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 SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2016	2015	**Change**
	(HK$M)	*(HK$M)*	
Turnover	**1,754.5**	2,309.7	**-24.0%**
Gross profit	**259.4**	315.2	**-17.7%**
Operating profit	**85.3**	98.4	**-13.3%**
Profit for the period	**65.9**	87.8	**-24.9%**
Profit attributable to owners of the parent	**65.9**	85.4	**-22.8%**
Basic earnings per share *(HK cents)*	**26.91**	34.48	**-22.0%**

HIGHLIGHTS

For the six months ended 30 June 2016, the Group recorded turnover of approximately HK$1,754.5 million, down by 24.0% year-on-year. The sales revenue of audio products(1) reached approximately HK$1,001.9 million, representing a decrease of 0.5% year-on-year. The sales revenue of video products(2) reached approximately HK$657.6 million, representing a decrease of 45.2% year-on-year. The sales revenue of smart home products reached approximately HK$8.1 million.

Gross profit amounted to approximately HK$259.4 million, down by 17.7% year-on-year. Operating profit reached approximately HK$85.3 million, down by 13.3% year-on-year. Profit attributable to owners of the parent reached approximately HK$65.9 million, representing a decrease of 22.8% year-on-year. The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2016.

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

(2) Mainly include DVD players and BD players, OTT set top box (STB) and ABS-s receiver

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 six months ended 30 June 2016 with comparative figures for the said period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June		Three months ended 30 June	
		2016	2015	**2016**	2015
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	4	**1,754,525**	2,309,713	**1,013,093**	1,153,701
Cost of sales		**(1,495,083)**	(1,994,468)	**(859,922)**	(990,313)
Gross profit		**259,442**	315,245	**153,171**	163,388
Other income and gains, net		**38,968**	61,419	**28,876**	38,247
Selling and distribution costs		**(48,938)**	(90,107)	**(35,104)**	(40,586)
Administrative expenses		**(71,165)**	(86,778)	**(45,426)**	(50,954)
Research and development costs		**(93,051)**	(100,709)	**(52,677)**	(60,625)
Other operating expenses, net		**–**	(669)	**–**	(669)
		85,256	98,401	**48,840**	48,801
Finance costs	5	**(2,096)**	(3,517)	**(1,568)**	(1,235)
Share of profits of associates		**2,080**	–	**1,245**	–
PROFIT BEFORE TAX	6	**85,240**	94,884	**48,517**	47,566
Income tax (expense)/credit	7	**(19,302)**	(7,072)	**(9,690)**	2,194
PROFIT FOR THE PERIOD		**65,938**	87,812	**38,827**	49,760
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Cash flow hedges:					
Effective portion of changes in fair value of the hedging instruments arising during the period		**27,138**	13,568	**(6,762)**	13,568
Reclassification adjustments for gains included in the consolidated statement of profit or loss		**(6,169)**	–	**–**	–
		20,969	13,568	**(6,762)**	13,568
Exchange fluctuation reserve:					
Translation of foreign operations		**(13,677)**	918	**(17,666)**	2,921
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**7,292**	14,486	**(24,428)**	16,489
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**73,230**	102,298	**14,399**	66,249

	Note	Six months ended 30 June		Three months ended 30 June	
		2016	2015	**2016**	2015
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit/(loss) attributable to:					
Owners of the parent		**65,942**	85,386	**38,831**	48,535
Non-controlling interests		**(4)**	2,426	**(4)**	1,225
		65,938	87,812	**38,827**	49,760
Total comprehensive income/ (loss) attributable to:					
Owners of the parent		**73,234**	99,858	**14,403**	64,894
Non-controlling interests		**(4)**	2,440	**(4)**	1,355
		73,230	102,298	**14,399**	66,249
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic		**HK26.91 cents**	HK34.48 cents		
Diluted		**HK26.89 cents**	HK34.44 cents		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2016 (unaudited)** *HK$'000*	31 December 2015 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**465,761**	471,000
Prepaid land lease payments		**71,501**	73,661
Goodwill		**4,195**	4,279
Other intangible asset		**407**	482
Investments in associates		**30,078**	20,661
Deferred tax assets		**75,155**	80,374
Total non-current assets		**647,097**	650,457
CURRENT ASSETS			
Inventories		**342,864**	334,310
Trade receivables	10	**1,024,474**	1,079,186
Bills receivable		**870**	7,190
Prepayments, deposits and other receivables		**82,084**	232,804
Tax recoverable		**2,820**	2,577
Derivative financial instruments		**4,523**	6,380
Cash and cash equivalents		**715,290**	889,892
Total current assets		**2,172,925**	2,552,339
CURRENT LIABILITIES			
Trade payables	11	**861,715**	1,068,587
Bills payable		**1,042**	9,508
Other payables and accruals		**548,915**	683,644
Tax payable		**88,377**	91,537
Derivative financial instruments		**7,114**	31,453
Provisions		**200,304**	214,886
Total current liabilities		**1,707,467**	2,099,615
NET CURRENT ASSETS		**465,458**	452,724
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,112,555**	1,103,181

