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## 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 NINE MONTHS ENDED 30 SEPTEMBER 2016

### FINANCIAL HIGHLIGHTS

*Unaudited results for the nine months ended 30 September*

|   | 2016<br>(HK\$M) | 2015<br>(HK\$M) | Change |
|---|-----------------|-----------------|--------|
| Turnover                                    | 2,978.1         | 3,667.8         | -18.8% |
| Gross profit                                | 432.2           | 491.2           | -12.0% |
| Operating profit                            | 127.0           | 145.8           | -12.9% |
| Profit for the period                       | 101.2           | 131.9           | -23.3% |
| Profit attributable to owners of the parent | 101.2           | 128.3           | -21.1% |
| Basic earnings per share (HK cents)         | 41.48           | 51.96           | -20.2% |

### Highlights

For the nine months ended 30 September 2016, the Group recorded turnover of approximately HK\$2,978.1 million, down by 18.8% year-on-year. Gross profit amounted to approximately HK\$432.2 million, down by 12.0% year-on-year. Operating profit reached approximately HK\$127.0 million, down by 12.9% year-on-year. Profit attributable to owners of the parent reached approximately HK\$101.2 million, representing a decrease of 21.1% year-on-year. The directors of the Company do not recommend the payment of any dividend for the nine months ended 30 September 2016.

The overall sales revenue of audio products reached approximately HK\$1,918.3 million, representing an increase of 13.3% year-on-year. The sales revenue of video products reached approximately HK\$894.4 million, representing a decrease of 50.9% year-on-year. The sales revenue of smart products reached approximately HK\$12 million, representing an increase of 135.1% year-on-year. The sales revenue for other businesses reached approximately HK\$153.5 million, representing an increase of 2.1% year-on-year.

The board of directors (the “Board”) of Tonly Electronics Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2016 with comparative figures for the said period last year as follows and these condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s Audit Committee:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | Notes | Nine months ended<br>30 September |                                 | Three months ended<br>30 September |                                 |
|---|-------|-----------------------------------|---------------------------------|------------------------------------|---------------------------------|
|   |       | 2016<br>(unaudited)<br>HK\$'000   | 2015<br>(unaudited)<br>HK\$'000 | 2016<br>(unaudited)<br>HK\$'000    | 2015<br>(unaudited)<br>HK\$'000 |
| TURNOVER  | 4     | 2,978,145                         | 3,667,807                       | 1,223,620                          | 1,358,094                       |
| Cost of sales   |       | (2,545,923)                       | (3,176,605)                     | (1,050,840)                        | (1,182,137)                     |
| Gross profit  |       | 432,222                           | 491,202                         | 172,780                            | 175,957                         |
| Other income and gains  |       | 62,199                            | 89,256                          | 23,231                             | 27,837                          |
| Selling and distribution costs  |       | (86,100)                          | (136,229)                       | (37,162)                           | (46,122)                        |
| Administrative expenses   |       | (133,167)                         | (136,535)                       | (62,002)                           | (49,757)                        |
| Research and development costs  |       | (140,859)                         | (146,117)                       | (47,808)                           | (45,408)                        |
| Other operating expenses  |       | (8,151)                           | (11,201)                        | (8,151)                            | (10,532)                        |
|   |       | 126,144                           | 150,376                         | 40,888                             | 51,975                          |
| Finance costs   | 5     | (2,209)                           | (5,228)                         | (113)                              | (1,711)                         |
| Share of profits of associates  |       | 3,044                             | 627                             | 964                                | 627                             |
| PROFIT BEFORE TAX   |       | 126,979                           | 145,775                         | 41,739                             | 50,891                          |
| Income tax expense  | 6     | (25,779)                          | (13,870)                        | (6,477)                            | (6,798)                         |
| PROFIT FOR THE PERIOD   |       | <u>101,200</u>                    | <u>131,905</u>                  | <u>35,262</u>                      | <u>44,093</u>                   |
| OTHER COMPREHENSIVE INCOME/(LOSS)   |       |                                   |                                 |                                    |                                 |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: |       |                                   |                                 |                                    |                                 |
| Cash flow hedge:  |       |                                   |                                 |                                    |                                 |
| Effective portion of change in fair value of the hedging instrument arising during the period |       | 23,530                            | 9,582                           | 2,561                              | (3,986)                         |
| Exchange fluctuation reserve:   |       |                                   |                                 |                                    |                                 |
| Translation of foreign operations   |       | (18,951)                          | (26,734)                        | (5,274)                            | (27,652)                        |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD  |       | <u>4,579</u>                      | <u>(17,152)</u>                 | <u>(2,713)</u>                     | <u>(31,638)</u>                 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD   |       | <u>105,779</u>                    | <u>114,753</u>                  | <u>32,549</u>                      | <u>12,455</u>                   |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME (CONTINUED)**

