi and Mr. Leong Yue Wing, has been established to advise the Independent Shareholders regarding the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

Pelican Financial Limited ("**Pelican**") is not connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interest between Pelican and the Company nor any other parties that could be reasonably be regarded as a hindrance to Pelican's independence as defined under Rule 13.80 of Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps. In the last two years, other than our role as the independent financial adviser to the Company in respect of the renewal of the existing continuing connected transactions as disclosed in the Company's circular dated 28 November 2018, there was no engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as independent financial adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Our role is to provide you with our independent opinion and recommendation as to (i) whether the Revision, the Agreements, the transactions contemplated thereunder are entered into in the ordinary and usual course of business and on normal commercial terms; (ii) whether the terms of the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps at the EGM.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Master Sale and Purchase (2019) Agreement, the Agreements, and the respective existing continuing connected transaction agreements (together with the announcements of the Company dated 25 April 2019 and 14 June 2019, the Announcement and the circular of the Company dated 29 November 2018 respectively), the annual report of the Company for the financial year ended 31 December 2018 (the “**2018 Annual Report**”), the Company’s unaudited interim report for the six months ended 30 June 2019 (the “**2019 Interim Report**”), and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs or the future prospects of the Group.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps, we have considered the following principal factors and reasons.

#### 1. Background information of the Group and the connected persons

##### *(a) Background information of the Company*

The Group is one of the world's leading vertically-integrated manufacturing services provider in the AV product industry, and is principally engaged in research and development, manufacturing and sale of premium AV products for internationally renowned brands on an original design manufacturing basis.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2018 and for the six months ended 30 June 2019 and 30 June 2018 as extracted from the 2018 Annual Report and the 2019 Interim Report, respectively.

	For the six months ended 30 June		For the financial year ended 31 December	
	2019	2018	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
<i>Revenue by product</i>				
– Audio products	2,502,579	2,012,758	5,543,219	4,474,557
– Headphones	421,474	246,131	704,688	299,824
– Video products	137,077	262,387	382,102	684,965
– IoT related products	77,677	79,623	175,589	83,458
– Ancillary products	304,866	186,315	462,534	321,654
– Other businesses	74,503	14,981	34,819	48,021
<b>Total revenue</b>	<b>3,518,176</b>	<b>2,802,195</b>	<b>7,302,951</b>	<b>5,912,479</b>
<b>Gross profit</b>	<b>457,180</b>	<b>342,000</b>	<b>831,614</b>	<b>824,690</b>
<b>Profit for the year</b>	<b>98,672</b>	<b>83,279</b>	<b>221,159</b>	<b>198,506</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the Annual Report, for the year ended 31 December 2018, the Group recorded an annual growth of 23.5% in its annual turnover, from approximately HK\$5,912.5 million to HK\$7,303.0 million, which was primarily due to the growth in the sales of headphones, IoT related products and ancillary products. Among the Group's different product segments, the sales of audio products accounted for over 75% of the Group's total turnover and recorded a growth of about 23.9% from 2017 to 2018. Despite the growth in the Group's turnover, gross profit of the Group only increased by 0.8% for the year ended 31 December 2018, from approximately HK\$824.7 million in 2017 to HK\$831.6 million in 2018, as a result of factors such as the fluctuations in the exchange rate of Renminbi, as well as the increasing costs of labour and certain raw materials during the period.

According to the Interim Report, for the six months ended 30 June 2019, the Group's turnover increased by 25.6%, from approximately HK\$2,802.2 million to HK\$3,518.2 million compared to the same period last year, which was primarily due to the growth in the sales of audio products, headphones and ancillary products. Gross profit of the Group increased by 33.7% for the six months ended 30 June 2019 compared to the same period last year, from approximately HK\$342.0 million to HK\$457.2 million, which was mainly due to the improvement of production layout and efficiency as well as the decrease in the cost of certain raw materials.

Looking forward, as the smart and ancillary product business becomes more mature and as the Group consolidates and strengthens its industry position in the new audio market, it is expected that smart products, headphones and ancillary products will account for an increasing proportion of the Group's turnover going forward and benefit the Group's future business growth. On the other hand, as the market competition in the smart voice products industry becomes fiercer, it may pose challenges to the Group's future business development. However, the Group will continue to improve its technological advantages in smart voice products, while focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly explore more market opportunities. In sum, the Group will keep on looking for opportunities and actively seeking viable business expansion opportunities, enlarge its business portfolio, enhance the long-term value of the Group, and proactively generate more return for its Shareholders.

### ***(b) Background information of the connected persons***

TCL Holdings is principally engaged in equity investment, real estate leasing, conference services, software development, developing, manufacturing and distributing communication devices, audio/video products, electronic products and home appliances, market development, goods and technology import and export, computer information technology services, business management consultation and business information consultation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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TCL Industries is a company incorporated and subsisting under the laws of Hong Kong with limited liability and is principally engaged in investment holding.

Finance Company (HK) is principally engaged in obtaining and utilizing funds required for operation of TCL Holdings Group (including the Group), the main functions of which include but not limited to financing of funds inside TCL Holdings Group (including the Group), the management cash pool and liquidity of funds, pay vendor or supplier, assistance of TCL Holdings Group (including the Group) to procure funds, and risk management.

**2. Background of and reasons for the Revision, the Agreements, and the transactions contemplated thereunder**

***Revision of annual cap***

***(a) Master Sale and Purchase (2019) Agreement***

As disclosed in the announcement of the Company dated 25 April 2019, the Company entered into the Master Sale and Purchase (2019) Agreement which, being a short-term temporary arrangement, will expire on 31 December 2019. The Company is of the view that, while the original annual caps for Sale of Goods under the Old Master Sale and Purchase Agreements were approximately HK\$131.8 million, HK\$142.3 million and HK\$152.2 million for the years ended 31 December 2017, 2018 and 2019 respectively, the original proposed annual cap for Sale of Goods under the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019 was only HK\$80 million, which was far below the said annual caps for Sale of Goods for the previous financial years. Due to the business expansion and increased needs of the Group, and given that the counterparty of the Master Sale and Purchase (2018 Renewal) Agreement (from 1 January 2019 to 31 December 2019) is TCL Corporation while the counterparty of the Master Sale and Purchase (2019) Agreement (from 25 April 2019 to 31 December 2019) is TCL Industries, and therefore the original annual cap under the Master Sale and Purchase (2018 Renewal) Agreement will no longer be applicable as TCL Corporation ceased to be a connected person of the Company upon completion of the Restructuring, the Board proposes to revise the annual cap for the period from 25 April 2019 to 31 December 2019 under the Master Sale and Purchase (2019) Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As of 30 September 2019, the actual amount for Sale of Goods under the Master Sale and Purchase (2019) Agreement had reached approximately HK\$48.9 million and therefore only approximately HK\$31.1 million in the annual cap for the period from 25 April 2019 to 31 December 2019 (representing approximately 38.86% of the annual cap for the said period) remained available for utilisation for the remaining term of the agreement. Based on past business records of the Group, the Group tends to experience a higher amount of turnover and also Sale of Goods in the last quarter of a year due to holiday season and the potential increase in demand by TCL Associates for Electronic Products when compared to the second quarter of a year. In this regard, it is expected that the Sale of Goods for the three months ending 31 December 2019 would reach about HK\$47.7 million and therefore the amount of Sale of Goods for the period from 25 April 2019 to 31 December 2019 would reach about HK\$96.6 million and that the original cap for Sale of Goods for the said period would not be sufficient to keep up with the business growth of the Group. Considering that it would be essential to a business to have flexibility in operations and to allow a buffer in conducting transactions, the Group therefore proposed to revise the annual cap for the Sale of Goods for the period from 25 April 2019 to 31 December 2019 to HK\$130.0 million.

### ***Renewal of existing continuing connected transactions***

#### ***(b) Master Financial Services (2019 Renewal) Agreement***

As stated in the announcement of the Company dated 14 June 2019, TCL Corporation underwent the Restructuring in April 2019. Upon completion of the Restructuring and the equity transfer under the Equity Transfer Agreement, each of TCL Corporation and Finance Company, a Subsidiary of TCL Corporation, ceased to be a connected person of the Company. On the other hand, Finance Company (HK), which became a subsidiary of TCL Holdings as a result of the Restructuring, remains to be a connected person of the Company. For details on the effects of the Restructuring and the Equity Transfer Agreement, please refer to the section headed “Renewal of existing continuing connected transactions” in the Board Letter.

