

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



## **TONLY ELECTRONICS HOLDINGS LIMITED**

**通力電子控股有限公司**

**(the “Company”)**

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

*(Stock Code: 01249)*

### **CONTINUING CONNECTED TRANSACTIONS – SUPPLEMENTAL AGREEMENT TO MASTER LEASE (TENANT) AGREEMENT AND REVISION OF ANNUAL CAPS OF MASTER LEASE (TENANT) AGREEMENT AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT**

Reference is made to the Master Lease (Tenant) Agreement entered into between TCL Corporation and the Company on 12 July 2013, details of which has been disclosed in the section headed “Continuing Connected Transactions” of the Listing Document.

#### **THE SUPPLEMENTAL AGREEMENT**

On 27 August 2014, TCL Corporation and the Company entered into the Supplemental Agreement, pursuant to which TCL Corporation Group shall lease to the Group certain premises in addition to those specified in the Master Lease (Tenant) Agreement.

#### **REVISION OF ANNUAL CAPS**

In view of the business expansion of the Company which requires more premises space to be rented by the Group from TCL Corporation Group, the entering into of the Supplemental Agreement and the non-termination of the lease of a part of an old production site with TCL Corporation, the Board have accordingly revised the Original Annual Caps on 27 August 2014.

## **LISTING RULES IMPLICATIONS**

TCL Corporation, being the ultimate controlling shareholder of the Company (currently holding approximately 50.3% of the issued share capital of the Company), is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In addition, pursuant to the Listing Rules, if the Company proposes to revise the annual caps under the continuing connected transactions, the Company is required to re-comply with the relevant provisions under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) under Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps and the proposed annual cap for the year ending 31 December 2016 for the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) are, on an annual basis, more than 0.1% but less than 5%, such continuing connected transactions under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) taken together are only subject to the reporting and announcement requirements and the annual review requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **BACKGROUND**

Reference is made to the Master Lease (Tenant) Agreement entered into between TCL Corporation and the Company on 12 July 2013, details of which has been disclosed in the section headed "Continuing Connected Transactions" of the Listing Document.

On 27 August 2014, TCL Corporation and the Company entered into the Supplemental Agreement, pursuant to which TCL Corporation Group shall lease to the Group certain premises in addition to those specified in the Master Lease (Tenant) Agreement.

## **THE SUPPLEMENTAL AGREEMENT**

On 27 August 2014, TCL Corporation and the Company entered into the Supplemental Agreement, details of which are set out below:

Date: 27 August 2014

Parties: (i) TCL Corporation  
(ii) the Company

Duration: From 27 August 2014 to 31 December 2016

Principal terms: The Supplemental Agreement is supplemental to the Master Lease (Tenant) Agreement. Pursuant to the Master Lease (Tenant) Agreement, the Group shall lease certain premises with a total area of approximately 70,000 sq.m. from TCL Corporation Group at a monthly rent of approximately RMB900,000. The expiry date of each of the leases contemplated under the original Master Lease (Tenant) Agreement shall not be later than 31 December 2015. Subject to compliance with the relevant Listing Rules, the exact location and area of the premises may be varied by mutual consent and the rent shall be adjusted accordingly.

Pursuant to the Supplemental Agreement, TCL Corporation Group shall lease to the Group certain premises in addition to those specified in the Master Lease (Tenant) Agreement. The Supplemental Agreement sets out the details of the additional premises to be leased or may be leased by the Group. The expiry date of the leases contemplated thereunder and under the Master Lease (Tenant) Agreement shall not be later than 31 December 2016. In addition to the compliance with the relevant Listing Rules, for any variations of the location or area of the premises to be leased (if any), the rent may be adjusted with reference to market rental and the rental which would be paid to an independent third party for similar premises.

