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TRIO INDUSTRIAL ELECTRONICS GROUP LIMITED

致豐工業電子集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1710)

MAJOR TRANSACTION IN RELATION TO THE LEASING OF FACTORY BUILDING

Reference is made to the Prospectus in relation to the MOU, the announcements of the Company dated 20 July 2018 and 28 November 2019, respectively in relation to the supplemental agreements to the MOU to amend the terms of the MOU with regards to the No. 1 Factory Building and the No. 2 Factory Building, and the announcement of the Company dated 23 April 2021 in relation to the leasing of the No. 1 Factory Building.

On 22 June 2021, Panyu Trio submitted its bid for the leasing of the No. 2 Factory Building. The Board is pleased to announce that on 22 June 2021, Panyu Trio's bid for the Tenancy Agreement No. 2 in respect of the leasing of the No. 2 Factory Building had been accepted. The lease under the Tenancy Agreement No. 2 will be for a term of fifteen years from the commencement date of leasing, which is tentatively from 1 July 2021 to 30 June 2036.

LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the Company will recognise a right-of-use asset on its consolidated statement of financial position in connection with the Tenancy Agreement No. 2. Therefore, the entering into of the Tenancy Agreement No. 2 will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset to be recognised by the Company under the Tenancy Agreement No. 2 amounts to approximately HK\$52.7 million.

As the applicable percentage ratio(s) as defined under the Listing Rules in respect of the acquisition of right-of-use asset to be recognised by the Group under the Tenancy Agreement No. 2 are 5% or more but are less than 25%, the entering into of the Tenancy Agreement No. 2, on a standalone basis, constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Taking into account (i) the Tenancy Agreement No. 1 and the Tenancy Agreement No. 2 will be entered into by the Company with the same party within a 12-month period and (ii) the No. 1 Factory Building and the No. 2 Factory Building are adjacent to each other, the entering into of the Tenancy Agreements should be aggregated as if they were one transaction pursuant to Rule 14.22 of Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Tenancy Agreements on an aggregate basis are more than 25% but less than 100%, the entering into of the Tenancy Agreement No. 2 constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge of the Directors, no Shareholder has a material interest in the Tenancy Agreement No. 2 and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting for approving the Tenancy Agreement No. 2.

The Company has received the Written Approval in respect of the Tenancy Agreement No. 2 from Trio Industrial Electronics Holding Limited, which holds approximately 72.5% of the issued shares of the Company as at the date of this announcement, in accordance with Rule 14.44 of the Listing Rules. Accordingly, no Shareholders' meeting will be convened by the Company to approve the Tenancy Agreement No. 2.

A circular containing, among other things, further particulars of the Tenancy Agreements and the transactions contemplated thereunder, will be despatched to the Shareholders on or before 14 July 2021 in accordance with the Listing Rules.

INTRODUCTION

On 22 June 2021, Panyu Trio was notified by the Landlord that Panyu Trio's bid for the Tenancy Agreement No. 2 in respect of the leasing of the No. 2 Factory Building had been accepted.

THE TENANCY AGREEMENT NO. 2

The principal terms of the Tenancy Agreement No. 2 are as follows:

Date of notification of successful bid: 22 June 2021

Parties:

- (1) Panyu Trio (as tenant); and
- (2) Shiji Association (as landlord)

Leased premises: No. 2 Factory Building with a total GFA of 12,574.0 sq.m.