The Company has entered into the Master Financial Services (2018 Renewal) Agreement on 18 October 2018 which will expire on 31 December 2021. As the Company wishes to continue the transactions contemplated under the Master Financial Services (2018 Renewal Agreement) with Finance Company (HK), the Company entered into the Master Financial Services (2019 Renewal) Agreement, the terms of which are substantially the same as the Master Financial Services (2018 Renewal) Agreement, save and except (i) for the change of contracting parties and (ii) that the promotion services covered in the Master Financial Services (2018 Renewal) Agreement are no longer covered in the Master Financial Services (2019 Renewal) Agreement as the Group does not intend to provide such promotion services under the Master Financial Services (2019 Renewal) Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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After the entering into of the Master Financial Services (2019 Renewal) Agreement, notwithstanding that the Master Financial Services (2018 Renewal) Agreement remains in effect, the Company will conduct all continuing connected transactions constituted under the Deposit Services, the Financing Services and Other Financial Services with Finance Company (HK) only under the Master Financial Services (2019 Renewal) Agreement but not the Master Financial Services (2018 Renewal) Agreement.

In respect of the Master Financial Services (2019 Renewal) Agreement, the Directors consider that (i) the agreement will allow TCL Financial Services Associates to provide cost-efficient finance and treasury services to all Tonly Qualified Members; (ii) TCL Financial Services Associates (including Finance Company (HK)) will be more efficient in terms of processing transactions for the Group than other financial institutions given their experience in providing financial services to the Group and their understanding of the operations and development needs of the Group; and (iii) the agreement will allow the Group to obtain unsecured guarantee letters with better terms through TCL Financial Services Associates to facilitate the Group's business with its suppliers.

*(c) Master Sale and Purchase (2019 Renewal) Agreement*

On 25 April 2019, the Company entered into the Master Sale and Purchase (2019) Agreement which, being a short-term temporary arrangement, will expire on 31 December 2019. As the Company wishes to continue the transactions contemplated thereunder, the Company entered into the Master Sale and Purchase (2019 Renewal) Agreement, the terms of which are substantially the same as the Master Sale and Purchase (2019) Agreement, save and except that (i) the Company entered into the Master Sale and Purchase (2019 Renewal) Agreement with TCL Holdings (for itself and on behalf of its associates) instead of TCL Industries (for itself and on behalf of its associates); and (ii) the sale and sourcing of equipment and tools to and from TCL Associates are covered under the Master Sale and Purchaser (2019 Renewal) Agreement.

The Company expects that Sale of Goods will mainly involve the sale of audio-video products, speakers, components and raw materials for television production while Sourcing of Goods will mainly involve the sourcing of home appliances, televisions, air-conditioners, lighting devices and LED display units.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In respect of the transactions contemplated under the Master Sale and Purchase (2019 Renewal) Agreement, the Directors consider that (i) Sourcing of Goods will (a) continue to facilitate the smooth operation of the Group's business by providing a stable and reliable source of supply of the necessary materials for the Group's manufacture of the Electronics Products and the necessary finished goods, equipment and tools for the Group's operations; (b) enable the Group to source Goods from the relevant TCL Associates on normal commercial terms or better with a view to distributing such products for profits; (c) continue to provide the Group with an additional source of revenue and margin by allowing the Group to capitalise on its established distribution network of Goods without incurring significant additional overheads; (d) allow the Group to secure a reliable source of high quality Goods for re-sale to customers and derive an additional income from reselling the Goods to customers through the Group's existing distribution network in the territories concerned; and (e) gain the Group accesses to necessary equipment and tools to support its production, for replacing and upgrading existing obsolete equipment and tools and expanding scale of production; while (ii) Sale of Goods will allow the Group to (a) better manage its level of raw materials by providing additional flexibility to the Group in managing its surplus materials/Goods (if any); (b) widen its revenue base by supplying Goods to the relevant TCL Associates; and (c) dispose its equipment and tools that are in excess of or do not fit with its production needs.

### **3. Principal terms of the Master Sale and Purchase (2019) Agreement and the Agreements**

#### ***Master Sale and Purchase (2019) Agreement and Master Sale and Purchase (2019 Renewal) Agreement***

Pursuant to the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019 Renewal) Agreement, the Group may from time to time engage the relevant member of the Supplier Group for Sale of Goods and Sourcing of Goods. For details on the terms of the two agreements, please refer to the sections headed "Revision of the annual cap of Master Sale and Purchase (2019) Agreement" and "Renewal of existing continuing connected transactions" in the Board Letter.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In respect of the transactions contemplated under the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019 Renewal) Agreement, the terms and conditions of the sales/purchase contracts entered and to be entered into between the Group and the connected persons must be fair and reasonable so far as the Group is concerned and that each sales/purchase contract to be entered into between the Group and the relevant member of the Supplier Group must pass through the Group's internal approval procedures as set out in Section 4 of this letter below in order to ensure that each sales/purchase contract will be conducted on normal commercial terms and are no more favourable than those offered by the Group to Independent Third Parties for the sale of comparable goods and no less favourable than those offered by Independent Third Parties to the Group for the sourcing of comparable goods.

In particular, the price determination and pricing policy of the Group is set out as follow:

1. The terms (including price and payment terms) shall be agreed between the parties based on normal commercial terms after arm's length negotiations and with reference to the fair market price ranges of products comparable to Goods with similar terms offered in the market as at the time when the relevant sale and purchase are performed.
2. The prices charged for the Goods are under regular review and may be adjusted from time to time on mutual agreement. In determining if the prices charged are on normal commercial terms, the Group shall obtain quotations from the relevant members of the Supplier Groups and at least two Independent Third Parties of the Company for comparable goods on a periodic basis and make comparisons. The Group would consider, compare and take reference from the said price quotations in determining the final prices charged.
3. If at any time during the term of the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019 Renewal) Agreement, the relevant member of the Supplier Group provides Goods to other Independent Third Parties at more favourable terms, the relevant member of the Supplier Group shall immediately offer to provide Goods to the Group at equivalent terms accorded to such other Independent Third Parties starting from the next applicable period.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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4. If no comparable transactions are available for references, the Group shall obtain quotations from Independent Third Parties of the Company for provision of products similar to the Goods and the terms (including price and payment terms) shall be no less favourable than those available to or from the Independent Third Parties of the Company for provision of products similar to the Goods.
5. The relevant member of the Group has the absolute discretion to decide whether to accept an offer from the relevant member of the Supplier Group.
6. The relevant member of the Group has the right to sell or resell the Goods which it has acquired from the relevant member of the Supplier Group at such price as it may in its absolute discretion determine.
7. The relevant member of the Group may demand the relevant member of the Supplier Group to purchase back the Goods at the original selling price offered to the Group if they remain unsold to third parties for six months.

To further review whether the principal terms of the Master Sale and Purchase (2019) Agreement and the Master Sale and Purchase (2019 Renewal) Agreement are fair and reasonable and in the interests of the Company and the Shareholders, we have reviewed the two agreements and have discussed with the management of the Company the major terms therein. Through our discussion and review, we confirmed that the terms of the Master Sale and Purchase (2019 Renewal) Agreement are substantially the same as the Master Sale and Purchase (2019) Agreement, save and except for the differences mentioned in Section 2(c) of this letter above.

We also noted the Group is not restricted from selling/purchasing any Goods to/from Independent Third Parties. If the relevant member of the Group decides to sell/purchase any Goods to/from the relevant member of the Supplier Group, it shall be conducted on normal commercial terms that are similar to, or more favourable than, the terms offered to/by Independent Third Parties.

Regarding Sourcing of Goods, we have reviewed three purchase orders/receipts under the Old Master Sale and Purchase Agreements and compared them to the figures/information of comparable goods offered by Independent Third Parties to the Group. The comparison shows that the unit prices of the purchases made by the Group from the relevant member of the Supplier Group are in line with those offered by Independent Third Parties and therefore we are of the view that Sourcing of Goods is on normal commercial terms and is fair and reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Regarding Sale of Goods, we have reviewed three sale contracts/invoices under the Old Master Sale and Purchase Agreements and compared them to the figures/information of comparable goods offered by the Group to Independent Third Parties. The comparison shows that the unit prices of the sales made by the Group to the relevant member of the Supplier Group are in line with those offered to Independent Third Parties and therefore we are of the view that Sale of Goods is on normal commercial terms and is fair and reasonable.