The following principal terms of the original Master Lease (Tenant) Agreement remain unchanged:

- (i) The rental shall be determined with reference to the prevailing market rate which shall be no more than the rent payable by an independent third party to TCL Corporation Group for comparable tenancies; and
- (ii) In addition to the rental, unless otherwise agreed, TCL Corporation Group shall pay all the (i) taxes, (ii) management fees, (iii) other charges payable to the central and local government of the PRC or the government of Hong Kong and (iv) the routine repair and maintenance fees.

## REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT

As disclosed in the Listing Document, due to geographical proximity, the Group had been leasing certain properties with a total area of approximately 70,000 sq.m. in Shenzhen and Huizhou from TCL Corporation Group as its offices, factory, warehouse and dormitory. Such leases are governed by the Master Lease (Tenant) Agreement. Due to the business expansion of the Group, more premises space are required by the Group for its operation. In addition, the location and environment of the current warehouse leased by the Group from an independent third party in Huizhou are not satisfactory in terms of rental rate. Having identified more suitable premises at a better location for use as a warehouse from TCL Corporation Group, the Group is desirous to lease such premises from TCL Corporation Group at a more competitive rent in place of its current warehouse leased from an independent third party. Thus, the Company entered into the Supplemental Agreement to lease certain additional premises from TCL Corporation Group and extend the latest expiry dates of the leases under the Master Lease (Tenant) Agreement to 31 December 2016. The Group desires to lease such additional premises from TCL Corporation Group instead of leasing from other parties due to geographical proximity of such additional premises and the more competitive rent. The lease of additional premises and the extension of expiry dates of the leases could better cater the business needs and development of the Group.

The Directors (including independent non-executive Directors) consider that it is in the interests of the Company and our Shareholders as a whole to enter into the Supplemental Agreement.

The Directors (including the independent non-executive Directors) consider that the Supplemental Agreement, the transactions contemplated thereunder and the consideration 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.

None of the Directors has a material interest in any of the abovementioned continuing connected transactions under the Supplemental Agreement and none of them was required to abstain from voting on the relevant board resolutions.

## ORIGINAL ANNUAL CAP

The Original Annual Caps for the Master Lease (Tenant) Agreement for the three years ending 31 December 2015, which have already been disclosed in the Listing Document, are set out as follows:

	<b>For the year ended 31 December 2013 (HK'000)</b>	<b>For the year ending 31 December 2014                      2015 (HK'000)                      (HK'000)</b>	
Original Annual Caps	13,745	5,720	5,821

For the period from 1 January 2013 to 31 December 2013, the total amount of rent paid by the Group to TCL Corporation Group was approximately HK\$13,984,000. Since the listing of the Company's Shares on the mainboard of the Stock Exchange on 15 August 2013, during the four and a half months up to 31 December 2013, HK\$5,884,000 was paid by the Group to TCL Corporation Group for the transactions contemplated under the Master Lease (Tenant) Agreement. For the period from 1 January 2014 to 30 June 2014, HK\$5,104,000 was paid by the Group to TCL Corporation under the said agreement.

## **REVISION OF THE ANNUAL CAPS AND PROPOSED ANNUAL CAP**

In view of the entering into of the Supplemental Agreement and for the reasons as disclosed hereinbelow, the Directors have accordingly revised the Original Annual Caps for the continuing connected transactions contemplated under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) for the two years ending 31 December 2015 and propose the annual cap for the year ending 31 December 2016 as follows:

	<b>For the year ending 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Revised Annual Caps	11,893	17,485	N/A
Proposed annual cap	<u>N/A</u>	<u>N/A</u>	<u>19,233</u>

## **REASONS FOR THE REVISED ANNUAL CAPS AND PROPOSED ANNUAL CAP**

When determining the Original Annual Caps, the Group originally planned to relocate from the old production facility to the new production facility and terminate the lease for the old production facility by the end of 31 December 2013. However, it was discovered that the production capacity of the new production facility was not enough. As a result, the Group continued to lease the old production site with TCL Corporation Group with an aggregate area of 21,811 sq.m. Further, in order to cope with increased demand for spaces, more premises would be leased by the Group pursuant to the Master Lease (Tenant) Agreement (as amended by the Supplemental Agreement). In the circumstances, the Original Annual Caps need to be revised to a more realistic level in light of the above.

