TONLY

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)

RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2016

FINANCIAL HIGHLIGHTS

Unaudited results for the three months ended 31 March

	2016	2015	**Change**
	(HK$M)	*(HK$M)*	
Turnover	**741.4**	1,156.0	**-35.9%**
Gross profit	**106.3**	151.9	**-30.0%**
Operating profit	**37.3**	49.6	**-24.9%**
Profit for the period	**27.1**	38.1	**-28.8%**
Profit attributable to owners of the parent	**27.1**	36.9	**-26.4%**
Basic earnings per share *(HK cents)*	**11.05**	14.85	**-25.6%**

HIGHLIGHTS

For the three months ended 31 March 2016, the Group recorded turnover of approximately HK$741.4 million, down by 35.9% year-on-year. Gross profit amounted to approximately HK$106.3 million, down by 30.3% year-on-year. Operating profit reached approximately HK$37.3 million, down by 24.9% year-on-year. Profit attributable to owners of the parent reached approximately HK$27.1 million, representing a decrease of 26.4% year-on-year. The directors of the Company do not recommend the payment of any interim dividend for the three months ended 31 March 2016.

The sales revenue is reclassified in order to in line with the business transformation of the Group. The sales revenue of audio products reached approximately HK$363.2 million, representing a decrease of 15.1% year-on-year. The sales revenue of video products reached approximately 332.6 million, representing a decrease of 50.3% year-on-year. The sales revenue of smart home products reached approximately HKD5.3 million. The sales revenue of other business reached approximately HK$40.4 million, representing a decrease of 31.7% year-on-year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2016 with comparative figures for the said period last year as follows and these condensed consolidated financial statement have not been audited, but have been reviewed by the Company's Audit Committee:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Three months ended 31 March	
		2016	2015
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	3	**741,432**	1,156,012
Cost of sales		**(635,161)**	(1,004,155)
Gross profit		**106,271**	151,857
Other income and gains, net		**10,092**	23,172
Selling and distribution costs		**(13,834)**	(49,521)
Administrative expenses		**(25,739)**	(35,824)
Research and development costs		**(40,374)**	(40,084)
		36,416	49,600
Finance costs	4	**(528)**	(2,282)
Share of profits of associates		**835**	–
PROFIT BEFORE TAX		**36,723**	47,318
Income tax expense	5	**(9,612)**	(9,266)
PROFIT FOR THE PERIOD		**27,111**	38,052
OTHER COMPREHENSIVE INCOME			
Other comprehensive profit/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging investments arising during the period		**27,731**	–
Exchange differences on translation of foreign operations		**3,989**	(2,003)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**31,720**	(2,003)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**58,831**	36,049

	Note	Three months ended 31 March **2016** **(unaudited)** ***HK$'000***	2015 (unaudited) *HK$'000*
Profit attributable to:			
Owners of the parent		**27,111**	36,851
Non-controlling interests		**–**	1,201
		27,111	38,502
Total comprehensive income attributable to:			
Owners of the parent		**58,831**	34,964
Non-controlling interests		**–**	1,085
		58,831	36,049
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		**HK11.05 cents**	HK14.85 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March 2016 (unaudited) *HK$'000*	As at 31 December 2015 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**482,606**	471,000
Prepaid land lease payments		**73,706**	73,661
Goodwill		**4,279**	4,279
Other intangible asset		**482**	482
Investments in associates		**28,833**	20,661
Deferred tax assets		**80,620**	80,374
Total non-current assets		**670,526**	650,457
CURRENT ASSETS			
Inventories		**352,465**	334,310
Trade receivables	10	**764,042**	1,079,186
Bills receivable		**9,116**	7,190
Prepayments, deposits and other receivables		**204,587**	232,804
Tax recoverable		**2,824**	2,577
Derivative financial instruments		**16,598**	6,380
Cash and cash equivalents		**800,197**	889,892
Total current assets		**2,149,829**	2,552,339
CURRENT LIABILITIES			
Trade payables	11	**801,963**	1,068,587
Bills payable		**6,736**	9,508
Other payables and accruals		**527,903**	683,644
Tax payable		**95,153**	91,537
Derivative financial instruments		**12,388**	31,453
Provisions		**208,913**	214,886
Total current liabilities		**1,653,056**	2,099,615
NET CURRENT ASSETS		**496,773**	452,724
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,167,299**	1,103,181

