



**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

**INTERIM REPORT | 2016**



# CONTENTS

- 2** Corporate Information
- 3** Interim Results
- 13** Management Discussion & Analysis
- 18** Other Information

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. YU Guanghui (Chief Executive Officer)  
Mr. SONG Yonghong (Chief Operating Officer)  
Mr. REN Xuenong (Chief Financial Officer)

### Non-Executive Directors

Mr. YUAN Bing (Chairman)  
Mr. LEONG Yue Wing (re-designated as independent  
non-executive director with effect from 15 January 2016)

### Independent Non-Executive Directors

Mr. POON Chiu Kwok  
Mr. LI Qi  
Mr. YOUNG Shiao Ming  
(resigned with effect from 15 January 2016)  
Mr. LEONG Yue Wing (re-designated as independent  
non-executive director with effect from 15 January 2016)

## COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong  
(resigned with effect from 19 August 2016)  
Mr. TSUI Kwok Ho, Solicitor, Hong Kong  
(appointed with effect from 19 August 2016)

## AUDITOR

Ernst & Young  
Certified Public Accountants  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

## LEGAL ADVISOR

Cheung Tong & Rosa Solicitors  
Room 501, 5/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

## PRINCIPAL REGISTRAR

Royal Bank of Canada Trust Company  
(Cayman) Limited  
4th Floor, Royal Bank House,  
24 Shedden Road, George Town  
Grand Cayman KY1-1110,  
Cayman Islands

## BRANCH REGISTRAR

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL OFFICE IN HONG KONG

13/F, TCL Tower  
8 Tai Chung Road  
Tsuen Wan, New Territories  
Hong Kong

## REGISTERED OFFICE

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

## INVESTOR AND MEDIA RELATIONS

Cornerstones Communications Ltd.  
19/F., Oriental Crystal Commercial Building,  
46 Lyndhurst Terrace, Central,  
Hong Kong

# INTERIM RESULTS

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

	Notes	Six months ended 30 June		Three months ended 30 June	
		2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
TURNOVER	4	<b>1,754,525</b>	2,309,713	<b>1,013,093</b>	1,153,701
Cost of sales		<b>(1,495,083)</b>	(1,994,468)	<b>(859,922)</b>	(990,313)
Gross profit		<b>259,442</b>	315,245	<b>153,171</b>	163,388
Other income and gains, net		<b>38,968</b>	61,419	<b>28,876</b>	38,247
Selling and distribution costs		<b>(48,938)</b>	(90,107)	<b>(35,104)</b>	(40,586)
Administrative expenses		<b>(71,165)</b>	(86,778)	<b>(45,426)</b>	(50,954)
Research and development costs		<b>(93,051)</b>	(100,709)	<b>(52,677)</b>	(60,625)
Other operating expenses, net		<b>-</b>	(669)	<b>-</b>	(669)
Finance costs	5	<b>85,256</b>	98,401	<b>48,840</b>	48,801
Share of profits of associates		<b>(2,096)</b>	(3,517)	<b>(1,568)</b>	(1,235)
		<b>2,080</b>	-	<b>1,245</b>	-
PROFIT BEFORE TAX	6	<b>85,240</b>	94,884	<b>48,517</b>	47,566
Income tax (expense)/credit	7	<b>(19,302)</b>	(7,072)	<b>(9,690)</b>	2,194
PROFIT FOR THE PERIOD		<b>65,938</b>	87,812	<b>38,827</b>	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		<b>27,138</b>	13,568	<b>(6,762)</b>	13,568
Reclassification adjustments for gains included in the consolidated statement of profit or loss		<b>(6,169)</b>	-	<b>-</b>	-
		<b>20,969</b>	13,568	<b>(6,762)</b>	13,568
Exchange fluctuation reserve:					
Translation of foreign operations		<b>(13,677)</b>	918	<b>(17,666)</b>	2,921
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<b>7,292</b>	14,486	<b>(24,428)</b>	16,489
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<b>73,230</b>	102,298	<b>14,399</b>	66,249
Profit/(loss) attributable to:					
Owners of the parent		<b>65,942</b>	85,386	<b>38,831</b>	48,535
Non-controlling interests		<b>(4)</b>	2,426	<b>(4)</b>	1,225
		<b>65,938</b>	87,812	<b>38,827</b>	49,760
Total comprehensive income/(loss) attributable to:					
Owners of the parent		<b>73,234</b>	99,858	<b>14,403</b>	64,894
Non-controlling interests		<b>(4)</b>	2,440	<b>(4)</b>	1,355
		<b>73,230</b>	102,298	<b>14,399</b>	66,249
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic		<b>HK26.91 cents</b>	HK34.48 cents		
Diluted		<b>HK26.89 cents</b>	HK34.44 cents		