Having considered that: (i) the terms of the Master Sale and Purchase (2019 Renewal) Agreement are substantially the same as the Master Sale and Purchase (2019) Agreement; (ii) the relevant members of the Group are not restricted from selling/purchasing any Goods to/from Independent Third Parties; (iii) Sourcing of Goods and Sale of Goods have been and shall continue to be conducted on normal commercial terms that are similar to, or more favourable than, the terms offered to/by Independent Third Parties; and (iv) the transactions under the Master Sale and Purchase (2018 Renewal) Agreement and Master Sale and Purchase (2019) have been conducted in accordance with their terms as set out in next section of this letter, we are of the view that the terms of the Master Sale and Purchase (2019 Renewal) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### ***Master Financial Services (2019 Renewal) Agreement***

Pursuant to the Master Financial Services (2019 Renewal) Agreement, any Tonly Qualified Member may from time to time and in its absolute discretion engage Finance Company (HK) and/or the relevant TCL Financial Services Associates for the provision of Deposit Services, Financing Services and/or Other Financial Services. For details on the terms of the Master Financial Services (2019 Renewal) Agreement, please refer to the section headed “Renewal of existing continuing connected transactions” in the Board Letter.

In respect of the transactions contemplated under the Master Financial Services (2019 Renewal) Agreement, the terms and conditions offered by Finance Company (HK) and/or the relevant TCL Financial Services Associates must be fair and reasonable so far as the Group is concerned and that each transaction in relation to the Deposit Services, Financing Services and Other Financial Services to be entered into between the Group and the contracting parties must pass through the Group’s internal approval procedures as set out in Section 4 of this letter below in order to ensure that each transaction will be conducted on normal commercial terms that are similar to, or more favourable than, those offered by independent financial institutions and those offered by Finance Company (HK) and/or TCL Financial Services Associates to any other members of the TCL Holdings Group (including the Group) and/or Independent Third Parties.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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To further review whether the principal terms of the Master Financial Services (2019 Renewal) Agreement are fair and reasonable and in the interests of the Company and the Shareholders, we have reviewed the Master Financial Services (2019 Renewal) Agreement and have discussed with the management of the Company the major terms therein. Through our discussion and review, we confirmed that the terms of the Master Financial Services (2019 Renewal) Agreement are substantially the same as the Master Financial Services (2018 Renewal) Agreement, save and except for the differences mentioned in Section 2(b) of this letter above.

We also noted that the relevant TCL Financial Services Associates are financial institutions duly established in or outside the PRC and the pricing policies and the operation of which are subject to guidelines issued by the China Banking Regulatory Commission (“CBRC”) or relevant authorities where the financial institutions are duly established outside the PRC. On the other hand, Finance Company (HK) has been providing financial services to the Group and has a thorough understanding of the operations and development needs of the Group and we also noted that there has not been any problem with deposits repayment by Finance Company (HK) and/or the any TCL Financial Services Associates to the Group in the past.

In addition, upon our enquiry with the Company and our review of the interest rates on deposit services from PBOC, commercial banks/independent financial institutions, and Finance Company (HK) and/or other TCL Financial Services Associates, we noted that the interest rates offered by Finance Company (HK) and/or TCL Financial Services Associates are not less than the interest rates promulgated by the PBOC and those offered by other independent financial institution and therefore we are of the view that the Deposit Services received by the Group have been on normal commercial terms and fair and reasonable. For Financing Services and Other Financial Services, as discussed with the Company, the Group has not entered into any significant financial related services transactions in 2018 and 2019, therefore, no financial related services agreement has been reviewed by us. As discussed with the Company, the Group has not entered and will not enter into any transactions with TCL Financial Services Associates within or outside the PRC in relation to the Financing Services and Other Financial Services where the relevant fees charged by Finance Company (HK) and/or TCL Financial Services Associates are less favourable than those offered by independent financial institutions to any other members of the TCL Holdings Group (including the Group). Further, we understand that there will be at least more than one referencing rate available regarding each of the Other Financial Services, since all Other Financial Services are ordinary financial services approved by the CBRC and TCL Financial Services Associates are not the only entities which provide such financial services in the market.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that, (i) the terms of the Master Financial Services (2019 Renewal) Agreement are substantially the same as the Master Financial Services (2018 Renewal) Agreement; (ii) the Deposit Services, Financing Services and Other Financial Services to be provided by Finance Company (HK) and/or TCL Financial Services Associates have been and shall continue to be conducted on normal commercial terms that are similar to, or more favourable than, those offered by other independent financial institutions; (iii) the relevant members of the Group are not restricted from engaging other independent financial institutions for the Deposit Services, Financing Services and Other Financial Services; and (iv) the transactions under the Master Financial Services (2018 Renewal) Agreement have been conducted in accordance with their terms as set out in next section of this letter, we are of the view that the terms of the Master Financial Services (2019 Renewal) Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Revision, the Agreements, the transactions contemplated thereunder and their relevant proposed annual caps are conditional upon the Company having obtained the approval of the Independent Shareholders at the EGM of the Company.

#### **4. Internal Control Measures**

To ensure that the terms of each of the transactions contemplated under the Master Sale and Purchase (2019) Agreement and the Agreements to be entered into by the Group are fair and reasonable and are on normal commercial terms so far as the Group is concerned, the Group has adopted a set of internal control procedures and corporate governance measures. Please refer to the section headed “Internal Control Procedures” in the Board Letter for details on the respective internal control procedures in relation to the relevant continuing connected transactions. The following is a summary of the Group’s major internal control procedures and corporate governance measures.

- (i) Before conducting any transactions contemplated under, or enter into any subcontract pursuant to, an agreement for continuing connected transactions, the internal control department, legal department and finance department of the Group would review the terms of the proposed transactions and the draft sub-contract to ensure that the transactions would be conducted in accordance with the terms of the agreement and in accordance with the Company’s pricing policy;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) For provision of services or supply of goods by the connected persons, to ensure that the transactions with connected persons are on normal commercial terms and terms no less favourable than those available from Independent Third Parties, where comparable services and/or goods are available on the market from Independent Third Parties, before requesting the connected persons to provide the service or the goods, the purchasing department of the Group would obtain a quotation from at least two Independent Third Parties for the comparable services or goods and conduct an overall assessment on the terms of provision of services and supply of goods. The relevant members of the Group would only engage the connected persons for the provision of the goods or the services when, according to the results of the overall assessment by the purchasing department of the Group, the connected persons offer the best terms of supply for the goods or services, and the internal control department and legal department of the Group have (i) reviewed the terms for the supply of goods or services and (ii) separately given their approval for engaging the connected persons. The quotations obtained from the Independent Third Parties would be recorded in an internal system maintained by the purchasing department of the Group which would be updated from time to time so that the members of the Group would have easy access of information regarding market price and other terms of supply;
  