|   | Nine months ended<br>30 September |                      | Three months ended<br>30 September |                 |
|---|-----------------------------------|----------------------|------------------------------------|-----------------|
|   | 2016                              | 2015                 | 2016                               | 2015            |
|   | (unaudited)                       | (unaudited)          | (unaudited)                        | (unaudited)     |
| <i>Note</i>   | <i>HK\$'000</i>                   | <i>HK\$'000</i>      | <i>HK\$'000</i>                    | <i>HK\$'000</i> |
| Profit attributable to:   |                                   |                      |                                    |                 |
| Owners of the parent  | 101,216                           | 128,326              | 35,274                             | 42,940          |
| Non-controlling interests   | (16)                              | 3,579                | (12)                               | 1,153           |
|   | <u>101,200</u>                    | <u>131,905</u>       | <u>35,262</u>                      | <u>44,093</u>   |
| Total comprehensive income attributable to:   |                                   |                      |                                    |                 |
| Owners of the parent  | 105,793                           | 112,346              | 32,559                             | 12,488          |
| Non-controlling interests   | (14)                              | 2,407                | (10)                               | (33)            |
|   | <u>105,779</u>                    | <u>114,753</u>       | <u>32,549</u>                      | <u>12,455</u>   |
| <br>EARNINGS PER SHARE<br>ATTRIBUTABLE TO ORDINARY<br>EQUITY HOLDERS OF THE<br>PARENT |                                   |                      |                                    |                 |
|   | 9                                 | (Restated)           |                                    |                 |
| Basic   | <u>HK41.48 cents</u>              | <u>HK51.96 cents</u> |                                    |                 |
| Diluted   | <u>HK41.44 cents</u>              | <u>HK51.90 cents</u> |                                    |                 |

Details of the dividends are disclosed in note 8.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | 30 September<br>2016<br>(unaudited)<br><i>HK\$'000</i> | 31 December<br>2015<br>(audited)<br><i>HK\$'000</i> |
|--|--|---|
| <b>NON-CURRENT ASSETS</b>                    |  |   |
| Property, plant and equipment                | 471,972  | 471,000   |
| Prepaid land lease payments                  | 70,620   | 73,661  |
| Goodwill                                     | 4,195  | 4,279   |
| Other intangible asset                       | 407  | 482   |
| Investments in associates                    | 25,802   | 20,661  |
| Deferred tax assets                          | 74,596   | 80,374  |
|  | 647,592  | 650,457   |
| <b>CURRENT ASSETS</b>                        |  |   |
| Inventories                                  | 492,570  | 334,310   |
| Trade receivables                            | 1,230,869  | 1,079,186   |
| Bills receivable                             | –  | 7,190   |
| Prepayments, deposits and other receivables  | 100,360  | 232,804   |
| Tax recoverable                              | 2,696  | 2,577   |
| Derivative financial instruments             | –  | 6,380   |
| Cash and cash equivalents                    | 749,625  | 889,892   |
|  | 2,576,120  | 2,552,339   |
| <b>CURRENT LIABILITIES</b>                   |  |   |
| Trade payables                               | 1,205,730  | 1,068,587   |
| Bills payable                                | 752  | 9,508   |
| Other payables and accruals                  | 574,307  | 683,644   |
| Tax payable                                  | 86,947   | 91,537  |
| Derivative financial instruments             | –  | 31,453  |
| Provisions                                   | 209,191  | 214,886   |
|  | 2,076,927  | 2,099,615   |
| <b>NET CURRENT ASSETS</b>                    | <b>499,193</b>   | <b>452,724</b>                                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> | <b>1,146,785</b>                                       | <b>1,103,181</b>                                    |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