In determining the Revised Annual Caps for the two years ending 31 December 2015 and the proposed annual cap for the year ending 31 December 2016 under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement), the Group has taken into account the following factors:

- (i) current and ongoing demand for premises in light of business development of the Group;

- (ii) historical amounts paid for services contemplated under the Master Lease (Tenant) Agreement;
- (iii) the estimated aggregate annual rents payable calculated based on the total area of the properties leased and properties to be leased and the average rent per sq. m.;
- (iv) the market value of the rent to be paid for the premises contemplated by the Group if such were to be rented from independent third parties; and
- (v) the potential fluctuation of HKD/RMB exchange rate to be applied to the rental as the rental was and will be determined in terms of RMB.

The Directors (including the independent non-executive Directors) are of the view that the Original Annual Caps under the Master Lease (Tenant) Agreement as previously disclosed should be further increased to a more realistic level in order to cope with future demand. The Directors (including the independent non-executive Directors) consider that the Revised Annual Caps and the proposed annual cap for the year ending 31 December 2016 for the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) are in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES REQUIREMENTS**

TCL Corporation, being the ultimate controlling shareholder of the Company (currently holding approximately 50.3% of the issued share capital of the Company), is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In addition, pursuant to the Listing Rules, if the Company proposes to revise the annual caps under the continuing connected transactions, the Company is required to re-comply with the relevant provisions under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) under Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps and the proposed annual cap for the year ending 31 December 2016 for the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) are, on an annual basis, more than 0.1% but less than 5%, such continuing connected transactions under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) are only subject to the reporting and announcement requirements and the annual review requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Appropriate disclosure will be made in the annual reports and accounts of the Company in accordance with the Listing Rules.

## **GENERAL**

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

TCL Corporation and its Subsidiaries (including the Group) is a major PRC conglomerate that designs, develops, manufactures and markets a wide range of the electronic, telecommunications, information technology and electrical products. For more information on TCL Corporation, please visit TCL Corporation's official website at <http://www.tcl.com> (the information that appears in this website does not form part of this announcement).

## **DEFINITIONS**

“Board”	the board of Directors
“Company”	Tonly Electronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01249)
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its Subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Document”	the listing document issued by the company dated 17 July 2013
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Lease (Tenant) Agreement”	the master lease (tenant) agreement entered into between the Company as tenant and TCL Corporation as landlord on 12 July 2013



“ODM”	original design manufacturing under which the manufacturer owns the design of the products which are sold under the customer’s brand
“Original Annual Caps”	the annual caps for continuing connected transactions under the Master Lease (Tenant) Agreement as set out in the Listing Document
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement
“Revised Annual Caps”	the revised annual caps for the continuing connected transactions under the Master Lease (Tenant) Agreement (as supplemented by the Supplemental Agreement) as set out in this announcement
“RMB”	Renminbi, the lawful currency of PRC
“Shareholders”	holders of Share(s) of the Company
“Shares”	the ordinary shares of HK\$1.00 each in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly
“Supplemental Agreement”	the supplemental agreement to the Master Lease (Tenant) Agreement entered into between the Company and TCL Corporation on 27 August 2014
“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 ultimate controlling shareholder of the Company, the shares of which are listed on Shenzhen Stock Exchange (stock code: 000100)
“TCL Corporation Group”	TCL Corporation and its Subsidiaries (excluding the Group)



“%”

per cent

By order of the Board

**YUAN Bing**

*Chairman*

Hong Kong, 27 August 2014

*As at the date of this announcement, the Board comprises YU Guanghui, SONG Yonghong and REN Xuenong as executive Directors, YUAN Bing and LEONG Yue Wing as non-executive Directors and POON Chiu Kwok, LI Qi and YOUNG Shiao Ming as independent non-executive Directors.*