- (iii) For sale of goods by the Group, to ensure that the transactions with connected persons are on normal commercial terms and terms no less favourable from the perspective of the Group than those available to Independent Third Parties, every time before conducting any such transactions, the sales department of the Group would first prepare the relevant contract for the sale of goods and submit it to the internal control department and legal department of the Group for review and approval. The internal control department and the legal department of the Group would review the terms of the proposed transaction and the draft sub-contract to be entered into (if any) to make sure that the terms are in compliance with the pricing policy of the Company and the overall terms (including payment terms, product warranty) are no more favourable to the connected persons than those which have been offered or to be offered by the Group to Independent Third Parties; The transactions could only be carried out after the internal control department and the legal department have separately given their approval thereon;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iv) The internal control department of the Group is responsible for identifying connected persons of the Group on a regular basis and updating the connected person list. The finance department of the Group would also monitor on an on-going basis the actual transaction amounts with the connected persons to ensure that such amounts do not exceed the relevant annual caps. Before conducting any transactions with connected persons, the finance department would review the database with the actual transaction amounts recorded to confirm that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. No continuing connected transactions would be conducted without such confirmation from the finance department. The internal control department would on a monthly basis review the continuing connected transactions carried out in the month under review to assess, and compile a monthly report, on (i) whether the continuing connected transactions of the Group have been carried out in accordance with the terms of the relevant agreement and the Company's pricing policy, (ii) whether the transactions have been conducted on normal commercial terms and on terms no less favourable than those on which the Company conducted with Independent Third Parties and (iii) the transactions amount during the month under review, the aggregate amount of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded. In the report, the forecasted transactions amount for the next three months would also be set out. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, the internal control department would inform all relevant departments and take all appropriate step in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules before entering into the proposed transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (v) In respect of the transactions under the Master Financial Services (2019 Renewal) Agreement, in addition to the above measures, the Company has (i) established an independent finance department to review the funds daily report on the amount of deposits and changes in the amount of funds and monitor the maximum daily balance of the deposits on a daily basis to ensure that the aggregate deposits do not exceed the applicable annual caps; (ii) implemented risk control measures, which include but are not limited to, requesting Finance Company (HK), the relevant TCL Financial Services Associates and TCL Holdings Group to provide the Group with sufficient information including various financial indicators, such as its asset size, liquidity ratios, operation ratios, level of bad assets and its risk rating assessed by PBOC (if and when available) at the end of every quarter as well as annual and interim financial statements to enable the Group to monitor and review their financial condition; and (iii) implemented internal control measures, which include but are not limited to, preparing risk assessment reports of the funds deposited with Finance Company (HK) and the relevant TCL Financial Services Associates (these reports would be prepared in addition to the monthly report on continuing connected transactions prepared by the internal control department mentioned in the previous paragraph) which would be submitted to the Board for its information and consideration every quarter, and having the management of the Group and the Board to meet and discuss the risk assessment reports as well as matters such as compliance with annual caps and any potential change in the risk profile of Finance Company (HK) and/or the relevant TCL Financial Services Associates every six months. In the event of non-compliance, for example, when the annual cap would be soon exceeded, irregularity reports would be prepared by the management of the Group and submitted to the Board so to bring to the latter's attention and ensure that the issues can be addressed as soon as they arise.
- (vi) The independent non-executive Directors will conduct an annual review of Non-Exempt Transactions to ensure that such transactions contemplated thereunder are entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms and on terms no less favourable to the Group than those available from the Independent Third Parties; and (iii) in accordance with the respective agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (vii) The auditors of the Group will conduct an annual review of the Non-Exempt Transactions and confirm in a letter to the Board that such transactions contemplated thereunder (i) have received the approval of the Board; (ii) have been, in all material respects, in accordance with the pricing policies of the Group (for these Non-Exempt Transactions involving the provision of goods and services by the Group); (iii) have been entered into in accordance with the respective agreements; and (iv) have not exceeded the caps; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (viii) the Directors shall state in the Company's annual report whether its auditors have confirmed the matters stated in Rule 14A.57 of the Listing Rules.

In respect of the continuing connected transactions contemplated under the Master Sale and Purchase (2019) Agreement and the Agreements, we noted from the 2018 Annual Report that an annual review of the transactions contemplated under the Master Financial Services (2018 Renewal) Agreement and the Master Sale and Purchase (2018 Renewal) Agreement (terms of which are substantially similar to those of the Master Sale and Purchase (2019) Agreement and hence the Master Sale and Purchase (2019 Renewal) Agreement) have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the transactions contemplated under the Master Financial Services (2018 Renewal) Agreement and the Master Sale and Purchase (2018 Renewal) Agreement were entered into, among other things, (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) either on normal commercial terms or on terms no less favourable to the Group than those available to or from Independent Third Parties. The 2018 Annual Report also confirmed that the Company's auditor has issued the relevant letters to the Company pursuant to Chapter 14A of the Listing Rules that the continuing connected transactions were conducted in accordance with their terms and that the proposed annual caps were not exceeded. Furthermore, the Master Sale and Purchase (2019) Agreement and the Agreements will, pursuant to the Listing Rules, continue to be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and annual confirmation by the auditor of the Company.

Given that (i) each continuing connected transaction will continue to be compared with the price and terms of similar products and services from/to Independent Third Parties to ensure that the relevant transactions and engagements will be conducted on normal commercial terms; (ii) there is appropriate segregation of duties in the approval process in each of the engagements and orders; (iii) a monitoring system is in place with the finance department of the Group ensuring that the annual caps are not exceeded from time to time; (iv) a monthly report reviewing the continuing connected transactions will be compiled by the internal control department; (v) additional measures will be adopted and reports will be prepared in respect of the transactions under the Master Financial Services (2019 Renewal) Agreement; and (vi) the pricing and the annual caps of the continuing connected transactions will be annually reviewed by the auditors, the internal audit department and the independent non-executive Directors of the Group, we are satisfied that the internal control measures are adequate and effective in ensuring the continuing connected transactions will be entered into on normal commercial terms and are comparable to, or no less favorable than, the market rates and that there is an effective operating system in place to monitor the annual caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5. Historical transaction amounts and the proposed revised annual cap under the Master Sale and Purchase (2019) Agreement

#### *Old Master Financial Services Agreements*

The following table sets out (i) the actual amounts and original annual caps for the two years ended 31 December 2017 and 31 December 2018; and (ii) the actual amounts for the nine months ended 30 September 2019 with the original annual caps for the year ending 31 December 2019, under the Old Master Financial Services Agreements.

	For the year ending 31 December		For the nine months ended 30 September 2019 (unaudited) (for actual amount only)/ for the year ending 31 December 2019 (for original annual cap only)
Old Master Financial Services Agreements (Note 1)	2017 (audited) HK\$'000	2018 (audited) HK\$'000	
<i>Deposit Services</i>			
– Actual	782,572	791,410	471,126
– Original annual cap	905,000	1,000,000	1,100,000
<i>Financing Services and Other Financial Services</i>			
– Actual	47	0	0
– Original annual cap	1,500	1,650	1,815



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Old Master Sale and Purchase Agreements*

The following table sets out the (i) the actual amounts and original annual caps for the two years ended 31 December 2017 and 31 December 2018 under the Master Sale and Purchase (2015 Renewal) Agreement; (ii) the actual amounts for the three months ended 31 March 2019 with the original annual caps for the year ending 31 December 2019 under the Master Sale and Purchase (2018 Renewal) Agreement; and (iii) the actual amounts for the period from 25 April 2019 to 30 September 2019 with the original annual caps for the period from 25 April 2019 to 31 December 2019 under the Master Sale and Purchase (2019) Agreement.

			For the three months ended 31 March 2019 (unaudited)	For the period from 25 April 2019 to 30 September 2019 (unaudited)
	For the year ended 31 December 2017 (audited)	For the year ended 31 December 2018 (audited)	(for actual amount only)/ (for actual amount only)/ for the year ending 31 December 2019 (for original annual cap only)	(for actual amount only)/ for the period from 25 April 2019 to 31 December 2019 (for original/ proposed revised annual cap only)
Old Master Sale and Purchase Agreements (Note 2)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Sourcing of Goods</i>				
– Actual	209	7,506	3	54
– Original annual cap	50,250	54,270	10,000	10,000
			(Note 3)	
<i>Sale of Goods</i>				
– Actual	11,287	3,905	6,566	48,914
– Original annual cap	131,760	142,301	152,183	80,000
			(Note 3)	
– Proposed revised annual cap (Note 4)	–	–	–	130,000

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Note 1:* The continuing connected transactions under the Old Master Financial Services Agreements are governed by:

- a) for the year ended 31 December 2017, the Master Financial Services (2015 Renewal) Agreement (from 1 January 2017 to 25 August 2017) and the Master Financial Services (2017 Renewal) Agreement (from 25 August 2017 to 31 December 2017);
- b) for the year ended 31 December 2018, the Master Financial Services (2017 Renewal) Agreement; and
- c) for the year ending 31 December 2019, the Master Financial Services (2018 Renewal) Agreement.

*Note 2:* The continuing connected transactions under the Old Master Sale and Purchase Agreements are governed by:

- a) for the year ended 31 December 2017, the Master Sale and Purchase (2015 Renewal) Agreement;
- b) for the year ended 31 December 2018, the Master Sale and Purchase (2015 Renewal) Agreement; and
- c) for the year ending 31 December 2019, the Master Sale and Purchase (2018 Renewal) Agreement (from 1 January 2019 to 31 December 2019) and the Master Sale and Purchase (2019) Agreement (from 25 April 2019 to 31 December 2019).

