



**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION**

CAUSE NO. FSD 294 OF 2020 (NSJ)

IN THE MATTER OF SECTIONS 15 & 86 OF THE COMPANIES LAW (2020 REVISION)

AND IN THE MATTER OF ORDER 102 OF THE GRAND COURT RULES 1995 (AS REVISED)

AND IN THE MATTER OF TONLY ELECTRONICS HOLDINGS LIMITED

PETITION

To: The Grand Court of the Cayman Islands

THE HUMBLE PETITION of TONLY ELECTRONICS HOLDINGS LIMITED of PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands (the **Company**) SHOWS THAT:

1 Introduction

1.1 The objects of this Petition are to seek:

- (a) the sanction of the Court pursuant to section 86 of the Companies Law (2020 Revision) (the **Companies Law**) to a proposed Scheme of Arrangement (the **Scheme**) between the Company and the holders of the shares in and of the Company in issue as of the Scheme Record Date other than those held by the Offeror (defined below) (the **Scheme Shares**); and
- (b) the confirmation of the Court, pursuant to section 15 of the Companies Law, of the intended resolution of the Company's shareholders to reduce the Company's issued share capital to give effect to the Scheme, which is intended to be passed by the Company's shareholders as a special resolution as further set out at paragraph 9.2 below.

1.2 In this Petition:

- (a) “Scheme Document” means the composite document proposed to be sent to Shareholders which, amongst other things, contains details of the Scheme, an explanatory memorandum, and certain financial and general information of the Company; and
- (b) Defined terms shall have the meaning ascribed to them in the Scheme Document unless indicated otherwise.

2 Incorporation, Objects and Share Capital

- 2.1 On 8 February 2013, the Company was incorporated with the name Tonly Electronics Holdings Limited (通力電子控股有限公司) as an exempted company limited by shares pursuant to the Companies Law with registration number 275431. The registered office of the Company is and has always been situated at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company has its principal place of business in Hong Kong at 8th Floor, Building 22E, 22 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- 2.2 The objects for which the Company was established are unrestricted (save for generally applicable statutory restrictions on its powers to trade in the Cayman Islands) and generally to carry out the objects more particularly described in paragraph 3 of its Memorandum of Association as adopted by a special resolution passed on 12 July 2013.
- 2.3 The Company is principally engaged in the research and development, manufacture and sales of audio-visual products (excluding TV sets) for third parties’ brands on an ODM (original design manufacture) basis. The Company is also involved in software development through its subsidiaries.
- 2.4 The authorised share capital of the Company is HK\$500,000,000 divided into 500,000,000 shares of a nominal or par value of HK\$1.00 each. As at 30 November 2020, 273,393,448 ordinary shares in the capital of the Company with a par value of HK\$1.00 each had been issued and were fully paid or credited as fully paid (**Shares**).
- 2.5 Since 15 August 2013, the Shares have been listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited (**HK Stock Exchange**).

- 2.6 As at 30 November 2020, 204,148,384 Shares (representing approximately 74.67% of the issued share capital of the Company) were directly or indirectly owned by T.C.L. Industries Holdings (H.K.) Limited (the **Offeror**) and parties acting in concert or presumed to be acting in concert with the Offeror (the **Offeror Concert Parties**) under the Code on Takeovers and Mergers of Hong Kong (the **Takeovers Code**). The Offeror and the Offeror Concert Parties will not vote on the Scheme.
- 2.7 As at 30 November 2020, 69,245,064 Shares (representing approximately 25.33% of the issued share capital of the Company) were owned by shareholders other than the Offeror and the Offeror Concert Parties (the **Disinterested Shareholders**). The Disinterested Shareholders can vote on the Scheme.