	Note	**As at 31 March 2016 (unaudited)** *HK$'000*	As at 31 December 2015 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,167,299**	1,103,181
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,389**	92
Net assets		**1,164,910**	1,103,089
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**249,163**	249,163
Reserves		**915,747**	853,926
Total equity		**1,164,910**	1,103,089

Notes:

1. **BASIS OF PRESENTATION**

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

These condensed consolidated financial statements have been prepared under historical cost convention, except for the derivative financial instruments, which have been measured at fair value. These condensed consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2. **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Group has adopted the following revised standards for the first time for the current year's financial statements

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment and HKAS 38 Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets.

  The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the acquisition of investment properties during the year was not a business combination and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Rules Governing Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of audio-visual products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

4. FINANCE COSTS

	Three months ended 31 March	
	2016	2015
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on factored trade receivables	**528**	2,282

5. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (31 March 2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Three months ended 31 March	
	2016	2015
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**–**	1,587
Current – Elsewhere	**7,316**	6,643
Deferred	**2,296**	1,036
Total tax charge for the period	**9,612**	9,266

6. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$19,636,000 (31 March 2015: HK$13,162,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK$465,000 (31 March 2015: HK$173,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's prepaid land lease payments.

7. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2016 (31 March 2015: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of the basic and diluted earnings per share are based on:

	Three months ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**27,111**	36,851

	Number of shares	
	As at 31 March 2016	As at 31 March 2015
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	**245,317,787**	248,204,288
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue to no consideration on deemed vesting of all awarded shares outstanding during the period	**109,058**	–
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**245,426,845**	248,204,288

No adjustment has been made to the basic earnings per share amount presented for the period ended 31 March 2015 in respect of a dilution as the impact of the share options and awarded shares outstanding during the prior period had an anti-dilutive effect on the basic earnings per share amount presented.

9. SHARE CAPITAL

Shares

	As at 31 March 2016	As at 31 December 2015
	HK$'000	*HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
249,162,626 ordinary shares of HK$1.00 each	**249,163**	249,163

INDUSTRY OVERVIEW

In the first quarter of 2016, China's economic growth continued to slow down. Industrial production and investment acceleration experienced a continuous downturn; consumption and export are facing great challenges. According to the forecast by National Academy of Economic Strategy, GDP growth of the first quarter this year is expected to drop to 6.7%. Based on the report published by Deloitte, economy in Asian region continues to be unstable in the first quarter this year. Although the euro zone is on the track to recovery, its economic performance remains weak, resulting in a much lower recovery comparing to that of the last financial tsunami. Commerce Department of the United States announced earlier that new orders for manufactured goods shrank in February, reversing the upward trend in January, which was interpreted as the signal of further slowdown in the US economy in the first quarter, thereby bringing concerns and challenges to global economic development.

Despite the uncertainties in global economy and challenges such as deflation, the Group continued to uphold its prudent and pragmatic approach to deal with the ever-changing market conditions and prepare for the challenges. With the growing prevalence of wireless technology and smart home related technologies, the new audio products and media boxes market has been growing rapidly, along with the steady rise in market demand for its corresponding peripheral products. The Group captured business opportunities by implementing its "transformation and entrepreneurship" strategy, and successfully developed new media boxes and audio products with an aim to expand its customer base and market share through diversified product portfolio.

Business Overview

In view of the global economic downturn, the Group continued to pursue internal assimilation of project experiences and address structural and systemic operation issues to enhance production efficiency, whilst to prudently expand its sales network, and optimise customer portfolio and improve product mix. Since the fourth quarter of 2015, one of the Group's major customer has significantly dropped its order amount mainly because of its business restructuring. Meanwhile, the cooperation model between the Group and one of its customers has changed. As such, the customer provided the major materials for its orders. Although the business volume with this customer increased by a fairly substantial degree, the sales volume decreased significantly. In addition, traditional product business has experienced an overall decline, leading to great pressure on the Group's overall sales volume and profitability. For the three months ended 31 March 2016, the Group recorded a turnover of approximately HK$741.1 million, down 35.9% year-on-year. Gross profit decreased by 30.0% year-on-year to approximately HK$106.3 million, while gross profit margin increased from 13.1% in the same period last year to 14.3%. Operating profit fell by 24.9% year-on-year to approximately HK$37.3 million. Profit attributable to owners of the parent for the period under review declined by 26.4% year-on-year to approximately HK$27.1 million. Net profit margin was 3.7%.