# INTERIM RESULTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	<b>30 June 2016 (unaudited) HK\$'000</b>	31 December 2015 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>465,761</b>	471,000
Prepaid land lease payments		<b>71,501</b>	73,661
Goodwill		<b>4,195</b>	4,279
Other intangible asset		<b>407</b>	482
Investments in associates		<b>30,078</b>	20,661
Deferred tax assets		<b>75,155</b>	80,374
<b>Total non-current assets</b>		<b>647,097</b>	650,457
<b>CURRENT ASSETS</b>			
Inventories		<b>342,864</b>	334,310
Trade receivables	11	<b>1,024,474</b>	1,079,186
Bills receivable		<b>870</b>	7,190
Prepayments, deposits and other receivables		<b>82,084</b>	232,804
Tax recoverable		<b>2,820</b>	2,577
Derivative financial instruments		<b>4,523</b>	6,380
Cash and cash equivalents		<b>715,290</b>	889,892
<b>Total current assets</b>		<b>2,172,925</b>	2,552,339
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>861,715</b>	1,068,587
Bills payable		<b>1,042</b>	9,508
Other payables and accruals		<b>548,915</b>	683,644
Tax payable		<b>88,377</b>	91,537
Derivative financial instruments		<b>7,114</b>	31,453
Provisions		<b>200,304</b>	214,886
<b>Total current liabilities</b>		<b>1,707,467</b>	2,099,615
<b>NET CURRENT ASSETS</b>		<b>465,458</b>	452,724
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,112,555</b>	1,103,181
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>5,354</b>	92
<b>Net assets</b>		<b>1,107,201</b>	1,103,089
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	13	<b>249,163</b>	249,163
Reserves		<b>857,914</b>	853,926
<b>Non-controlling interests</b>		<b>1,107,077</b>	1,103,089
		<b>124</b>	–
<b>Total equity</b>		<b>1,107,201</b>	1,103,089

# INTERIM RESULTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent													
	Share capital	Share premium account	Share option reserve	Reserve funds	Capital reserve	Merger reserve	Hedging reserve	Exchange fluctuation reserve	Share held for	Awarded share reserve	Retained profits	Total	Non-controlling interests	Total equity
									the					
									Award Scheme					
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	248,968	498,309	5,739	62,450	(74,202)	(6,059)	(4,839)	53,962	(3,794)	-	286,933	1,067,467	27,859	1,095,326
Profit for the period	-	-	-	-	-	-	-	-	-	-	85,386	85,386	2,426	87,812
Other comprehensive income for the period:														
Cash flow hedges	-	-	-	-	-	-	13,568	-	-	-	-	13,568	-	13,568
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	904	-	-	-	904	14	918
Total comprehensive income for the period	-	-	-	-	-	-	13,568	904	-	-	85,386	99,858	2,440	102,298
Equity-settled share option arrangements	-	-	8,577	-	-	-	-	-	-	-	-	8,577	-	8,577
Issue of shares upon exercise of share options	195	1,224	(248)	-	-	-	-	-	-	-	-	1,171	-	1,171
Share options forfeited during the period	-	-	(389)	-	-	-	-	-	-	-	96	(293)	-	(293)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(15,309)	-	-	(15,309)	-	(15,309)
Vesting of shares under Award Scheme	-	-	-	-	-	-	-	-	443	26	-	469	-	469
Employee share-based compensation benefit under the Award Scheme	-	-	-	-	-	-	-	-	-	144	-	144	-	144
2014 final dividend paid	-	(62,242)	-	-	-	-	-	-	-	-	-	(62,242)	-	(62,242)
Transfer from retained profits	-	-	-	5,583	-	-	-	-	-	-	(5,583)	-	-	-
At 30 June 2015	249,163	437,291	13,679	68,033	(74,202)	(6,059)	8,729	54,866	(18,660)	170	366,832	1,099,842	30,299	1,130,141
At 1 January 2016	<b>249,163</b>	<b>437,632</b>	<b>16,234</b>	<b>69,737</b>	<b>(77,223)*</b>	<b>(6,059)</b>	<b>(23,538)</b>	<b>13,186</b>	<b>(22,960)</b>	<b>792</b>	<b>446,125</b>	<b>1,103,089</b>	<b>-</b>	<b>1,103,089</b>
Profit for the period	-	-	-	-	-	-	-	-	-	-	65,942	65,942	(4)	65,938
Other comprehensive income for the period:														
Cash flow hedges	-	-	-	-	-	-	20,969	-	-	-	-	20,969	-	20,969
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(13,677)	-	-	-	(13,677)	-	(13,677)
Total comprehensive income for the period	-	-	-	-	-	-	20,969	(13,677)	-	-	65,942	73,234	(4)	73,230
Contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	-	128	128
Equity-settled share option arrangements	-	-	2,041	-	-	-	-	-	-	-	-	2,041	-	2,041
Share options forfeited during the period	-	-	(349)	-	-	-	-	-	-	-	324	(25)	-	(25)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(10,339)	-	-	(10,339)	-	(10,339)
Vesting of shares under Award Scheme	-	-	-	-	-	-	-	-	392	(386)	-	6	-	6
Employee share-based compensation benefit under the Award Scheme	-	-	-	-	-	-	-	-	-	405	-	405	-	405
2015 final dividend paid	-	(61,334)	-	-	-	-	-	-	-	-	-	(61,334)	-	(61,334)
Transfer from retained profits	-	-	-	4,505	-	-	-	-	-	-	(4,505)	-	-	-
At 30 June 2016	<b>249,163</b>	<b>376,298*</b>	<b>17,926*</b>	<b>74,242*</b>	<b>(77,223)*</b>	<b>(6,059)*</b>	<b>(2,569)*</b>	<b>(491)*</b>	<b>(32,907)*</b>	<b>811*</b>	<b>507,886*</b>	<b>1,107,077</b>	<b>124</b>	<b>1,107,201</b>