	Note	30 June 2016 (unaudited) HK$'000	31 December 2015 (audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,112,555**	1,103,181
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**5,354**	92
Net assets		**1,107,201**	1,103,089
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**249,163**	249,163
Reserves		**857,914**	853,926
		1,107,077	1,103,089
Non-controlling interests		**124**	–
Total equity		**1,107,201**	1,103,089

Notes:

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA and 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 unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These unaudited interim 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 new and revised HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements to HKFRSs 2012 – 2014 Cycle	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements and there has been no significant changes to the accounting policies in the unaudited interim condensed consolidated financial statements.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited interim condensed consolidated financial statements.

HKFRS 9	*Financial Instruments* [1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [3]
HKFRS 15	*Revenue from Contracts with Customers* [1]
HKFRS 16	*Leases* [2]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] No mandatory effective date is determined but is available for early adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. 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.

5. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on factored trade receivables	**2,096**	3,517

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Depreciation	**25,796**	28,800
Amortisation of other intangible assets	**64**	–
Amortisation of prepaid land lease payments	**714**	622
Employee share-based compensation benefits under the Award Scheme	**411**	612
Equity-settled share option expense	**2,016**	8,284

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 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.

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**–**	1,733
Current – Elsewhere		
Charge for the year	**10,285**	12,302
Underprovision/(overprovision) in prior years	**60**	(9,234)
Deferred	**8,957**	2,271
Total tax charge for the period	**19,302**	7,072

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

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

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

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**65,942**	85,386

	Number of shares Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**245,033,655**	247,615,332
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	**–**	346,087
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	**203,707**	–
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**245,237,362**	247,961,419

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2016 in respect of a dilution as the impact of the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share amount presented.

10. TRADE RECEIVABLES

The majority of the Group's sales in the PRC were mainly made on the cash-on-delivery basis or on commercial bills guaranteed by banks with credit periods ranging from 60 to 180 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 15 to 120 days. Sales to certain long term strategic customers were also made on open-account basis with average credit terms of no more than 180 days.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2016 (unaudited) *HK$'000*	31 December 2015 (audited) *HK$'000*
Current to 90 days	**820,701**	882,303
91 to 180 days	**120,878**	165,859
181 to 365 days	**54,323**	8,713
Over 365 days	**28,572**	22,311
	1,024,474	1,079,186

Certain subsidiaries of the Group have entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2016, trade receivables factored to banks aggregated to HK$200,679,000 (31 December 2015: HK$370,416,000), and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	30 June 2016 (unaudited) *HK$'000*	31 December 2015 (audited) *HK$'000*
Current to 90 days	**826,396**	933,030
91 to 180 days	**21,874**	118,598
181 to 365 days	**1,149**	5,468
Over 365 days	**12,296**	11,491
	861,715	1,068,587

The trade payables are non-interest-bearing and are normally settled with credit periods ranging from 15 to 120 days.