Smart hardware business that the Group has put great efforts into is still at the start-up stage. Meanwhile, the audio and video industry has continued in its acceleration of transformation and upgrading, and as a consequence, the media boxes and new audio products business has become the Group's major business segment, with its importance increasing steadily. During the period, the Group further expands its client base and enhance research and development ("R&D") efforts in order to maintain its competitiveness.

Product Sales

To cope with the Group's business transformation, its products are classified into four categories: (i) Audio products which include HTS (without wireless technology), Micro & Mini speakers ("Micro & Mini"), wireless speakers, HTS with soundbars (with wireless technology) and headphones, (ii) Video products which include digital versatile disc ("DVD") players, Blu-ray disc ("BD") players, media boxes and ABS-s, (iii) Smart home products and (iv) Other businesses which are mainly components and R&D income. Tonly Electronics is actively developing its "Intelligence + Internet" business, in order to gradually move towards the goal of becoming a high-tech smart products supplier with competitive edges in the industry. For the three months ended 31 March 2016, revenue from the Group's audio product business declined by 15.1% year-on-year to approximately HK$ 363.2 million; revenue from video disc player business decreased by 50.3% year-on-year to approximately HK$332.6 million; revenue from smart home business amounted to approximately HK$5.3 million; revenue from other businesses decreased by 31.7% year-on-year to approximately HK$40.4 million.

The Group's revenue breakdown by product:

	The first three months ended 31 March 2016 (unaudited) ***(HK$'000)***	The first three months ended 31 March 2015 (unaudited) *(HK$'000)*	**Change**
Audio Products [(1)]	**363,201**	427,836	**–15.1%**
Video Products [(2)]	**332,558**	669,026	**–50.3%**
Smart Home Products	**5,300**	–	**N/A**
Other Businesses	**40,373**	59,150	**–31.7%**
Total	**741,432**	1,156,012	**–35.9%**

(1) Mainly include HTS and Micro & Mini, wireless speakers, soundbars, audio docks and headphones

(2) Mainly DVD players and BD player, OTT (over-the-top) Internet services and contents set top box (STB) and ABS-s

Audio Product Business

Benefitting from the rapid development of the Internet and wireless technology, there is strong market demand for smartphones and smart TVs and other new audio corresponding peripheral products. In response to market trends, the Group has actively strengthened its R&D investments in wireless technology, low power consumption, new technology, new materials and other aspects, to develop more new audio products. Meanwhile, the Group continued to increase its R&D efforts in electroacoustics technology to further develop single speaker and wireless speaker products to enhance the overall product competitiveness. During the period, one of the major customers underwent business restructuring which caused a significant drop in order amount of audio products, resulting a decline in segment revenue to HK$363.2 million, down 15.1% year-on-year. The revenue of new audio product increased 1.9% year-on-year to approximately HK$214.4 million.

Video Product Business

With the growing popularity of tablet PCs and smartphones applications, there is continued pressure on the market demand for traditional DVD players. By strengthening software development capabilities and improving product design, the Group was able to enhance the competitiveness of its media boxes products. Besides, the Group established cooperation relationships with foreign and domestic internet companies to develop its communication operator business in order to promote its media boxes product sales. During the period, the cooperation model between the Group and one of its customers has changed, pursuant to which the customer provided the major materials for its orders. Although the business volume with this customer increased by a fairly substantial degree, the sales volume decreased significantly. In order to strengthen media boxes business and improve technology level, the Group set up an overseas R&D team for set top box ("STB") business to develop more diversified products, with an aim to further expand customer base. It is expected that the business will gradually become an important revenue source for the Group. The sales revenue of ABS-s products reached approximately HK$91.0 million, up 252.6% year-on-year, as the Central Government gradually opened up the ABS-s retail market. The sales of the Group's ABS-s products is expected to gradually increase. The overall sales revenue of the Group's video product decreased by 50.3% year-on-year to HK$332.6 million during the period.