Bidding security deposit and performance bond:	<p>In respect for Panyu Trio's bid for the Tenancy Agreement No. 2, a sum of RMB5.0 million (equivalent to approximately HK\$6.1 million) had been paid by Panyu Trio as the bidding security deposit. Upon Panyu Trio's signing of the Tenancy Agreement No. 2, a sum of RMB0.8 million (equivalent to approximately HK\$1.0 million) will be deducted from such bidding security deposit as performance bond of the Tenancy Agreement No. 2, and the remaining sum of the bidding security deposit shall be returned to Panyu Trio.</p> <p>Following the expiry of the Tenancy Agreement No. 2, the performance bond of the Tenancy Agreement No. 2 will be refunded to Panyu Trio.</p>
Usage:	<p>Industrial use/warehouse. The Group intends to use the No. 2 Factory Building as part of its production base in the PRC.</p>
Delivery:	<p>Pursuant to the Tenancy Agreement No. 2, the Landlord shall deliver the No. 2 Factory Building to Panyu Trio for rent according to the date specified on the delivery notice. If the Landlord fails to deliver the No. 2 Factory Building to Panyu Trio for rent within 30 days from the date specified on the delivery notice, Panyu Trio shall be entitled to charge the Landlord a daily penalty fee of 0.01% of the monthly rental fee until the date of delivery.</p> <p>If the Landlord fails to deliver the No. 2 Factory Building to Panyu Trio for rent within 60 days from the date specified on the delivery notice, Panyu Trio shall be entitled to terminate the Tenancy Agreement No. 2. The Landlord shall, within 15 days of its receipt of the written notice from Panyu Trio, terminate the Tenancy Agreement No. 2 and pay twice the amount of the performance bond to Panyu Trio.</p>
Term:	<p>15 years from 1 July 2021 to 30 June 2036</p>
Rental fee:	<p>There shall be a rent-free renovation period from 1 July 2021 to 15 August 2021.</p> <p>Rental fee for the first three years of the term of the lease shall be calculated at the rate of RMB22.0 (equivalent to approximately HK\$26.9) per sq.m. per month, totaling RMB276,628.0 (equivalent to approximately HK\$337,721.8) per month, for the No. 2 Factory Building and shall be increased by 10% every 3 years thereafter.</p>
Payment terms:	<p>The rent shall be payable on or before the tenth day of each and every calendar month. Any overdue payment will be subject to a daily penalty fee of 0.2% of the overdue amount.</p>

INFORMATION ON THE PARTIES

The Group is a leading manufacturer of customised industrial electronic components and products. Its products include: (i) smart battery chargers; (ii) electro-mechanical products; (iii) switch-mode power supplies; and (iv) smart vending systems. To meet its growing business needs, the Group has been planning and working at its factory expansion at the existing production base in the PRC.

The Landlord is the local administration authority of Shiji Village, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC. To the best knowledge, information and belief of the Directors after making all reasonable enquiries, the Landlord and its ultimate beneficial owner(s) are independent of the Group and the connected persons of the Group (as defined under the Listing Rules).

THE RIGHT-OF-USE ASSET

The value of the right-of-use asset to be recognised by the Group under the Tenancy Agreement No. 2 and the Tenancy Agreements in aggregate amounts to approximately HK\$52.7 million and HK\$101.1 million, respectively, which is the present value of lease payments less incentives (if any), plus initial direct costs and estimated reinstatement cost with the lease in accordance with HKFRS 16. Discount rate of 3.3126% and 3.3210% is applied to compute the present value of lease payments less incentives (if any) under the Tenancy Agreement No. 2 and the Tenancy Agreements, respectively. It should be noted that the above figures are unaudited and may be subject to adjustment in the future.

REASONS FOR AND BENEFITS OF THE TENANCY AGREEMENT

As disclosed in the Prospectus, the Company considered that it was necessary for the Group to expand its production capacity to cater for new purchase orders. The Group has been leasing certain properties from the Landlord at the same site with the No. 1 Factory Building and the No. 2 Factory Building. Pursuant to the MOU, the Landlord would convert certain of the Group's leased properties which were previously used as warehouses into two factory buildings.

Following Panyu Trio's unsuccessful bid for the leasing of the No. 2 Factory Building on 23 April 2021, Panyu Trio had been informed by the Landlord that the leasing of the No. 2 Factory Building was open for bidding again. As such, the Company decided to bid for the leasing of the No. 2 Factory Building in accordance with its expansion plan.

The Company considers that the entering into of the Tenancy Agreement No. 2 will allow the Group to increase its production capacity by expanding its production plant at the No. 2 Factory Building. The Directors are of the view that the expansion plan to be implemented in its existing production base would create synergy, minimise logistics and administrative costs and maximise production efficiency. The Board considers that the rent under the Tenancy Agreement No. 2 is comparable to the prevailing market rent for similar properties in the vicinity and also considers that the terms of the Tenancy Agreement No. 2 and the transaction contemplated thereunder are on normal commercial terms after arm's length negotiations, in the ordinary and usual course of business, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the Company will recognise a right-of-use asset on its consolidated statement of financial position in connection with the Tenancy Agreement No. 2. Therefore, the entering into of the Tenancy Agreement No. 2 will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset to be recognised by the Company under the Tenancy Agreement No. 2 amounts to approximately HK\$52.7 million. It should be noted that the above figure is unaudited and may be subject to adjustment in the future.