The Master Sale and Purchase (2018 Renewal) Agreement was entered into between the Company and TCL Corporation while the Master Sale and Purchase (2019) Agreement was entered into between the Company and TCL Industries. The original annual caps under the Master Sale and Purchase (2018 Renewal) Agreement have become no longer applicable since the date when TCL Corporation ceased to be a connected person of the Company, details of which are disclosed in the section “Renewal of existing continuing connected transactions” in the Board Letter.

The Company has ceased to transact with TCL Corporation under the Master Sale and Purchase (2018 Renewal) Agreement after the Restructuring.

*Note 3:* As disclosed in the announcement of the Company dated 14 June 2019, upon entering into of the Master Sale and Purchase (2019) Agreement, the Master Sale and Purchase (2018 Renewal) Agreement remains in full force and effect but the annual caps for the year ending 31 December 2019 thereunder would be correspondingly lowered (i) from HK\$10,000,000 to nil (for Sourcing of Goods); and (ii) from HK\$152,183,000 to HK\$72,183,000 (for Sale of Goods).

*Note 4:* The details of the proposed revised annual cap are disclosed in this letter and the Board Letter.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Proposed Annual Caps for the Non-Exempt Transactions

The following table sets out the respective proposed annual caps of the continuing connected transactions under the Agreements for the three years ending 31 December 2022.

Continuing Connected Transactions		For the year ending 31 December		
		2020	2021	2022
		HK\$'000	HK\$'000	HK\$'000
<b>Master Financial Services (2019 Renewal) Agreement</b>	Deposit Services	720,000	840,000	900,000
	Financing Services and Other Financial Services	3,600	4,200	4,500
<b>Master Sale and Purchase (2019 Renewal) Agreement</b>	Sourcing of Goods	28,346	23,346	23,346
	Sale of Goods	743,880	820,103	829,821

### 7. Basis of the proposed revised annual cap under the Master Sale and Purchase (2019) Agreement and the proposed annual caps under the Agreements

#### *Revision of annual cap*

#### *(a) Master Sale and Purchase (2019) Agreement*

In determining the proposed revised annual cap for Sale of Goods under the Master Sale and Purchase (2019) Agreement for the period from 25 April 2019 to 31 December 2019, the Company has taken into account (i) the actual sales amount of Goods provided by the Group to TCL Industries Associates under the Old Sale and Purchase Agreements; and (ii) the expected amount of Sale of Goods in the remaining term of the Master Sale and Purchase (2019) Agreement based on business track records of the Group. Since there is no proposed revision for the original annual cap for Sourcing of Goods under the Master Sale and Purchase (2019) Agreement, our analysis only covers the basis for the proposed revised annual cap for Sale of Goods under the same agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Sale of Goods

According to the figures provided by the Group, the Group has been experiencing considerable growth in Sale of Goods in 2019. For the period from 25 April 2019 to 30 September 2019 (i.e. a period of less than six months), Sale of Goods already amounted to approximately HK\$48.9 million, which is close to 13 times that for the whole year of 2018 and more than 4 times that for the whole year of 2017. We also noted from the 2019 Interim Report that, for the six months ended 30 June 2019, the Group's total turnover increased by 25.6% compared to the same period last year, which was primarily due to the growth in the sales of its audio products, headphones and ancillary products, by 24.3%, 71.2% and 63.6% respectively. As the Group consolidates its industry position in the headphone industry and develops its smart and ancillary product businesses, it is expected that the sales of headphones and ancillary products will continue to increase in the second half of 2019. As of 30 September 2019, the actual amount of Sale of Goods under the Master Sale and Purchase (2019) Agreement had reached HK\$48.9 million, meaning that more than 60% of the original annual cap has already been utilised. Meanwhile, based on business track records of the Group, the Group tends to experience a higher amount of turnover and also Sale of Goods in the last quarter of a year due to the holiday season when compared to the second quarter of a year. Therefore, in addition to the expected continual growth in the sales of headphones and ancillary products, the holiday season is also expected to trigger the growth in Sale of Goods for the period from 30 September to 31 December 2019, and hence the original annual cap for Sale of Goods will not be sufficient to keep up with the demand from the market and hence the Supplier Group.

Having considered that (i) Sale of Goods is a source of revenue to the Group; (ii) Sale of Goods for the nine months ended 30 September 2019 is already several times compared to the previous years, and is expected to continue to increase; (iii) the sales of the Group's products is expected to continue to increase; and (iv) more than 60% of the original annual cap under the Master Sale and Purchase (2019) Agreement has already been utilised as of 30 September 2019, we are of the view that the proposed revised annual cap for Sale of Goods for the period from 25 April 2019 to 31 December 2019 is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Renewal of existing continuing connected transactions*

#### *(b) Master Financial Services (2019 Renewal) Agreement*

In determining the proposed annual caps for the three years ending 31 December 2022 under the Master Financial Services (2019 Renewal) Agreement, the Company has referred to the historical amounts of the relevant transactions and taking into account the following factors:

- (i) Having been satisfied with the services and the benefits provided by Finance Company (HK) such as better interest rates than those available from other financial institutions, it is expected the balance of deposits with Finance Company (HK) will increase;
- (ii) It is expected that the business of the Company will expand in the following years and as a result, the capital available for deposit with Finance Company (HK) and/or other TCL Financial Services Associates will also increase; and
- (iii) It is expected that the Group's audio products business will progress and move away from the initial stage towards a more mature stage and will continue to grow in the future. It is expected that the Group's audio products business, in particular, the headphone business will continue to grow. Further, benefiting from the rapid growth of the global market for smart products, the Group expects that its smart speaker business and the components related to the smart products will expand significantly. In light of the above, it is expected that the cash flow of the Group at the peak season of sales of the upcoming years will be strong and hence the Group's demand for deposit services from TCL Financial Services Associates may increase up to the proposed annual cap at the peak season.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Deposit Services

Upon our enquiry with the Company, we noted that maximum total daily balance of deposits placed by the Group (including both within the PRC and outside the PRC) are approximately HK\$782.6 million and HK\$791.4 million for the two years ended 31 December 2018, and approximately HK\$471.1 million for the nine months ended 30 September 2019. Under the Master Financial Services (2018 Renewal) Agreement, the original annual caps for the three years ending 31 December 2021 were approximately HK\$1.1 billion, HK\$1.3 billion and HK\$1.5 billion respectively. Since the Group noted that it has not been utilising the original annual caps under the Old Master Financial Services Agreements, for the three years ending 31 December 2022, the Company proposed to set the annual caps for the Deposit Services at a lower level at HK\$720.0 million, HK\$840.0 million and HK\$900.0 million respectively, which represents a drop of approximately 43.1% compared to the original annual cap for the year ending 31 December 2020, and a drop of approximately 42.3% compared to the original annual cap for the year ending 31 December 2021 under the Master Financial Services (2018 Renewal) Agreement.

On the other hand, as set out in the section “Background information of the Group” of this letter above, total turnover of the Group has continued to grow at approximately 23.5% for the year ended 31 December 2018 compared to the prior year and approximately 25.6% for the six months ended 30 June 2019 compared to the same period last year, reflecting the continuous growth of the Group’s business scale. It is also expected that the continuous growth in the new audio business, particularly through the Group’s soundbar and headphone product businesses, will enable the Group to develop more business opportunities. In addition to the expected growth in the Group’s business and the higher turnover to be generated by the Group, according to the 2019 Interim Report, the Group’s cash and cash equivalents amounted to HK\$704.2 million as at 30 June 2019. Given that net cash is expected to be generated from the business operation of the Group following the previous trend without significant cash outflow, it is reasonable to expect that the Group will continue to have a need for the Deposit Services in the coming years and that more capital will be available for the Deposit Services during the period from 2020 to 2022. In addition, given that the interest rates provided by Finance Company (HK) and/or other TCL Financial Services Associates are similar to, or more favourable than, those offered by other independent financial institutions based on our review, we consider that it is reasonable to expect that the Group will continue to deposit its cash with Finance Company (HK) and/or TCL Financial Services Associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In the light of the above, we are of the view that the proposed annual caps for the Deposit Services for the three years ending 31 December 2022 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### Financial Services and Other Financial Services

As discussed with the Company, in view of the targeted gradual increase in the Group's sales for the three years ending 31 December 2022, the Group's need for Financial Services and Other Financial Services from TCL Financial Services Associates is expected to increase accordingly. The Company expected that its demand for Financing Services and Other Financial Services from TCL Financial Services Associates will increase by approximately 16.7% and 7.1% per annum for the year ending 31 December 2021 and 2022 respectively. In respect of Financing Services, in the case when a facility is obtained, it is expected that it will be used as general working capital of the Group. We also noted from our enquiry with the Company that, the Financial Services would allow the Group to obtain facilities from TCL Financial Services Associates on better terms than those offered by independent financial institutions in time to support the operation of the Group. This efficient alternative of financing will enable the Group to cope with the ever-changing markets and business needs in time.