|  |             | <b>30 September<br/>2016<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2015<br>(audited)<br>HK\$'000 |
|--|-------------|---|--|
| TOTAL ASSETS LESS CURRENT<br>LIABILITIES           | <i>Note</i> | <b>1,146,785</b>  | 1,103,181                                    |
| NON-CURRENT LIABILITIES                            |             |   |  |
| Deferred tax liabilities                           |             | <b>7,687</b>  | 92   |
| Net assets   |             | <b>1,139,098</b>  | 1,103,089                                    |
| EQUITY   |             |   |  |
| <b>Equity attributable to owners of the parent</b> |             |   |  |
| Share capital                                      | 10          | <b>249,163</b>  | 249,163                                      |
| Reserves   |             | <b>889,821</b>  | 853,926                                      |
| <b>Non-controlling interests</b>                   |             | <b>1,138,984</b>  | 1,103,089                                    |
|  |             | <b>114</b>  | –  |
| Total equity                                       |             | <b>1,139,098</b>  | 1,103,089                                    |

Notes:

## 1. BASIS OF PREPARATION

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

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

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current period’s condensed consolidated financial statements.

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

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

|  |   |
|--|---|
| HKFRS 9                                      | <i>Financial Instruments</i> <sup>1</sup>   |
| Amendments to HKFRS 10<br>and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and<br/>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 purpose, 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>Nine months ended</b> |             |
|----------------------------|--------------------------|-------------|
|                            | <b>30 September</b>      |             |
|                            | <b>2016</b>              | 2015        |
|                            | <b>(unaudited)</b>       | (unaudited) |
|                            | <b>HK\$'000</b>          | HK\$'000    |
| Interest on:               |                          |             |
| Factored trade receivables | <b>2,209</b>             | 5,228       |
| Total                      | <b>2,209</b>             | 5,228       |

## 6. INCOME TAX EXPENSE

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

|                                 | Nine months ended<br>30 September |             |
|---------------------------------|-----------------------------------|-------------|
|                                 | 2016                              | 2015        |
|                                 | (unaudited)                       | (unaudited) |
|                                 | HK\$'000                          | HK\$'000    |
| Current – Hong Kong             |                                   |             |
| Charge for the year             | –                                 | 509         |
| Current – Elsewhere             |                                   |             |
| Charge for the year             | 14,524                            | 19,554      |
| Overprovision in prior years    | –                                 | (9,548)     |
| Deferred                        | 11,255                            | 3,355       |
|                                 | <hr/>                             | <hr/>       |
| Total tax charge for the period | <b>25,779</b>                     | 13,870      |
|                                 | <hr/> <hr/>                       | <hr/> <hr/> |

## 7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$52,970,000 (nine months ended 30 September 2015: HK\$44,392,000) was charged to condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK\$1,063,000 (nine months ended 30 September 2015: HK\$994,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's prepaid land lease payments.