\* These reserve accounts comprise the consolidated reserves of HK\$857,914,000 (31 December 2015: HK\$853,926,000) in the consolidated statements of financial position as at 30 June 2016.

# INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from/(used in) operations	<b>(21,298)</b>	72,774
Interest paid	<b>(2,096)</b>	(3,517)
Income taxes paid	<b>(13,748)</b>	(5,244)
<b>Net cash flows from/(used in) operating activities</b>	<b>(37,142)</b>	64,013
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>3,296</b>	31,859
Purchases of items of property, plant and equipment	<b>(29,844)</b>	(39,106)
Settlement of consideration payable in respect of acquisition of a subsidiary in the prior year	<b>(23,996)</b>	–
Investments in an associate	<b>(7,337)</b>	–
Prepayment of land lease payments	<b>–</b>	(41,403)
Proceeds from disposal of items of property, plant and equipment	<b>732</b>	373
<b>Net cash flows used in investing activities</b>	<b>(57,149)</b>	(48,277)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contribution by a non-controlling shareholder	<b>128</b>	–
Purchase of shares for the Award Scheme	<b>(10,339)</b>	(15,309)
Proceeds from issue of share upon exercise of share options	<b>–</b>	1,171
Dividends paid	<b>(61,334)</b>	(62,242)
<b>Net cash flows used in financing activities</b>	<b>(71,545)</b>	(76,380)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(165,836)</b>	(60,644)
Cash and cash equivalents at beginning of period	<b>889,892</b>	938,303
Effect of foreign exchange rate changes, net	<b>(8,766)</b>	(523)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>715,290</b>	877,136
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>715,290</b>	877,136



# INTERIM RESULTS

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)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements to HKFRSs 2012 – 2014 Cycle</i>	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 have been no significant changes to the accounting policies in the unaudited interim condensed consolidated financial statements.

# INTERIM RESULTS

### 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	<i>Financial Instruments</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
HKFRS 16	<i>Leases</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> 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

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

### 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<b>Six months ended 30 June</b>	
	<b>2016</b> <b>(unaudited)</b> <b>HK\$'000</b>	2015 (unaudited) HK\$'000
Depreciation	<b>25,796</b>	28,800
Amortisation of other intangible assets	<b>64</b>	–
Amortisation of prepaid land lease payments	<b>714</b>	622
Employee share-based compensation benefits under the Award Scheme	<b>411</b>	612
Equity-settled share option expense	<b>2,016</b>	8,284
(Gain)/loss on disposal of items of property, plant and equipment	<b>(107)</b>	669

# INTERIM RESULTS

## 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 (unaudited) HK\$'000	2015 (unaudited) 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 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	65,942	85,386
<b>Number of shares</b>		
Six months ended 30 June		
	2016 (unaudited)	2015 (unaudited)
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.