3 Shareholder Profile

3.1 The profile of the Company's shareholders, as at 30 November 2020, was as follows:

- (a) The Offeror, a company incorporated in Hong Kong, beneficially owned 167,452,239 Shares representing approximately 61.25% of the Company's issued Shares. 124,280,110 Shares were held by ICBC (Asia) Nominee Limited as a custodian in the Register of Members in Hong Kong and 43,172,129 Shares were held by HKSCC Nominees (as defined below) in the Register of Members in Hong Kong under CCASS (as defined below).
- (b) The Offeror Concert Parties, which include the directors of the Offeror and their close relatives, the Management Shareholders (as defined in the Scheme), Vast Bright Investment Limited (a company wholly owned by Mr YU Guanghui (**Mr Yu**), a Management Shareholder), Run Fu Holdings Limited (a company wholly owned by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership), a limited partnership wholly owned by the Management Shareholders), and BOCI-Prudential Trustee Limited (the **Trustee**, being the trustee for the administration of the Restricted Share Award Scheme (as defined in the Scheme) and of the Shares awarded thereunder (**Share Awards**)), hold the Shares as more particularly set out in paragraphs (d) and (e) below:
- (c) Directors of the Offeror and their spouses:
- (i) Mr LI Dongsheng, a director, and his spouse together beneficially interested in 1,043,901 Shares (including 40,871 vested but unreleased Share Awards

disclosed in paragraph 3.1(e) below) representing approximately 0.38% of the Company's issued Shares;

- (ii) Ms XIONG Yan, a director, directly owned 16,934 Shares representing approximately 0.01% of the Company's issued Shares; and
- (iii) Mr DU Yuanhua, a director, directly owned 12,702 Shares representing a negligible percentage of the Company's issued Shares.

(d) Management Shareholders:

- (i) Mr YU, an executive Director and chief executive officer of the Company, directly and beneficially owned 15,351,671 Shares representing approximately 5.62% of the Company's issued shares. This included Mr Yu's Shares held through his company, Vast Bright Investment Limited, and through his interest in Run Fu Holdings Limited;
- (ii) Mr SONG Yonghong (**Mr Song**), an executive Director and chief operating officer of the Company, directly and beneficially owned 6,622,620 Shares representing approximately 2.42% of the Company's issued shares. This included Mr Song's Shares held through his interest in Run Fu Holdings Limited;
- (iii) Mr REN Xuenong (**Mr Ren**), an executive Director and chief financial officer of the Company, directly and beneficially owned 3,783,992 Shares representing approximately 1.38% of the Company's issued shares. This included Mr Ren's Shares held through his interest in Run Fu Holdings Limited;
- (iv) Mr WANG Xiaofeng (**Mr Wang**), a senior vice president and chief marketing officer of the Company, directly and beneficially owned 3,293,637 Shares representing approximately 1.20% of the Company's issued shares. This included Mr WANG's Shares held through his interest in Run Fu Holdings Limited; and
- (v) Mr HUANG Wei (**Mr Huang**), a senior vice president of the Company, directly and beneficially owned 3,225,174 Shares representing approximately 1.18% of the Company's issued shares. This included Mr Huang's Shares held through his interest in Run Fu Holdings Limited.

- (e) The Trustee held 3,386,385 Shares (including: (i) 40,871, (ii) 1,722 and (iii) 2,838 Share Awards granted to Mr LI Dongsheng and his spouse, Ms XIONG Yan and Mr DU Yuanhua respectively, which have met the vesting conditions but have not been released by the Trustee) representing approximately 1.24% of the Company's issued shares. Pursuant to the rules of the Restricted Share Award Scheme (defined in the Scheme), upon the occurrence of a privatisation of the Company, all Share Awards shall immediately vest on the date when such privatisation becomes or is declared unconditional. Any consideration payable by the Offeror to the Trustee as a Scheme Shareholder pursuant to the Scheme will be held on trust for the grantees of the Share Awards and will be paid by the Trustee to the grantees based on the number of Share Awards of such grantees. Any remaining proceeds (i.e. Scheme Share Consideration in respect of those Trustee Held Shares which have not been designated to any particular grantee under the Restricted Share Award Scheme as at the Effective Date, less any charges payable by the Company to the Trustee under the Trust Deed) will be paid by the Trustee to the Company in accordance with the provisions of the Trust Deed.
- (f) HKSCC Nominees Limited (**HKSCC Nominees**), a company incorporated in Hong Kong, is the registered holder of 148,966,152 of the Company's issued shares representing approximately 54.49% of the Company's issued shares. HKSCC Nominees acts as a common nominee in respect of securities held through the Central Clearing and Settlement System depository in Hong Kong (**CCASS**) and takes its instructions from persons admitted to participate in CCASS (**CCASS Participants**). It is not known how many entities have beneficial interests in the Shares of the Company registered in HKSCC Nominees' name.
- (g) In addition to the Shares that were held by the individuals and entities listed above, there were 145,186 Shares held by other individuals and/or entities (i.e. Shareholders, not being an Offeror Concert Party, who hold the Shares in their own name rather than via HKSCC Nominees), comprising approximately 0.05% of the Company's issued shares.