In respect of Other Financial Services, as discussed with the Company, it is expected that TCL Financial Services Associates will assist the Group in obtaining unsecured guarantee letters from major commercial banks in the PRC at the request of the suppliers of the Group. Since the credit ranking of TCL Financial Services Associates may be better than that of the Group, TCL Financial Services Associates may be able to obtain unsecured guarantee letters with better terms to facilitate the Group's business with its suppliers. Although the Group has not utilised Other Financial Services in the past two years, such services are included in the Master Financial Services (2019 Renewal) Agreement so that the Group can have the flexibility to utilise such services in future when needed.

Having considered the above benefits of the Financial Services and Other Financial Services and the fact that the proposed annual caps for the Financial Services and Other Financial Services are not significant, we are of the view that the annual caps for the Financial Services Charges for Other Financial Services for the three years ending 31 December 2022 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Master Sale and Purchase (2019 Renewal) Agreement*

In determining the proposed annual caps for the three years ending 31 December 2022 under the Master Sale and Purchase (2019 Renewal) Agreement, the Company has taken into account, among other things,

- (i) the historical amounts of the relevant transactions under the Old Master Sale and Purchase Agreements;
- (ii) in respect of Sourcing of Goods, the possible requirements of raw materials, semi-finished materials, finished goods and equipment and tools with respect to the projected business volumes and the estimated growth rates of the relevant business lines of the Group (which in turn are estimated by reference to, among other things, the relevant industry demand and the target market share of the Group), together with the prevailing market rate for similar raw materials, semi-finished materials, finished goods and equipment and tools, in particular the expected sourcing of equipment and tools from TCL Electronics for the production base in Vietnam in the approximate amounts of HK\$10 million, HK\$5 million and HK\$5 million for the years ending 31 December 2020, 2021 and 2022 respectively; and
- (iii) in respect of Sale of Goods, the relevant TCL Associates' projected requirements of raw materials, semi-finished materials, finished goods, equipment and tools for its operations, which is expected to increase substantially due to
  - (a) the expected increase in the number of projects and production facility utilisation rate of optoelectronics products line of Guangdong Regency;
  - (b) the expected increase in the sale of optoelectronics products to TCL Electronics;
  - (c) the expected increase in the sale of soundbar audio products to TCL Associates;
  - (d) the possible cooperation in Brand AV Business with TCL Holdings Group; and
  - (e) the prevailing market rate for similar Goods.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Sourcing of Goods*

For the two years ended 31 December 2018, the amount of Sourcing of Goods was approximately HK\$209,000 and HK\$7.5 million respectively, while for the nine months ended 30 September 2019, the amount of Sourcing of Goods was approximately HK\$54,000. Although the Group has not utilised its annual caps for Sourcing of Goods under the Old Master Sale and Purchase Agreements, we understand from the Company that Sourcing of Goods will (i) provide a stable and reliable source of supply of the necessary materials for the Group's manufacture of the Electronics Products and the necessarily finished goods, equipment and tools for the Group's operations; (ii) provide the Group with an additional source of revenue and margin by allowing it to capitalise upon its established distribution network of Goods without incurring significant additional overheads; (iii) allow the Group to secure a reliable source of high-quality Goods for re-sale to customers and generate an additional income from reselling the Goods to customers through the Group's existing distribution network; and (iv) gain the Group accesses to necessary equipment and tools to support its production, for replacing and upgrading existing obsolete equipment and tools and expanding the scale of production. We also noted that the Group will source the Goods from the relevant members of the Supplier Group provided that the terms are on normal commercial terms that are similar to, or more favourable than, those offered by Independent Third Parties and that the relevant Supplier Group has the capability of meeting the timeline, quality, and quantity of the relevant order placed.

Having considered (i) the above benefits of Sourcing of Goods; (ii) the terms to be offered by the relevant members of the Supplier Group for Sourcing of Goods will be similar to, or more favourable than, the terms available from Independent Third Parties and the relevant members of the Supplier Group is also capable of meeting the timeline, quality and quantity of the relevant order placed; and (iii) the annual caps for Sourcing of Goods for the three years ending 31 December 2022 are not significant, we are of the view that the annual caps for Sourcing of Goods for the three years ending 31 December 2022 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Sale of Goods*

In addition to being a source of revenue to the Group, Sale of Goods to the relevant member of the Supplier Group will allow the Group to better manage its level of raw materials by providing additional flexibility to the Group for managing its surplus materials/ Goods (if any) and widen its revenue base by supplying Goods to the relevant TCL Associates, provided that the terms thereof are on normal commercial terms that are similar to, or more favourable than, those offered to Independent Third Parties and that the Group has the capacity to deliver such Goods. Meanwhile, as set out in the section “Background information of the Group” of this letter above, total turnover of the Group has continued to grow at approximately 23.5% for the year ended 31 December 2018 compared to the prior year and approximately 25.6% for the six months ended 30 June 2019 compared to the same period last year, reflecting the continuous growth in the Group’s business scale. It is also expected that the continuous growth in the new audio business, in particular through the Group’s soundbar and headphone product businesses, will enable to Group to develop more business opportunities and therefore Sale of Good is expected to continue to increase.

We noted that the proposed annual caps for Sale of Goods represent a significant increase from the original annual caps under the Master Financial Services (2018 Renewal) Agreement, as well as the original and proposed revised caps under the Master Financial Services (2019) Agreement, for the three years ending 31 December 2021. We are also aware that the year-on-year increment between the proposed annual caps for Sale of Goods between the years ending 31 December 2019 and 31 December 2020 is relatively significant. In this regard, we have enquired the Company on the types of Goods of which the sale is expected to increase most significantly for the three years ending 31 December 2022, and were informed that the sale of audio-visual products to TCL Associates is expected to achieve the highest growth, mainly as a result of the entering into of the deed of variation (the “**Deed of Variation**”) between the Company and TCL Corporation and TCL Industries (collectively the “**Covenantors**”) on 21 July 2017.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to the deed of non-competition entered into between the Company and the Covenantors on 15 July 2013 (the “**Deed of Non-Competition**”), the Covenantors and/or their associates (excluding the Group) shall not directly or indirectly, carry on or be engaged or interested in the Brand AV Business (other than those otherwise agreed under the Deed of Non-Competition). However, after the entering into of the Deed of Variation in 2017, the Covenantors and/or their associates (excluding the Group) were allowed to directly or indirectly, carry on or be engaged or interested in the Brand AV Business, despite that pursuant to the Deed of Variation, they shall request or give written offers related to the OEM/ODM and procurement of Brand AV Products to the Group first and such requests or written offers shall remain valid and open for acceptance by the Group for a reasonable period of time for no more than 14 days, and that the terms of such written offers shall be no less favourable than those that may be granted to third parties by the Covenantors and/or their associates (excluding the Group) in the future, otherwise they shall be treated as new written offers which shall again be extended to the Group first. As the Group has the first right of refusal to accept the production and procurement of Brand AV Products, the Group shall be able to capture the business opportunities arising from and/or in connection with the Brand AV Business of the Covenantors and/or their associates through the sale of such Brand AV Products to the latter. For further details of the Deed of Competition and Deed of Variation, please refer to the circular of the Company dated 11 August 2017.