## INTERIM RESULTS

### 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group incurred HK\$29,844,000 (six months ended 30 June 2015: HK\$39,106,000) on the additions of items of property, plant and equipment.

### 11. TRADE RECEIVABLES

The majority of the Group's sales in the People's Republic of China (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:

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

### 12. TRADE PAYABLES

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

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

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

# INTERIM RESULTS

## 13. SHARE CAPITAL

### Shares

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

## 14. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

	<b>30 June 2016 (unaudited) HK\$'000</b>	31 December 2015 (audited) HK\$'000
Contracted, but not provided for:		
Buildings	<b>54,114</b>	–
Capital contributions payable to an associate	<b>24,365</b>	32,620
	<b>78,479</b>	32,620

# INTERIM RESULTS

## 15. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
The companies controlled by TCL Corporation:		
Sales of raw materials	58,563	–
Sales of finished goods	4,331	20,258
Purchases of raw materials	60,373	–
Subcontracting fee expense	8,853	21,366
Rental expense	5,146	4,181
Interest income	385	160
Other finance service fee	22	160
Call centre services fee	27	31
Technology support services	2,253	3,616
Administrative expense for importation and delivery of raw materials	–	1,140

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000	30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
An associate	6,258	13,636	61	–
TCL corporation and its affiliates	34,620	78,166	72,518	112,282

## 16. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements was approved and authorised for issue by the board of directors on 18 August 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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:

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

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

<sup>(2)</sup> 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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. Thereby developing 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 visual, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 audio products 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests and short positions of the directors and chief executives in shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

#### (A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivations (Note 5)	Total	Appropriate percentage of issued share capital of the Company (Note 6)
	Personal interests	Family/corporate interests	Other interests (Note 4)			
YU Guanghui	416,009 (Note 3)	26,358,607 (Note 1)	416,181 (Note 3)	561,456	27,752,253	11.14%
SONG Yonghong	318,941 (Note 3)	14,489,268 (Note 2)	319,072 (Note 3)	430,450	15,557,731	6.24%
REN Xuenong	238,404 (Note 3)	–	166,472 (Note 3)	224,582	629,458	0.25%
YUAN Bing	–	–	–	557,000	557,000	0.22%
LEONG Yue Wing	74,200	–	–	334,200	408,400	0.16%
POON Chiu Kwok	–	–	–	334,200	334,200	0.13%
LI Qi	–	–	–	334,200	334,200	0.13%

#### Notes:

- For the purpose of the SFO, as at 30 June 2016, other than the personal interests and the other interests as stated in the above table, Mr. YU Guanghui ("Mr. YU") was deemed to be interested in 26,358,607 shares, out of which (i) 14,489,268 shares were held by Run Fu Holdings Limited ("Run Fu") which was owned as to 44.44% by Huizhou Yinhuayu Investment Partnership Enterprise (Limited Partnership) in which Mr. YU and his wife respectively held 99% and 1% effective interest; and (ii) 11,869,339 shares were held by Vast Bright Investment Limited ("Vast Bright") which was owned 100% by Mr. YU.
- For the purpose of the SFO, as at 30 June 2016, other than the personal interests and the other interests as stated in the above table, Mr. SONG Yonghong was deemed to be interested in the 14,489,268 shares held by Run Fu, which was owned as to 55.56% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG Yonghong held 37% effective interest.
- As at 30 June 2016, these interests include awarded shares granted to the relevant directors under the Share Award Scheme of the Company on 29 April 2016, out of which approximately half has been vested on 31 May 2016, and the remaining half were scheduled to be vested on 31 May 2017. Further details of the Restricted Share Award Scheme and the awarded shares granted thereunder during the 6 months ended 30 June 2016 were set out in the paragraph headed "Restricted Share Award Scheme" under the section "Other Information" in this report.
- These other interests are awarded shares which remained unvested as at 30 June 2016.
- As at 30 June 2016, these equity derivatives were outstanding share options granted to the relevant directors under the Share Option Scheme on 30 September 2014. Further details of the Share Option Scheme and share options granted during the 6 months ended 30 June 2016 are set out in the paragraph headed "Share Option Scheme" under the section "Other Information" in this report.
- Such percentage was calculated based on the total number of Shares in which each of the directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares of the Company as at 30 June 2016, being 249,162,626 Shares.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