12. SHARE CAPITAL

Shares

	30 June 2016 (unaudited) *HK$'000*	31 December 2015 (audited) *HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
249,162,626 (31 December 2015: 249,162,626) ordinary shares of HK$1.00 each	**249,163**	249,163

INDUSTRY OVERVIEW

Despite the continuous downturn in the external economic environment, China's economy remained relatively stable in the first half of 2016. According to the National Bureau of Statistics of China (NBS), the GDP growth in the first and second quarters were both 6.7%, which sets a solid foundation for the future development of the economy. Statistics from the Chinese General Administration of Customs shows that China's total export of goods in the first half this year was RMB6.4 trillion, representing a 2.1% drop year-on-year. Weak trading volumes, Brexit and the US presidential election have brought several uncertainties. The Group, focusing on an export-oriented business, will continue to adopt prudent and pragmatic business strategies in response to the challenges aroused by political and environmental changes.

With the growing popularity of wireless technology and greater demands for smart home devices, the market for new audio products as well as its related products is growing rapidly. The Group has implemented an "innovative traction, wisdom transition" strategy in order to meet the market needs. Apart from the successful development of new audio products, the Group is also committed to expanding its smart home business, aimed at enriching the diversification of its product portfolio and expand market shares.

Business Overview

For the six months ended 30 June 2016, the Group recorded a turnover of approximately HK$1,754.5 million, down 24.0% year-on-year. Gross profit decreased by 17.7% year-on-year to approximately HK$259.4 million, while gross profit margin increased from 13.6% in the same period last year to 14.8%. Operating profit fell by 13.3% year-on-year to approximately HK$85.3 million. Profit attributable to owners of the parent for the period under review declined by 22.8% year-on-year to approximately HK$65.9 million. Net profit margin was 3.8%.

During the period under review, the Group recorded a fairly substantial drop in its business. This was mainly due to the amount of orders placed by one of the Group's major customers, which dropped significantly due to 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 from this customer increased by a fairly substantial degree, the sales volume decreased significantly.

Nevertheless, through improving productivity, prudently expanding customer's sales network, optimising customer base and extending product mix, the Group has successfully developed its new audio products and smart home business. Among that, soundbar and wireless speakers recorded remarkable sales in the European and American markets, enabling the Group to narrow the gap of its turnover decline to 12.2% in the second quarter. The Group will accelerate these new businesses by optimising the allocation of its resources.

Furthermore, although the Group's smart hardware business still remains at its initial stage, development of the smart home business can provide a broader range of business opportunities. At the same time, the Group will continue the transformation and upgrade of its audio and visual products, and further develop them into the Group's most important business sector. In order to maintain enterprise competitiveness, the Group will continue to deepen cooperation with its existing customers, enlarge its customer base and devote resources into its R&D.

Product Sales

To complement the Group's business transformation, its products have been reclassified 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 key 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 a competitive edge in the industry. For the six months ended 30 June 2016, revenue from the Group's audio product business declined by 0.5% year-on-year to approximately HK$1,001.9 million; revenue from video disc player business decreased by 45.2% year-on-year to approximately HK$657.6 million; revenue from the smart home business amounted to approximately HK$8.1 million; revenue from other businesses decreased by 15.7% year-on-year to approximately HK$86.9 million.

The Group's revenue breakdown by product:

	The first six months ended 30 June 2016 (unaudited) ***(HK$'000)***	The first six months ended 30 June 2015 (unaudited) *(HK$'000)*	**Change**
Audio Products[(1)]	**1,001,859**	1,007,048	-0.5%
Video Products[(2)]	**657,644**	1,199,610	-45.2%
Smart Home Products	**8,143**	–	N/A
Other Businesses	**86,879**	103,055	-15.7%
Total	**1,754,525**	2,309,713	-24.0%

(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, OTT set top box (STB) and ABS-s receiver

Audio Product Business

In view of the market's strong demand for smartphones, smart TVs and other corresponding new audio peripheral products, the Group has actively strengthened its R&D investments in wireless technology, low energy consumption, new technologies, new materials, structural units of product display and other functions, 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 other speaker products to enhance its overall product competitiveness. During the period, the Group enhanced its soundbar and smart audio businesses and provided product manufacturing and design for well-known brand customers, both domestically and overseas. This partly offset the adverse effects caused by the significant drop in orders of audio products from one of its major customer as a result of the customer's business restructuring. Whilst the segment revenue of the audio product business decreased by 0.5% year-on-year to HK$1,001.9 million, the decline in revenue compared to that of the first quarter of 2016 has narrowed, reflecting that the audio product business has been successful in developing new customers and new products, and that it will further grow in profitability.