3.2 The number of issued Shares may increase given the outstanding Share Options which may be exercised following presentation of this Petition.

4 Share Options

- 4.1 As at 30 November 2020, there are 501,864 outstanding Share Options carrying rights to subscribe for 501,864 Shares (being Share Options that are granted under the Share Option Scheme but not lapsed or exercised under the terms thereof). Other than such Share Options, there are no other options, derivatives, warrants, or other securities convertible or exchangeable into the Shares which were issued by the Company.
- 4.2 If any of the outstanding Share Options are exercised in accordance with the terms of the Share Option Scheme prior to the Latest Options Exercise Date, and such Option Holders (as defined in the Scheme) have been registered as legal owners of the underlying Shares as of the Scheme Record Date (as defined in the Scheme), any Shares so issued will be subject to and eligible to participate in the Scheme.
- 4.3 The Offeror will make an offer to all the Option Holders and Option Holders as of the Scheme Record Date. The Option Offer will be conditional upon the Scheme becoming effective. Under the Option Offer, the Offeror will offer Option Holders the “see-through” price (being the Company’s Scheme Share Consideration (defined below) minus the relevant exercise price in the case of the outstanding Share Options) for each outstanding Share Option cancelled.
- 4.4 If any Option Holder does not accept the Option Offer in respect of the Share Options and the Share Options are not exercised within 21 business days after the date on which the privatisation becomes or is declared unconditional, the Share Options will automatically lapse.

5 Object and Mechanics of the Scheme

- 5.1 The object of the Scheme is for the Company to become wholly owned by the Offeror, which will be achieved by:
- (a) the Company reducing its share capital (the **Capital Reduction**) by the cancellation and extinguishment of the Scheme Shares in consideration of which each holder of the Scheme Shares (**Scheme Shareholder**) will receive HK\$12.00 (the **Scheme Share Consideration**) for every Scheme Share so cancelled and extinguished;
 - (b) subject to and immediately upon the Capital Reduction taking effect, the issued share capital of the Company being increased to its former amount by the issue of

the same number of new ordinary shares, credited as fully paid at par, to the Offeror as the number of Scheme Shares cancelled and extinguished (***Increase of Capital***); and

(c) the Company applying the credit arising in its books of account as a result of the Capital Reduction in paying up in full at par the newly issued shares to the Offeror.

5.2 The Scheme is conditional upon the Capital Reduction becoming effective.

5.3 Following implementation of the Scheme, the Company will apply to the HK Stock Exchange for the withdrawal of the listing of its Shares.

5.4 The Scheme is such that an intelligent and honest person, being a member of the Scheme Shareholders and acting in respect of his/her/its interests, might reasonably approve.

6 Affected Shareholders

6.1 The Scheme affects a single class of shareholders of the Company, being the Scheme Shareholders.

7 Court Meeting

7.1 It is intended that a single meeting of the Disinterested Scheme Shareholders be convened for the purpose of allowing such Disinterested Scheme Shareholders to consider and, if they think fit, approve (with or without modification) the Scheme (***Court Meeting***).

7.2 The resolution intended to be submitted at the Court Meeting is:

"THAT this Court Meeting approves, with or without modification, the proposed Scheme of Arrangement, a print of which has been submitted to this Court Meeting and, for the purpose of identification, signed by the Chairman of this Court Meeting."

7.3 It is intended that each Disinterested Shareholder (other than HKSCC Nominees) that votes at the Court Meeting, whether in person or by proxy, shall be counted as a single shareholder for the purpose of the calculation of the "majority in number" component of the statutory threshold under section 86(2) of the Companies Law. Each Disinterested Shareholder (other than HKSCC Nominees) is entitled to vote either "for" or "against" the Scheme, but not both "for" and "against" the Scheme.