#### (B) Interests in associated corporation of the Company – Long Positions

##### 1. TCL Multimedia Technology Holdings Limited

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Multimedia (Note 7)
	Personal interests	Family interests	Other interests			
LEONG Yue Wing	494,672	–	–	–	494,672	0.03%

##### 2. TCL Communication Technology Holdings Limited

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Communication (Note 7)
	Personal interests	Family interests	Other interests			
YU Guanghui	740	–	–	–	740	0.0001%

Notes:

- Such percentage was calculated based on the total number of shares or underlying shares in which the relevant director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the relevant associated corporation of the Company as at 30 June 2016 based on the information available to the Company.

Save as disclosed above, as at 30 June 2016, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, the interests and short positions of the person (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

#### Long and short positions in shares of the Company

Shareholder	Capacity	Number of shares held or underlying shares Long Position (L)	Percentage of issued share capital of the Company (Note 2)
TCL Corporation	Interest of controlled corporation	125,234,170 (L) <sup>(Note 1)</sup>	50.26%
Run Fu	Beneficial owner	14,489,268 (L)	5.82%

#### Notes:

- For the purpose of SFO, TCL Corporation was deemed to be interested in the 125,234,170 Shares through its controlled corporation, TCL Industries (its direct wholly-owned subsidiary).
- Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares of the Company as at 30 June 2016, being 249,162,626 Shares

Save as disclosed above, as at 30 June 2016, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### SHARE OPTION SCHEME

The Company adopted a share option scheme on 17 April 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include the Company's directors, including independent non-executive directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The share option scheme became effective on 17 April 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares of the Company that could be issued upon exercise of (i) all outstanding share options and (ii) all share options that could be granted under the then available scheme mandate limit as at 30 June 2016 was 13,350,566 shares and 24,916,263 shares respectively, which represented about 5.4% and 10% of the issued share capital of the Company as at 30 June 2016 respectively.

## OTHER INFORMATION

The following share options were outstanding under the share option scheme adopted by the Company on 17 April 2014 during the period from 1 January 2016 to 30 June 2016:

Name or category of participant	Number of share options				At 30 June 2016	Date of grant of share options	Exercise price of share options (HK\$)	Exercise period of share options	Share price immediately before the date of grant of share options (HK\$)
	At 1 January 2016	Granted during the period	Exercised during the period	Lapsed during the period					
<b>Directors</b>									
<b>Executive directors</b>									
YU Guanghui	561,456	-	-	-	561,456	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
SONG Yonghong	430,450	-	-	-	430,450	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
REN Xuenong	224,582	-	-	-	224,582	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
<b>Non-executive directors</b>									
YUAN Bing	557,000	-	-	-	557,000	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
LEONG Yue Wing <sup>(Note 3)</sup>	334,200	-	-	-	334,200	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
<b>Independent non-executive directors</b>									
POON Chiu Kwok	334,200	-	-	-	334,200	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
LI Qi	334,200	-	-	-	334,200	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
YOUNG Shiao Ming <sup>(Note 4)</sup>	334,200	-	-	-	334,200	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
Sub-total	3,110,288	-	-	-	3,110,288				
Other employees and those who have contributed or may contribute to the Group	10,412,948	-	-	(172,670)	10,240,278	30 September 2014	6.020 <sup>(Note 1)</sup>	Note 2	6.45
Sub-total	10,412,948	-	-	(172,670)	10,240,278				
Total	13,523,236	-	-	(172,670)	13,350,566				

**Notes:**

- As a result of the completion of the rights issue on 21 November 2014, the exercise price of the share options was adjusted from HK\$6.706 to HK\$6.020.
- 50% of such share options are exercisable commencing from 1 May 2015 to 30 September 2017, and the remaining 50% are exercisable commencing from 1 May 2016 to 30 September 2017.
- Mr. LEONG Yue Wing was re-designated as independent non-executive director with effect from 15 January 2016.
- Mr. YOUNG Shiao Ming resigned with effect from 15 January 2016.