Video Product Business

The traditional video disc player market has been affected by the upgrading of network bandwidth, increased popularity of tablet computers and smartphones to come under severe pressure. The DVD and Blu-ray players industry is continuing to decline, while industry consolidation has basically been completed. As a leading manufacturer of video disk players, the Group will take make use of its economies scale and technological advantages to ensure a reasonable profit margin in order to acquire more orders. The business can bring sustainable cash flow to the Group. However, in order to focus resources on business segments with higher potential development space, the Group will more stringently control resources of video disc product related R&D investments.

Given the current focus on the development of domestic OTT (over-the-top) carriers business, along with the gradually opening of retail broadcast satellite market by the State Administration of Radio, Film, and Television (SARFT), the Group will also broadcast satellite to expand its sales volume. Live satellite within the retail business continued to expand during the review period. The turnover of HK$184.2 million, a sharp increase of 350.4%, is a manifestation of the live satellite retail business development. On the other hand, in order to consolidate the streaming media player business and enhance its technical level, in recent years the Group's overseas set-top boxes team focused on the development of high-end set-top boxes in the European, as well as emerging markets, such as India and Africa. During the second quarter, the Group has set up a joint-venture with certain industry veterans in France to venture into the set-top box business in Europe. The joint-venture is currently at the initial set-up stage and its establishment represents an important step of the Group's development of the set-top box business in Europe. The Group strives to develop more diversified products and customer base in order to facilitate the business to gradually develop into an important revenue and profit source for the Group.

Smart Home Business

Smart home business is still one of the Group's business highlights. The Group will expand its business to the overseas markets such as America and others, in order to grow the smart home business into one of the Group's key sectors. The Group focuses on four categories including smart audio video, smart security, smart energy management, smart health and fitness. 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 smart solutions for users in three major aspects of security, health and fitness, and energy management. The Group is committed to develop all-rounded, easily-managed smart home products, providing a full coverage of convenience management at home, in the office and on the road, allowing users to enjoy the ultimate smart life experience. The company will continue the R&D investment in its smart home business while the management team looks to actively apply the use of super-efficient networking technology into its smart home projects in order to fully expand the business. For the six months ended 30 June 2016, revenue from the Group's smart home business amounted to approximately HK$8.1 million. Despite the business having just started, given the popularity of smart home product, it is expected that this 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 in pace with industry trends. Additionally, having satisfied the internal demand for production, the Group also sells the surplus of plastic components, loudspeaker, speakers and so on to external parties to generate additional income.

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 per capita 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 set a solid foundation for Industry 4.0. Meanwhile, the Group has optimised its equipment maintenance and management systems, to increase the actual production capacity of the Huizhou production base. Currently, extension of the production base has commenced and phase one of the project is expected to be completed and put into operation in the fourth quarter of this year. This will allow the Group to expand its product line and integrate its supply chain, supplementing supply chain management to increase production efficiency.

In terms of the vertical integration of the supply chain, the Group consolidated the moulding and plastic parts manufacturing and electroacoustic units of its subsidiary companies to achieve synergy and reduce production costs.

On top of this, the Group took advantage 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 shipment substantially in the region, consolidating market presence and laying solid foundation for expanding to southeastern markets.

Research and Development (R&D) and Product Innovation

The Group is committed to R&D of new products that cater to the market needs. During the period under review, the Group's R&D expenses were approximately HK$93.1 million, representing 5.3% of its total revenue, which is above industrial level. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an with more than 700 staff. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team will carry out visionary research and development on fundamental product technologies. The Group has also amassed a design team with experienced electroacoustic professionals from overseas, and continued to increase its investment in the R&D of OTT products to meet market growth opportunities. The Group will put its emphasis on investing in the smart home business this year. As some of the products have begun mass production already, it is expected that it can contribute to the growth in revenue for the Group in the future.

Future Plans and Outlook

In the second half of 2016, the world economy is expected to remain sluggish, while China is entering into a "new normal" economic stage of moderate economy growth. According to the "Economic and Financial Prospect Report for the Third Quarter of 2016" compiled by the Institute of International Finance of Bank of China, for the second half this year the global economy will still be full of uncertainties, and China's GDP growth rate is expected to maintain at 6.7%. Facing the challenging operational environment, the Group will continue to strengthen its product innovation and development capabilities in core technologies to optimise product mix and introduce diversified products that meet market demands and consumer preferences.