## 8. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2016 (nine months ended 30 September 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:

|   | Nine months ended<br>30 September |             |
|---|-----------------------------------|-------------|
|   | 2016                              | 2015        |
|   | (unaudited)                       | (unaudited) |
|   | HK\$'000                          | HK\$'000    |
| <b>Earnings</b>   |                                   |             |
| Profit attributable to ordinary equity holders of the parent,<br>used in the basic and diluted earnings per share calculation | 101,216                           | 128,326     |
|   | <hr/> <hr/>                       | <hr/> <hr/> |



|  | <b>Number of shares</b>  |             |
|--|--------------------------|-------------|
|  | <b>Nine months ended</b> |             |
|  | <b>30 September</b>      |             |
|  | <b>2016</b>              | 2015        |
|  | <b>(unaudited)</b>       | (unaudited) |
| <b>Shares</b>  |                          |             |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation   | <b>244,022,983</b>       | 246,929,123 |
| Effect of dilution – weighted average number of ordinary shares:   |                          |             |
| Assumed issue at no consideration on deemed exercise of all share options outstanding during the period                  | –                        | 346,087     |
| Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year                    | <b>203,707</b>           | –           |
|  | <hr/>                    | <hr/>       |
| Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation | <b>244,226,690</b>       | 247,275,210 |
|  | <hr/> <hr/>              | <hr/> <hr/> |

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 September 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 earning per share amount presented.

#### **10. SHARE CAPITAL COMPANY**

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

#### **11. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform to the current period's presentation.

## **INDUSTRY OVERVIEW**

Global economy remained uncertain in the third quarter of 2016, and the upcoming Brexit process together with US presidential election are bringing certain impact to the global political and economic arena. Nevertheless, China's economy managed to maintain a stable pace. According to the National Bureau of Statistics of China (NBS), the GDP growth in the third quarter was 6.7%, which sets a solid foundation for the future development of the economy, and it also creates a favorable environment for the Group's future business development.

With the growing popularity of wireless technology and greater demands for smart devices, the market for new audio products is growing rapidly. The Group has implemented an "innovative traction, smart transition" strategy and made innovations in its new audio business. Meanwhile, the Group has been proactively developing its smart business, aiming at expanding its client base through diversified product mix and increasing market shares.

### **Business Overview**

For the nine months ended 30 September 2016, the Group recorded a turnover of approximately HK\$2,978.1 million, down 18.8% year-on-year. Gross profit decreased by 12.0% year-on-year to approximately HK\$432.2 million, while gross profit margin increased from 13.4% in the same period last year to 14.5%. Operating profit fell by 12.9% year-on-year to approximately HK\$127.0 million. Profit attributable to owners of the parent for the period under review declined by 21.1% year-on-year to approximately HK\$101.2 million. Net profit margin was 3.4%.

During the period under review, the Group had further improved its overall business performances. Benefited from technological preparation and resource injection at early stage in particular, the revenue of the headphone products in the third quarter of 2016 amounted to approximately HK\$49.1 million, driving a satisfactory result for the audio products business. Meanwhile, video products business and smart products business had also recorded an improvement, which narrowed down the decline in the Group's turnover in the first three quarters to 18.8%, however the Group's traditional video products continued to decrease due to the overall shrinking video markets. As one of our customers, which had undergone business reform and partly led to the decline of the Group's revenue, did not have improvement in its operation, the Group made provisions for its business based on prudent and reasonable principles to avoid potential risks. The Group had successfully explored new clients and developed new businesses, but the contribution was limited in the period under review since the production efficiency had yet to reach the best condition and the new businesses were in developing stage.

The Group will optimise its resources to accelerate new businesses development and be committed to maximising the productivity. Through expanding sales network and enriching product mix, the Group is confident that the future business development will be more efficient, and will be able to bring better returns. Apart from the continuous upgrade of audio and video products, the Group has accelerated its development in smart products market. With Cloud technology and Internet of Things (IoT) platform, smart business will become one of the major sources of the Group's income. To maintain its corporate competitiveness, the Group will further deepen the cooperation relationship with existing customers, explore new customers and increase R&D.