As the applicable percentage ratio(s) as defined under the Listing Rules in respect of the acquisition of right-of-use asset to be recognised by the Group under the Tenancy Agreement No. 2 are 5% or more but are less than 25%, the entering into of the Tenancy Agreement No. 2, on a standalone basis, constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Taking into account (i) the Tenancy Agreement No. 1 and the Tenancy Agreement No. 2 will be entered into by the Company with the same party within a 12-month period and (ii) the No. 1 Factory Building and the No. 2 Factory Building are adjacent to each other, the entering into of the Tenancy Agreements should be aggregated as if they were one transaction pursuant to Rule 14.22 of Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Tenancy Agreements on an aggregate basis are more than 25% but less than 100%, the entering into of the Tenancy Agreement No. 2 constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge of the Directors, no Shareholder has a material interest in the Tenancy Agreement No. 2 and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting for approving the Tenancy Agreement No. 2.

The Company has received the Written Approval in respect of the Tenancy Agreement No. 2 from Trio Industrial Electronics Holding Limited, which holds approximately 72.5% of the issued shares of the Company as at the date of this announcement, in accordance with Rule 14.44 of the Listing Rules. Accordingly, no Shareholders' meeting will be convened by the Company to approve the Tenancy Agreement No. 2.

A circular containing, among other things, further particulars of the Tenancy Agreements and the transactions contemplated thereunder, will be despatched to the Shareholders on or before 14 July 2021 in accordance with the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the Board of Directors
“Company”	Trio Industrial Electronics Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 01710)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the Directors of the Company
“GFA”	gross floor area
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Landlord”	Shiji Cooperative Economic Association of Dongchong Town, Nansha District, Guangzhou City, Guangdong Province* (廣東省廣州市南沙區東涌鎮石基股份合作經濟聯合社) is the local administration authority of Shiji Village, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC*(中國廣東省廣州市南沙區東涌鎮石基村)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange (excluding the option market) operated by the Stock Exchange
“MOU”	the memorandum of understanding dated 5 December 2016 entered into between Panyu Trio and the Landlord, as supplemented by the supplemental agreements to the MOU dated 20 July 2018 and 28 November 2019, respectively, entered into between Panyu Trio and the Landlord
“No. 1 Factory Building”	a factory building situated at No. 17, Dongchong Section, Shinan Highway. Shiji Village, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市南沙區東涌鎮石基村市南公路東涌段17號) with a GFA of approximately 13,588.0 sq.m.
“No. 2 Factory Building”	a factory building situated at No. 37, Dongchong Section, Shinan Highway. Shiji Village, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市南沙區東涌鎮石基村市南公路東涌段 37 號) with a GFA of approximately 12,574.0 sq.m.

“Panyu Trio”	Panyu Trio Microtronics Company Limited, a wholly foreign owned enterprise established under the laws of the PRC on 5 April 1991 as a sino-foreign contractual joint venture, an indirect wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China
“Prospectus”	the Prospectus of the Company dated 13 November 2017
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holder(s) of the ordinary share(s) of the Company
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement No. 1”	the tenancy agreement dated 8 May 2021 entered into between Panyu Trio and the Landlord in respect of the leasing of the No. 1 Factory Building
“Tenancy Agreement No. 2”	the tenancy agreement to be entered into between Panyu Trio and the Landlord in respect of the leasing of the No. 2 Factory Building
“Tenancy Agreements”	collectively, the Tenancy Agreement No. 1 and the Tenancy Agreement No. 2
“Written Approval”	the written approval from Trio Industrial Electronics Holding Limited, which holds 725,000,000 issued ordinary shares of the Company (representing 72.5% of its entire issued share capital as at the date of this announcement) in respect of the Tenancy Agreement No. 2 and the transactions contemplated thereunder
“%”	per cent

On behalf of the Board
Trio Industrial Electronics Group Limited
Lai Yiu Wah
Chairman and Executive Director

Hong Kong, 22 June 2021

As at the date of this announcement, the Board comprises Mr. Lai Yiu Wah, Mr. Tai Leung Lam, Mr. Joseph Mac Carthy as Executive Directors, Mr. Fung Chun Chung, Mr. Cheung Kin Wing and Mr. Wong Raymond Fook Lam as Independent Non-executive Directors.

* *For identification purpose only*

For illustrative purpose, the exchange rate of HK\$ against RMB is HK\$1 to RMB0.8191.