Looking into the future, the Group will put greater efforts in developing its smart hardware business. Further to the development of its three major businesses namely new audio products, OTT and media boxes, the smart home business will be one of the key development projects. The Group will continue to enhance its electroacoustic capabilities through improvements in production and supply chain distribution. It will also further integrate its plastic moulding business to develop greater injection capabilities with new resources and technologies and create an integrated operating platform encompassing "Manufacturing, Quality, Supply Chain and Procurement" capabilities. Meanwhile, the Group will strengthen cooperation with strategic partners, integrate R&D and supply chain and optimise its portfolio of new products to create new business growth drivers. Additionally, the Group will expand its investment in the smart home industry, and intensify its R&D efforts in various smart home products, to explore development opportunities in the North America and PRC markets.

With matured R&D capabilities in audio products such as earphones, the Group's shipment in the second half of 2016 is expected to rise significantly, contributing to the revenue growth for the audio product business in the future. Currently, soundbar products are becoming more and more popular among households as thinner TV screens equipped with soundbars will drive the upgrade of current flat-panel TV as users can improve the audio effects of their smart TVs through the purchase of a single product. Therefore, the Group will further strengthen cooperation with existing TV manufacturing customers while exploring new customers among global TV brands to increase market share and grasp the growth opportunities in the soundbar market. The Group will continue its development of smart speakers with voice recognition. Continued resources have also been put into the production of this type of speakers by international tech giants such as Amazon and Google, signifying its importance as an entry point into the smart home environment. The Group believes that the smart speaker with voice recognition will grow in attractiveness for an ever-expanding range of users.

Overall, Tonly Electronics will expand through new businesses, develop new technologies and new products and enhance productivity, providing the highest quality of products and services for brand enterprises and customers. As the new smart home products and audio products business matures, and the OTT and media box businesses open up the overseas markets, the management expects turnover will be gradually restored in the second half of 2016 and is confident in the future growth in its businesses. In addition, the Group will continually look for opportunities to actively seek viable business development prospects, combined with a vision for expanding business segments through 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 30 June 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 cash equivalents of the Group as at 30 June 2016 amounted to approximately HK$715.3 million of which 0.4% was maintained in Hong Kong dollars, 49.1% in US dollars, 48.1% in Renminbi and 2.4% in others.

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 30 June 2016.

As at 30 June 2016, the Group's gearing ratio was 0% since the Group held cash and cash equivalents of approximately HK$715.3 million and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 30 June 2016.

Capital Commitments and Contingent Liabilities

As at 30 June 2016, the Group had capital commitments of approximately HK$78.5 million (31 December 2015: HK$32.6 million) which were contracted but not provided for. The Group did not have any material contingent liabilities as at 30 June 2016.

Pending Litigation

The Group had not been involved in any material litigation as at 30 June 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 5,865 dynamic and talented employees. They were all dedicated to uphold product and service quality. 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

Pursuant to the rules of the Award Scheme adopted by the Company on 28 August 2014, the Company purchased from the market a total of 2,833,000 shares being the awarded shares during the period. The total amount paid to acquire such shares was approximately HK$10,339,000.

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 six months ended 30 June 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 (the "Listing Rules"), except for the deviation from the Code Provisions A.6.7 and 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.

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended to by them, Mr. POON Chiu Kwok and Mr. LI Qi, both of whom being independent non-executive director, were not present at the annual general meeting of the Company held on 22 April 2016.

However, Mr. YUAN Bing, a non-executive director and the chairman of the Board, Mr. REN Xuenong, an executive director and the chief financial officer of the Company, and Mr. LEONG Yue Wing, an independent non-executive director were present at the annual general meeting to ensure an effective communication with the shareholders at that meeting.

In addition, in view of the recent amendments of Appendix 27 of the Listing Rules regarding disclosures in relation to Environmental, Social and Governance ("ESG") matters, the Group plans to appoint an independent third party consultant as its adviser assisting the Group to prepare its first ESG report for the purpose of maintaining good corporate governance.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 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 fulfill 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 six months ended 30 June 2016.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 18 August 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.