## Product Sales

To complement the Group's business transformation, its products had been reclassified into four categories: (i) Audio products which include Home Theater System ("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 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 nine months ended 30 September 2016, revenue from the Group's audio product business increased by 13.3% year-on-year to approximately HK\$ 1,918.3 million; revenue from video disc player business decreased by 50.9% year-on-year to approximately HK\$894.4 million; revenue from the smart products approximately increased by 135.1% year-on-year to HK\$12.0 million; revenue from other businesses increased by 2.1% year-on-year to approximately HK\$153.5 million.

The Group's revenue breakdown by product:

|                               | <b>The first nine<br/>months ended<br/>30 September<br/>2016<br/>(unaudited)<br/>(HK\$'000)</b> | The first nine<br>months ended<br>30 September<br>2015<br>(unaudited)<br>(HK\$'000) | Change        |
|-------------------------------|---|---|---------------|
| Audio Products <sup>(1)</sup> | <b>1,918,253.5</b>  | 1,692,590.0   | 13.3%         |
| Video Products <sup>(2)</sup> | <b>894,372.5</b>  | 1,819,780.0   | -50.9%        |
| Smart Products                | <b>12,002.3</b>   | 5,104.2   | 135.1%        |
| Other Businesses              | <b>153,516.7</b>  | 150,332.8   | 2.1%          |
| <b>Total</b>                  | <b><u>2,978,145.0</u></b>   | <b><u>3,667,807.0</u></b>   | <b>-18.8%</b> |

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

<sup>(2)</sup> Mainly include DVD players and BD player, OTT (over-the-top) Internet Services and contents set top box (STB) and ABS-s

### **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 strengthened its R&D efforts in electroacoustics' technology to further develop single-speaker and other smart speaker products to enhance its overall product competitiveness. During the period under review, through the successful exploration of the Group for the new clients and businesses, The audio revenue increased by 13.3% year-on-year to HK\$1,918.3 million. However, the Group enhanced its efforts in developing the smart audio businesses, among which the headphone received considerable overseas orders in the third quarter, which had driven a significant increase in the revenue of audio products and further narrowed down the decline of the total business. Meanwhile, the sound bars business was well developed and new orders will be delivered at the end of this year or next year. It is a reflection of the achievements made by the Group's audio products in exploring new products, developing new products and enhancing 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, causing the DVD and Blu-ray players industry to further decline. As a leading manufacturer of video disk players, the Group will make use of its economies of scale and technological advantages to ensure a reasonable profit margin in order to acquire more orders and to increase its cash flow. However, in order to concentrate its resources on business segments with higher development potential, the Group will be conservative in the resources for video disc product related R&D investments.

Along with the gradual opening of retail ABS-s market by the State Administration of Radio, Film, and Television (SARFT), the Group will strive to expand the sales volume of ABS-s products. During the period under review, the revenue of the ABS-s business surged by 66.9% year-on-year to HK215.5 million, reflecting that the business has continued to expand. 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 Business**

Smart business is 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 develop the smart business into one of the Group's key sectors. The Group focuses on four categories including smart audio and video, smart security, smart network management, smart health and fitness. The Group devoted efforts to develop all-rounded, easily-managed smart products. By providing a full coverage of convenience management, it allows users to manage their smart products easily and conveniently at anytime and anywhere. The Group will continue the R&D investment in its smart business while the management team looks to actively apply the use of super-efficient networking technology into its smart projects in order to fully expand the business. The Group believes that the combination of IoT systems and smart platform will be a new highlight in the market.

For the nine months ended 30 September 2016, revenue from the Group's smart products business amounted to approximately HK\$12.0 million. The business will continue to develop, with the popularity of smart products, it is believed that this business will become an important revenue and profit source of the Group and it will continue to perform well in the fourth quarter of this year.

## **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 is committed to optimising its equipment maintenance and management systems. It 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 as well as increasing the actual production capacity of the Huizhou production base. Currently, the existing production base of the Company in Huizhou is undergoing expansion work and phase one of the project is expected to be completed and put into operation in the first quarter next 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\$140.9 million, representing 4.7% 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 staffs. 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 to meet market growth opportunities. The Group will continue to put its emphasis on investing in the smart 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**

According to the "Economic and Financial Prospect Report for the Fourth Quarter of 2016" compiled by the Institute of International Finance of Bank of China, the world's economy is expected to remain sluggish in the fourth quarter of 2016. Whilst China's economy, although faced with less downturn pressure, is still in the process of bottoming a foundation, especially the existence of uncertainties in the global financial markets as well as international political and economic arena. 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 to maintain its competitiveness.