Upon our enquiry with the Company, we noted that since the entering into of the Deed of Variation, the Covenantors, in particular TCL Holdings Group after the Restructuring, have commenced the Brand AV Business and produced part of its Brand AV Products through the Group, despite that such transaction amounts have not been significant. Over the past two years, however, the Brand AV Business of TCL Holdings Group has grown and become more mature, and we noted from the Company that, TCL Holdings Group plans to invest more resources into its Brand AV Business starting from 2020 and therefore expects to increase their purchases of Brand AV Products from the Group significantly for the three years ending 31 December 2022. We were also informed that when determining the upward adjustment made to the proposed annual caps for Sale of Goods, the Company has discussed with TCL Holdings Group on the amount of Brand AV Products, in particular soundbar audio and audio-visual products, expected to be sold to TCL Associates based on the future business plan of TCL Holdings Group, and is of the view that such adjustment aligns with the commercial interests of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On the other hand, we concurred with the management that, if the Group sets a relatively conservative level of proposed annual caps for Sale of Goods and the business cooperation with TCL Holdings Group in respect of the Brand AV Business materializes and the amount of Sale of Goods increases significantly as anticipated, the Group would need to prepare the relevant documentation for obtaining clearance from the Stock Exchange and approval from Independent Shareholders as required under Rule 14A.76(2)(a) before proceeding on such transaction with TCL Associates, and the time and costs involved may adversely affect the Group's daily operation and business performance. In light of the above, we are of the view that the basis and assumptions in formulating the proposed annual caps for Sale of Goods, as well as the year-on-year increment between the proposed annual caps for Sale of Goods between the years ending 31 December 2019 and 31 December 2020, are fair and reasonable.

Given that (i) Sale of Goods to TCL Associates is a source of revenue to the Group; (ii) the terms to be offered by the Group to the relevant members of the Supplier Group for Sale of Goods will be similar to, or more favourable than, the terms offered to Independent Third Parties by the Group; (iii) the sale of audio-visual products to TCL Associates is expected to increase significantly as the business cooperation between the Group and TCL Holdings Group in respect of the Brand AV Business materializes; (iv) the Group's expected increase in the number of projects and utilisation rate of factory are expected to increase its sales, we are of the view that the proposed annual caps for Sale of Goods to TCL Associates are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Revision, the Agreements, transactions contemplated thereunder and the proposed annual caps are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) approving the Revision, the Agreements, the transactions contemplated thereunder and the proposed annual caps at the EGM. We also recommend the Independent Shareholders to vote in favour of the resolution relating to the Revision, the Agreements, the transactions contemplated thereunder and the proposed annual caps at the EGM.

Yours faithfully,  
For and on behalf of  
**Pelican Financial Limited**  
**Charles Li\***  
*Managing Director*

\* *Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

**1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP**

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year of the Group.

The audited consolidated financial statements of the Company for the years ended 31 December 2018, 2017 and 2016 and the unaudited consolidated financial statements of the Company for the six months ended 31 June 2019 together with the relevant notes to the financial statements of the Company can be found on pages 89-223 of the annual report of the Company for the year ended 31 December 2018, pages 81-171 of the annual report of the Company for the year ended 31 December 2017, pages 76-167 of the annual report of the Company for the year ended 31 December 2016 and pages 3-16 of the interim report of the Company for the six months ended 30 June 2019. Please see below the hyperlinks to the said annual reports for the years ended 31 December 2018, 2017 and 2016 and the said interim report for the six months ended 30 June 2019 respectively.

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

<https://www.hkexnews.hk/listedco/listconews/sehk/2018/0329/LTN201803291441.pdf>

<https://www.hkexnews.hk/listedco/listconews/sehk/2017/0419/LTN20170419297.pdf>

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

**2. STATEMENT OF INDEBTEDNESS****Borrowings**

As at the close of business of 30 September 2019, the bank borrowings of the Group were HK\$232.81 million.

**Capital commitments and contingent liabilities**

As at 30 September 2019, the Group had capital commitments of approximately HK\$107.89 million (31 December 2018: HK\$48.1 million). The Group did not have any material contingent liabilities as at 30 September 2019.

**Pledge of assets**

Save as aforesaid, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 September 2019.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 30 September 2019.

**3. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration of the effect of the proposed renewal of major and continuing connected transactions and the financial resources available to the Group, including internally generated financial resources, the Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

**4. FINANCIAL AND TRADING PROSPECTS**

Looking ahead to the fourth quarter of 2019, domestic and overseas economy will still be complicated and severe and there will be a slowdown in global economic growth with an increase in unstable and uncertain external factors. Despite the relatively huge pressure on global economic growth, smart product field will maintain a relatively strong growth. Strategy Analytics, a research institution, adjusted upwards the forecast of annual global shipment of smart speakers by 10% in 2019 to 147.7 million units. Meanwhile, in terms of the utilisation of smart speakers, eMarketer, a research institution, adjusted upwards the latest forecast of utilisation rate of smart speakers. It is anticipated that there will be 31 million people shopping through smart speaker in the United States this year, representing a growth of 31.6% as compared to 2018. It is expected that, by 2021, such number will climb up to 38 million.

Although the global economic development in 2019 is rather unpromising and the trade dispute prolongs, the Group will proactively respond to market changes and will continue to strengthen its development capabilities in product design and core technology, and adhere to focus on product innovation as its expansion strategy. It will introduce more innovative products to meet market demands and consumer preference. The Group is committed to creating new growth opportunities by optimising its product portfolio, further expanding its customer base and strengthening partnerships with strategic clients. After years of continuous investment and development, audio product business has now become the major business segment of the Group, especially in view of the rapid growth of smart speakers and earphone business. The Group will continue to consolidate and strengthen its industry position in the new audio market, focusing on the development of soundbar and headphone product businesses, especially earphones, and strive to maintain its leading position in headphone industry while actualising breakthroughs in True Wireless Stereo (TWS) earphone business and rapidly building up industrial competitiveness in order to secure more business opportunities and explore more new customers. For the video business, the Group will keep on adjusting its resource structure and adopt a small-team and asset-light operation strategy.

The Group will continue to devote great effort to the development of its smart and ancillary product businesses, in particular, smart voice speakers and other voice-related smart eco-ancillary products. The Group will continue strengthening its technological advantages in smart voice, while focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly explore more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology. As a core partner of the global internet corporate voice ecosystem, the Group will achieve mutual growth with voice ecosystem development under continuous efforts.

In line with business development needs, the Group will continue to look for opportunities, both organically and through acquisitions, to expand into new business areas, diversify service offering and revenue stream. To conclude, the Group aims to provide high quality product and services to its customers through enhancing productivity, developing new technologies, diversifying product offerings and expanding into new businesses, with an ultimate goal of maximising value for the Group and the Shareholders.



**5. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS**

Guangdong Regency and the Vendors entered into the Equity Transfer Agreement, pursuant to which Guangdong Regency conditionally agreed to purchase, and the Vendors conditionally agreed to sell, 49% of the total equity interest in the Target Company at an aggregate consideration of RMB32,590,000, subject to the terms and conditions of the Equity Transfer Agreement. The consideration was to be satisfied by Guangdong Regency by way of (i) the payment of a cash consideration of RMB7,000,000; and (ii) the allotment and issuance of the 10,680,000 consideration shares in Guangdong Regency to the Vendors at the issue price of RMB2.39 per consideration share. Completion of the said equity transfer took place on 10 July 2019. For details of the transaction, please refer to the announcements of the Company dated 20 June 2019 and 10 July 2019.

There is no variation in the aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Company as a consequence of the said acquisition.

Save as disclosed above, the Group has not made any acquisition after the date of the latest published audited accounts required to be disclosed in this circular pursuant to the Listing Rules.

## 1. RESPONSIBILITY OF THE DIRECTORS

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executives of the Company were as follows:

### (a) Interests in Shares of the Company

Name of Director	Number of Ordinary Shares Held			Number of Shares Held under Equity Derivatives	Total	Approximate Percentage of Issued Share Capital of the Company
	Personal Interest	Corporate Interest	Other interest			
			(Note 3)	(Note 4)		(Note 5)
SONG Yonghong	1,140,379	13,399,268	192,354	2,556,032	17,288,033	6.43%
		(Note 1)				
Yu Guanghui	1,552,668	11,869,339	250,896	3,313,957	16,986,860	6.32%
		(Note 2)				
REN Xuenong	697,127	–	100,358	1,459,622	2,257,107	0.84%
LIAO Qian	42,606	–	35,140	657,274	735,020	0.27%
LEONG Yue Wing	84,200	–	10,000	400,000	494,200	0.18%
POON Chiu Kwok	10,000	–	10,000	400,000	420,000	0.16%
LI Qi	10,000	–	10,000	400,000	420,000	0.16%

Notes:

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

2. For the purpose of the SFO, as at the Last Practicable Date, other than the personal interests and the other interests as stated in the above table, Mr. YU Guanghui (“**Mr. YU**”) was deemed to be interested in 11,869,339 Shares held by Vast Bright Investment Limited which was wholly owned by Mr. YU.
3. These other interests are awarded shares to the relevant directors of the Company which remained unvested as at the Latest Practicable Date according to the Company’s restricted share award scheme.
4. As at the Last Practicable Date, these equity derivatives were outstanding share options granted to the relevant directors under the share option scheme adopted by the Company in accordance with Chapter 17 of the Listing Rules.
5. Such percentage was calculated based on the total number of Shares in which each of the directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares of the Company as at the Last Practicable Date, being 268,746,877 Shares.