Smart Home Product Business

Smart home product business is still one of the business highlights of the Group. The Group launched three flagship product series: KiWi, KiWi Mini and KiWi Junior at the global consumer electronics tradeshow – Consumer Electronics Show ("CES") held in Las Vegas, United States, in early January, providing solutions for users in three major aspects of security, health and fitness, and energy management. The products provide a wide-ranging package of services encompassing smart sockets, smart lighting and smart switches, with full coverage of convenience management at home, in the office and on the road, which allows users to enjoy the ultimate smart life experience. For the three months ended 31 March 2016, revenue from the Group's smart home business amounted to HK$5.3 million only. However, with the popularity of smart home business and the growth of the Group, it is expected that the smart home business will gradually develop into an important revenue and profit source for the Group.

Other Businesses

The Group fully leverages on its competitive advantages in product R&D to provide diversified R&D services to its international leading consumer electronics brand customers. International brand customers have stringent requirements for product quality and specifications, for whom the Group helps to develop new products and functions. This allows the Group to generate additional sources of revenue, while upholding its R&D capabilities and competitiveness so that the team remains at speed with industry trends. Additionally, having satisfied the internal demand for plastic components in production, the Group also sells the surplus to external parties to generate further income. Revenue for other business was approximately HK$40.1 million, down by 31.7% year-on-year, of which R&D income was approximately HK$6.4 million, fell by 57.6% year-on-year.

Production and Supply Chain Management

In the face of China's labour shortage problems and rising wages, the Group is committed to enhancing its human resources system. During the period, the Group continued to increase the proportion of automated equipment and strengthened the stability of skilled workers to boost its production efficiency.

The Group has successfully implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production and logistics, in order to lay a solid foundation for Industry 4.0. Meanwhile, the Group has optimised its equipment maintenance and management system, to increase the actual production capacity of the Huizhou production base. Management believes that the acquisition of a strategic restructuring program will help expand the Group's sources of income. The Group consolidated the moulding and plastic parts manufacturing business of Guangdong Regency Optics-Electron Corp and combined the entire production process with its upstream operations to reduce production costs and achieve synergy. This allows the Group to realise vertical integration and development of the plastic moulding business. On top of this, the Group took advantages of its global supply chain and strengthened the operational capability of its overseas supply chain with the aim of providing more competitive products for customers. The Group has established HTS and DVD production lines in its factory in Indonesia which procured some of its raw materials locally and acquired new customers, thus boosting shipments substantially.

Research and Development (R&D) and Product Innovation

With the advancement of smart technology and electronic product innovations, it is a prerequisite for enterprises to possess professional product innovation capabilities to gain market acceptance. The Group is committed to product innovation, with substantial annual investment in R&D above that of the average industry level. During the period under review, the Group's R&D expenses were approximately HK$40.4 million, representing 5.4% of its total revenue. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an. Its R&D team is comprised of over 600 staff who mainly develop and introduce products to the market catering to customers' specific requirements, and carry out visionary research on fundamental product technologies. The Group has also amassed a design team with foreign experienced electroacoustic and innovation business professionals, and continued to increase its investment in the R&D of new audio product, OTT product and smart home product to meet market opportunities.

Future Plans and Outlook

Looking into 2016, the macro economy is still full of uncertainties. European economy still faces enormous challenges. Global economic slowdown, particularly weakening demands in emerging markets, will bring negative effects on the exports of European Union. According to the report issued by Renmin University of China, China's economy in 2016 will continue to slow down with estimated GDP growth of only 6.6%. Facing with a challenging operating environment, the Group adheres to focus on product innovation as its key strategy. It continues to strengthen its development capabilities in product design and core technologies to introduce more innovative products to meet market demands and consumer preferences.