Looking into the future, the Group will put greater efforts in developing its smart business, including new audio products, overseas media boxes as well as the smart business which is 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 and create an integrated operating platform. Meanwhile, the Group will strengthen cooperation with strategic partners and expand its investment in the smart business to develop various smart products and expand the scope of application.

With the audio products such as headphones, the Group's audio products shipment in the third quarter of 2016 rose significantly and is expected to be increased in the fourth quarter, contributing to the revenue growth for the audio products business in the future. Currently, soundbars 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, acquiring more orders, and grasp the growth opportunities in the soundbars market. The Group is confident that the soundbars products will contribute to the growth for the Group in the fourth quarter of this year and in 2017. The Group will increase its R&D efforts in developing smart speaker with voice recognition and believes that it will grow in attractiveness for an ever-expanding range of users.

As the new smart products and audio products business matures, along with the media box businesses open up the overseas markets, the management expects turnover will be gradually restored 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 to bring rewardable returns for shareholders.

## **FINANCIAL REVIEW**

### **Significant Investments, Acquisitions and Disposals**

There were no significant investment held as at 30 September 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, short-term deposits and other investment. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balance of the Group as at 30 September 2016 amounted to approximately HK\$749.6 million of which 0.6% was maintained in Hong Kong dollars, 81% in US dollars, 16.3% in Renminbi and 2.1% in other currencies.

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 September 2016.

As at 30 September 2016, the Group's gearing ratio was 0% since the Group had cash and bank balances of approximately HK\$749.6 million and without interest-bearing bank borrowings.

## **Pledge of Assets**

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

## **Capital Commitments and Contingent Liabilities**

As at 30 September 2016, the Group had capital commitments of approximately HK\$25.1 million (31 December 2015: HK\$59.1 million) which were contracted but not provided for. The Group did not have any material contingent liabilities as at 30 September 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 6,832 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company.

## **PURCHASES, SALES OR REDEMPTION OF SHARES**

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 3,298,000 shares being the awarded shares during the nine months ended 30 September 2016. The total amount paid to acquire such shares was approximately HK\$12,112,112.

## **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 nine months ended 30 September 2016, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation from the Code Provisions A.6.7 and F.1.1.



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, and Mr. LEONG Yue Wing, an independent non-executive director of the Company were present at the annual general meeting to ensure an effective communication with the shareholders at that meeting.

**Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day to-day knowledge of the Company's affairs.**

Ms. PANG Siu Yin ("Ms. PANG"), the company secretary of the Company until her resignation which took effect on 19 August 2016, and Mr. TSUI Kwok Ho ("Mr. TSUI"), the current company secretary of the Company appointed with effect from 19 August 2016, are not employees of the Company.

Ms. PANG was a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the company secretary of the Company since July 2013 until her resignation. Mr. TSUI is a solicitor of the Company's legal advisor, Cheung Tong & Rosa Solicitors.

The Company has also assigned Mr. REN Xuenong, an executive director of the Company, as the contact person with Ms. PANG (during her office) and Mr. TSUI. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. PANG (during her office) and Mr. TSUI through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors and the Group, Ms. PANG (during her office) and Mr. TSUI are both very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that Ms. PANG (during her office) and Mr. TSUI will get hold of the Group's development promptly without material delay and with their expertise and experience, the Board is confident that having Ms. PANG (during her office) and Mr. TSUI as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 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 throughout the period between 1 January 2016 and 30 September 2016.

On behalf of the Board  
**YUAN Bing**  
*Chairman*

Hong Kong, 20 October 2016

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