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

***TCL Electronics***

Name of Director	Number of Ordinary Shares Held			Number of Shares Held under Equity Derivatives	Total	Approximate Percentage of Issued Share Capital of TCL Electronics
	Personal Interest	Family Interest	Other Interest			
	(Note 6)	(Note 6)	(Note 6)			(Note 8)
LEONG Yue Wing	494,672	–	–	–	494,672	0.02%
LIAO Qian	86,740	–	22,178	353,206	462,124	0.02%

*Guangdong Regency*

Name of Director	Number of Ordinary Shares Held			Number of Shares Held under Equity Derivatives	Total	Approximate Percentage of Issued Share Capital of Regency (Note 9)
	Personal Interest	Family Interest	Other Interest			
REN Xuenong	799,000	–	–	–	799,000	1.64%
SONG Yonghong	–	800,000	–	–	800,000	1.64%
YU Guanghui	1,600,000	–	–	–	1,600,000	3.29%

*Notes:*

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

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

### 3. SUBSTANTIAL SHAREHOLDERS' INTEREST

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

#### Interests in the Company

##### *Long positions in Shares of the Company*

Name of Shareholders	Nature of interest	No. of Shares held	Approximate percentage of issued share capital of the Company (Note 2)
TCL Holdings	Interest of controlled corporation	130,741,170 (L) (Note 1)	48.65%

#### Notes:

- For the purpose of SFO, TCL Holdings was deemed to be interested in the 130,741,170 Shares through its controlled corporation, TCL Industries (its direct wholly-owned Subsidiary).

2. Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares as at the Last Practicable Date, being 268,746,877 Shares.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors and chief executive of the Company whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had notified the Company of an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

#### **4. MATERIAL ADVERSE CHANGES**

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any other material adverse change in the financial or trading position of the Group since the date to which the latest published audited accounts for the year ended 31 December 2018 of the Group were made up.

#### **5. DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its Subsidiaries which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### **6. INTERESTS IN ASSETS AND CONTRACTS**

Save as disclosed herein, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors and Pelican Financial was interested, directly or indirectly, in any assets which had since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, the Directors were not aware that any of them and their associates had interests in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

**8. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

**9. EXPERT AND CONSENT**

The following is the qualification of the expert who has given an opinion or advice, which is contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Pelican Financial	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity as defined under the SFO

Pelican Financial has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Pelican Financial did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**10. MATERIAL CONTRACTS**

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or any of its Subsidiaries which are or may be material:

- (a) the Master Financial Services (2018 Renewal) Agreement;
- (b) the Master Financial Services (2019 Renewal) Agreement;
- (c) the Technology Support Services and Trade Names Licence (2018 Renewal) Agreement;
- (d) the Master Lease (Tenant) (2018 Renewal) Agreement;
- (e) the Master Rental (2019) Agreement;
- (f) the Master Rental (2019 Renewal) Agreement;
- (g) the share transfer agreement entered into among (i) TCL Technoly Electronics (Huizhou) Co., Ltd.\* (TCL通力電子(惠州)有限公司) (“**TCL Technoly**”), an indirect Subsidiary of the Company; (ii) Mr. Weng Xiaoyu (“**Mr. Weng**”); and (iii) Guangdong Regency on 9 November 2018, pursuant to which TCL Technoly has agreed to purchase, and Mr. Weng has agreed to sell, 11,430,000 shares in Guangdong Regency at the consideration of RMB29,040,000;
- (h) the master administrative services agreement entered into between (i) Guangdong Tonly Precise Component Co., Ltd.\* (廣東通力精密結構件有限公司) (“**Guangdong Tonly Precise**”), an indirect Subsidiary of the Company; and (ii) Dongguan Chengda Hardware Products Co., Ltd.\* (東莞呈達五金製品有限公司) (“**Dongguan Chengda**”) on 9 March 2018, pursuant to which Guangdong Tonly Precise may from time to time engage Dongguan Chengda to provide certain administrative services subject to the terms and conditions thereof;



- (i) the master management services agreement entered into between the Company and TCL Corporation on 9 March 2018, pursuant to which members of the Group may from time to time engage members of the TCL Corporation Group for provision of management services; and
- (j) the Equity Transfer Agreement.

## **11. MISCELLANEOUS**

- (a) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business in Hong Kong is 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (b) The Company's Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited at at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The secretary of the Company is Ms. CHOY Fung Yee, a practising solicitor of Hong Kong.
- (d) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at 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 for a period of 14 days from the date of this circular:

- (a) the Mater Financial Services (2019 Renewal) Agreement;
- (b) the Master Sale and Purchase (2019) Agreement;
- (c) the Master Sale and Purchase (2019 Renewal) Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;

- (e) the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- (f) the written consent from the Independent Financial Adviser referred to in the section headed “Expert and Consent” in the appendix to this circular;
- (g) the material contracts referred to in the section headed “Material Contracts” in the appendix to this circular;
- (h) this circular;
- (i) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018 respectively;
- (j) the interim report of the Company for the six months ended 30 June 2019; and
- (k) the memorandum and articles of association of the Company.

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## NOTICE OF EGM

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### TONLY ELECTRONICS HOLDINGS LIMITED

### 通力電子控股有限公司

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

**(Stock Code: 01249)**

**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 21 November 2019, Thursday, at 10:30 a.m., to consider and, if thought fit, pass the following ordinary resolutions (with or without modifications):

#### **ORDINARY RESOLUTIONS**

1. “**THAT**

- (a) the revision of the annual cap as set out in the circular of the Company dated 6 November 2019 (the “**Circular**”) for the period from 25 April 2019 to 31 December 2019 under the Master Sale and Purchase (2019) Agreement (as defined in the Circular and a copy of the agreement has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the directors of the Company (the “**Directors**”) be and is hereby authorised to take any step and execute such other documents as they consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the abovementioned revision of the annual cap under the Master Sale and Purchase (2019) Agreement or the transactions contemplated thereby.”

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## NOTICE OF EGM

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2. “**THAT**

- (a) the Master Financial Services (2019 Renewal) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of which is marked “B” and initialled by the chairman of the meeting for the purpose of identification) together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2022 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the Directors be and is hereby authorised to sign and execute such other documents or supplemental agreements or deeds for and on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with the Master Financial Services (2019 Renewal) Agreement or the transactions contemplated thereby.”

3. “**THAT**

- (a) the Master Sale and Purchase (2019 Renewal) Agreement (as defined in the Circular), the terms and the transactions thereunder (a copy of which is marked “C” and initialled by the chairman of the meeting for the purpose of identification) together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2022 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the Directors be and is hereby authorised to sign and execute such other documents or supplemental agreements or deeds for and on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with the Master Sale and Purchase (2019 Renewal) Agreement or the transactions contemplated thereby.”

On behalf of the Board

**LIAO Qian**

*Chairman*

Hong Kong, 6 November 2019

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## NOTICE OF EGM

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*Notes:*

1. A member of the Company who is 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 to attend and vote on his/her behalf. A proxy needs not be a member of the Company.
2. A form of proxy for the EGM is enclosed to the notice of the EGM. In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
3. The register of members of the Company will be closed from 15 November 2019, Friday to 21 November 2019, Thursday (both dates inclusive) for the purposes of determining the entitlements of the members of the Company to attend and vote at the meeting. No transfer of the shares of the Company may be registered during the said period. The record date for determining the aforesaid entitlements is 21 November 2019, Thursday. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 14 November 2019, Thursday.
4. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the above resolutions will be voted by way of poll.
5. Members of the Company or proxies who attend the Meeting in person will each receive ONE souvenir or refreshment set as a token of the Company's appreciation regardless of the number of Shares he/she holds or represents, or the number of member(s) he/she represents. If a member is also appointed as proxy/proxies of other member(s), or a proxy represents multiple members, the number of souvenir or refreshment set each of the aforesaid member or proxy will receive is limited to ONE.

*As at the date of this circular, 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.*