## OTHER INFORMATION

### RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "Award Scheme") on 28 August 2014. The Company has appointed BOCI-Prudential Trustee Limited as the trustee (the "Trustee") for the administration of the Award Scheme. To the knowledge and belief of the Company, the Trustee is an independent third party to the Company. No one, including the Trustee, may exercise any voting rights in respect of the restricted shares ("the Restricted Shares") held by the Trustee.

The grantees of the Restricted Shares are not entitled to any distribution the Company made in respect of the Restricted Shares. The Company may determine any vesting conditions for the Restricted Shares as it considers appropriate in its absolute discretion. Detail of the Scheme are set out in the Company's announcement dated 28 August 2014. Information in relation to the Restricted Shares granted but not vesting under the Scheme are as follows:

Name or category of participant	Number of awarded shares				At 30 June 2016	Date of grant	Vesting date	Fair value HK\$ per share on granted day
	At 1 January 2016	Granted during the period	Vested during the period	Cancelled/lapsed/deducted during the period (Note 1)				
<b>Executive directors</b>								
YU Guanghui	–	416,181	(416,009)	(172)	–	29-04-2016	31-05-2016	5.49
	–	416,181	–	–	416,181	29-04-2016	31-05-2017	5.49
	–	832,362	(416,009)	(172)	416,181			
SONG Yonghong	–	319,073	(318,941)	(132)	–	29-04-2016	31-05-2016	5.49
	–	319,072	–	–	319,072	29-04-2016	31-05-2017	5.49
	–	638,145	(318,941)	(132)	319,072			
REN Xuenong	–	166,473	(166,404)	(69)	–	29-04-2016	31-05-2016	5.49
	–	166,472	–	–	166,472	29-04-2016	31-05-2017	5.49
	–	332,945	(166,404)	(69)	166,472			
<b>Sub-total</b>	–	901,727	(901,354)	(373)	–	29-04-2016	31-05-2016	5.49
	–	901,725	–	–	901,725	29-04-2016	31-05-2017	5.49
	–	1,803,452	(901,354)	(373)	901,725			
<b>Other employees in aggregate</b>	444,286	–	(73,147)	(51,101)	320,038	21-05-2015	16-05-2016	5.49
	–	738,690	(738,379)	(311)	–	29-04-2016	31-05-2016	3.60
	–	738,673	–	–	738,673	29-04-2016	31-05-2017	3.60
	–	607,218	–	–	607,218	29-04-2016	31-05-2018	3.60
<b>Sub-total</b>	–	2,084,581	(811,526)	(51,412)	1,665,929			
<b>Total</b>	444,286	3,888,033	(1,712,880)	(51,785)	2,567,654			

As at 30 June 2016, 14,418,645 further Restricted Shares might be granted to the eligible participants of the Scheme, which represented about 5.8% of the issued share capital of the Company as at 30 June 2016.



## OTHER INFORMATION

### CHANGE OF PARTICULARS OF THE DIRECTORS

As at 23 August 2016, being the latest practicable date for ascertaining certain information in this interim report, certain particulars of the directors had been changed in the following respects since the published date of annual report 2015 of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Effective Date	Changes
12 July 2016	Mr. POON Chiu Kwok was appointed as the independent non-executive director of Greentown Service Group Co., Ltd. (stock code: 02869)
15 January 2016	Mr. LEONG Yue Wing was re-designated as an independent non-executive director of the Company
15 January 2016	Mr. YOUNG Shiao Ming resigned as an independent non-executive director of 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.

#### Code Provision A.6.7

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.

#### Environmental, Social and Governance Reporting

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 appointed 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.

## OTHER INFORMATION

### COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received a confirmation (the "Confirmation") from TCL Corporation and T.C.L. Industries (H.K.) Limited (the "Covenantors") signed by them on 18 August 2016 confirming that for the period from 1 January 2016 to 30 June 2016 and up to the date of signing the Confirmation by the relevant Covenantor, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 (the "Deed of Non-Competition") and, in particular, they and their respective Associates have not, directly or indirectly, carried on or been engaged or interested in the research and development, manufacturing and sales relating to AV Products (excluding TV sets), which is from time to time carried on or engaged or interested in by the Group.

The independent non-executive directors of the Company have reviewed the Confirmation and all of them are satisfied that the Deed of Non-Competition has been complied with during the period under review.

### 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 report, 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.*