In the future, the Group will put great efforts in developing intelligent hardware business and focus on three major businesses namely video products, OTT and media boxes, and smart home business. It will also enhance its electroaccoustic capabilities through improvements in production and supply chain distribution, and further integrate its plastic moulding business to develop greater injection capabilities with new resources and technology. It will create an integrated operating platform encompassing "Manufacturing, Quality, Supply Chain and Procurement" capabilities. The Group will also strengthen cooperation with strategic partners, continue the transformation and upgrading of products, broaden its customer base by optimising its portfolio of new products to create new business growth drivers. In spite of the introduction of innovative business plan by the Group, it takes time to develop. Smart home business is still in the start-up stage and business transformation will lead a decline of larger extent of the Group's turnover in the first half this year. The Group will continue to actively engage and explore new customers and pay more efforts to develop smart home and other Internet-related products.

The future market trend is a world of Internet and wireless technology. On one hand, demand for smart home products and tablets continued to rise, driving new audio peripheral products to become mainstream products in the market. On the other hand, the rapid development of Smart home market will bring to the Group golden opportunities for cross-industry cooperation. The Group will actively enhance product competitiveness and capability, especially innovations in electroacoustic capacity and related technologies. It will continue to invest in the smart home business, integrate R&D and supply chain, to provide quality products and services for branded enterprises in the industry and customers. At the same time, it will deepen cooperation with both domestic and overseas internet and telecommunications companies to promote the development of its media boxes business. Meanwhile, combined with automation equipment applications, the Group will make full use of its overseas supply chain advantages to achieve diversification of production and relieve upward pressure on production costs.

Although it is expected that the decline of the Group's results in the first half of this year would be similar to the first Quarter, as the Group is committed to developing the fast-growing smart home products and smart audio products and opening up overseas markets, the management will strive to recover the Group's turnover in the second half of 2016. To tie in with the future development needs of the Group, construction on the new plant next to the existing plant in Huizhou has commenced, and the first phrase is expected to be completed in the fourth quarter of this year, which will allow the Group to expand production capabilities and complement supply chain management to increase production efficiency. Overall, Tonly Electronics will expand through new businesses, develop new technologies and new products and enhance productivity, providing the highest quality products and services for brand enterprises and customers. In addition, the Group is constantly looking for opportunities to actively seek viable business development opportunities, combined with a vision for expanding business categories via its own advantages, to enhance long-term value of the Group, and maximise returns for shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investment held as at 31 March 2016, nor other material acquisitions and disposals of subsidiaries during the period.

Liquidity and Financial Resources

The Group's principal financial instruments comprise of bank loans, bills receivable, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balance of the Group as at 31 March 2016 amounted to approximately HK$800,197,000 of which 6.7% was maintained in Hong Kong dollars, 73.1% in US dollars and 20.2% in Renminbi.

There was no material change in available credit facilities when compared with the year ended 31 December 2015 and there was no asset held under finance lease as at 31 March 2016.

As at 31 March 2016, the Group's gearing ratio was 0% since the Group had cash and bank balances of approximately HK$800,197,000 and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 31 March 2016.

Capital Commitments and Contingent Liabilities

As at 31 March 2011, the Group had capital commitments of approximately 88,470,000 (31 December 2015: HK$32,620,000). The Group did not have any material contingent liabilities as at 31 March 2016.

Pending Litigation

The Group had not been involved in any material litigation for the period ended 31 March 2016.

Foreign Exchange Exposure

Due to its international presence and operation, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

The Group had approximately 5,700 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company.

PURCHASES, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the period ended 31 March 2016.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the three months ended 31 March 2016, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation from the Code Provisions F.1.1. The reasons for the deviation from the Code Provisions F.1.1 remain the same as those set out in the Company's 2015 annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2016, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Poon Chiu Kwok, Mr. Li Qi and Mr. Leong Yue Wing, and is chaired by Mr. Poon Chiu Kwok who possesses appropriate accounting and related financial management expertise. The primary duties of the audit committee are to assist the Board to fulfil the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company and to perform other duties and responsibilities as assigned by the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Group has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Specific enquires have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the three months ended 31 March 2016.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 19 April 2016

As at the date of this announcement, the Board comprises YU Guanghui, SONG Yonghong and REN Xuenong as executive directors, YUAN Bing (Chairman) as non-executive director and POON Chiu Kwok, LI Qi and LEONG Yue Wing as independent non-executive directors.