- 7.4 HKSCC Nominees is entitled to vote shares both “for” and “against” the Scheme as instructed by the CCASS Participants. For the purpose of the calculation of the “majority in number” component of the statutory threshold under section 86(2) of the Companies Law, HKSCC Nominees shall be treated as a “multi-headed shareholder” and each voting CCASS Participant shall be treated as a single Disinterested Shareholder for the purposes of calculating the “majority in number”. HKSCC Nominees itself, as opposed to the CCASS Participants, shall not be counted as a Disinterested Shareholder for the purposes of calculating the “majority in number”.
- 7.5 At the Court Meeting, (i) other than the arrangement in respect of HKSCC Nominees and CCASS Participants to be detailed in (ii) below, only Disinterested Scheme Shareholders whose Shares are registered in their own names in the register of members of the Company on the Meeting Record Date will be counted as Disinterested Scheme Shareholders for the purpose of calculating whether or not a majority in number of Disinterested Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law; and (ii) HKSCC Nominees may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS) but for the purpose of calculating the “majority in number”, each such CCASS Participant who instructs HKSCC Nominees to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees itself, as opposed to the instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.
- 7.6 For the purposes of determining whether or not a majority in number of Disinterested Scheme Shareholders approved the Scheme pursuant to Section 86 of the Companies Law, where the same person is the holder of a number of Shares bearing different certificate numbers or account numbers, such person shall be entitled to be present at the Court Meeting personally or by proxy and vote such Shares in which case he/she/it will be treated as a single Shareholder. In accordance with articles 4.14 and 14.4 of the Articles of the Company, if a Share is held in the name of two or more persons, the person first named in the register shall be deemed the sole Shareholder and be entitled to vote in respect of the relevant joint holding either in person or by proxy.

7.7 Under the Takeovers Code, persons acting in concert or deemed to be acting in concert with the Offeror who are also Shareholders shall not vote on the Scheme for the purposes of satisfying the voting requirements of the Takeovers Code. As such, the Offeror Concert Parties will not be entitled to vote on the Scheme of Arrangement at the Court Meeting (as hereinafter defined) and all Disinterested Shareholders will be entitled to vote at the Court Meeting.

7.8 The Offeror and its Concert Parties will provide an undertaking to the Company and to the Court to be bound by the Scheme and to do or procure to be done all acts and things necessary or reasonably desirable to be done for the purpose of giving effect to the Scheme.

8 Application

8.1 In relation to the Scheme, the Company intends to make an application for, amongst other things, orders and directions:

- (a) that the relevant class of shareholders of the Company affected by the Scheme is the Scheme Shareholders;
- (b) that the Company be at liberty to convene the Court Meeting referred to at paragraph 7.1 above;
- (c) as to the mode of delivery of, amongst other things, an explanatory memorandum and proxy forms to the Shareholders;
- (d) as to the appointment of the chairman of the Court Meeting, and for directions that the chairman of the Court Meeting should report the result thereof to the Court; and
- (e) as to the treatment of Shares held by custodians, clearing houses and other nominees for the purposes of the “majority in number” calculation.

9 Capital Reduction

9.1 In relation to the proposed Capital Reduction, paragraph 6 of the Company’s Memorandum of Association and Article 10.2 of the Company’s Articles of Association provide that the Company may, by special resolution, reduce its share capital in any manner authorised and subject to any conditions prescribed by the Companies Law.

9.2 The Company intends to convene an Extraordinary General Meeting (**EGM**) to take place immediately after the Court Meeting at which it is intended to submit a special resolution to confirm the Capital Reduction pursuant to the Scheme and an ordinary resolution to approve the Increase of Capital. The special resolution intended to be submitted to the EGM to approve the Capital Reduction is as follows:

1. "THAT:

- A. *pursuant to a scheme of arrangement dated [•] 2020 (the "Scheme of Arrangement") between the Company and the Scheme Shareholders (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to the EGM and for the purposes of identification signed by the chairman of the EGM, or in such other form and on such terms and conditions as may be approved or imposed by the Court, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement);*
- B. *any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of the issued shares capital of the Company pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of the issued shares capital of the Company which the Court may see fit to impose; and*
- C. *subject to the Scheme becoming effective, the withdrawal of the listing of the Shares of the Company from The Stock Exchange of Hong Kong Limited be and is hereby approved, and any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company."*

9.3 The ordinary resolution intended to be submitted to the EGM to approve the Increase of Capital is as follows:

2. "THAT:

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

9.4 The Scheme of Arrangement and the Capital Reduction involve neither the diminution of liability in respect of any unpaid share capital nor the payment to any shareholder of any paid up capital or alteration of the underlying assets, business operations, management or financial position of the Company and will have no effect on the creditors of the Company. The Increase of Capital will occur immediately following the Capital Reduction. The Company will continue to be able to pay its debts as they fall due in the ordinary course of business following completion of the Scheme. Given that the Capital Reduction will have no impact (adverse or otherwise) on the interests of the Company's creditors, the Honourable Court is respectfully requested to dispense with the requirements to either settle a list of creditors or to advertise the Petition.

9.5 The Capital Reduction is for a discernible purpose, and its terms and effect will be properly explained to shareholders of the Company a sufficient time prior to the EGM so as to ensure that shareholders are treated equitably.

9.6 The form of minute proposed to be registered with the Registrar of Companies is as follows:

The issued share capital of Tonly Electronics Holdings Limited (the “Company”) was by virtue of a special resolution of the Company dated [•] 2020 (the “Special Resolution”) and with the confirmation of an order of the Grand Court of the Cayman Islands dated [•] 2020 (the “Order”) reduced from HK\$ [•] divided into [•] shares of HK\$1.00 par value each, to HK\$ [•] divided into [•] shares of HK\$1.00 par value each (the “Reduction of Capital”). An ordinary resolution of the Company dated [•] (the “Ordinary Resolution”) further provides that subject to and forthwith upon such reduction of capital taking effect, the issued share capital of the Company be increased to its former amount of HK\$ [•] by the issue of [•] shares of HK\$1.00 each.

By virtue of a Scheme of Arrangement sanctioned by an order of the Grand Court of the Cayman Islands dated [•] 2020, the Order, the Special Resolution, and the Ordinary Resolution, the issued share capital of the Company at the time of the registration of this minute is accordingly HK\$[•] divided into [•] shares of HK\$1.00 each. The authorised share capital of the Company on the registration of this minute is HK\$500,000,000 divided into 500,000,000 shares of a nominal or par value of HK\$1.00 each.

YOUR PETITIONER, THE COMPANY, THEREFORE HUMBLY PRAYS:

1. That the Scheme to be approved at the Court Meeting to be convened at the direction of this Honourable Court be sanctioned by this Honourable Court so as to be binding on the Company and the Scheme Shareholders.
2. That the Capital Reduction proposed to be effected by the special resolution set out at paragraph 9.2 above be confirmed and that the form of minute set out at paragraph 9.6 above be approved by the Court.
3. That the preparation of a list of creditors be dispensed with.
4. Such further or other relief as this Honourable Court shall see fit.

Dated this 1st day of December 2020



HARNEY WESTWOOD & RIEGELS

Attorneys-at-Law for the Petitioner

Note: It is not intended that this Petition be served on anyone.

THIS PETITION was presented by Harney Westwood & Riegels, Attorneys-at-Law for the Petitioner, whose address for service is 3rd Floor, Harbour Place, 103 South Church Street, Grand Cayman, PO Box 10240, KY1-1002, Cayman Islands (Ref: PYK/JNW/054702.0010.0001).

NOTICE OF HEARING

TAKE NOTICE THAT the hearing of this Petition will take place at the Law Courts, George Town, Grand Cayman, Cayman Islands on at 10:00am.

Any correspondence or communication with the Court relating to the hearing of this Petition should be addressed to the Registrar of the Financial Services Division of the Grand Court at PO Box 495, George Town, Grand Cayman KY1-1106, Cayman Islands; Tel: 3459494296.