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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: 1249)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

Results for the year ended 31 December

	2016 *(HK$M)*	2015 *(HK$M)*	Change
Turnover	**4,265.7**	4,857.2	-12.2%
Gross profit	**599.1**	604.6	-0.9%
Operating profit	**192.8**	194.0	-0.6%
Profit for the year	**151.7**	167.6	-9.5%
Profit attributable to owners of the parent	**151.8**	166.5	-8.8%
Basic earnings per share *(HK cents)*	**62.12**	67.53	-8.0%
Full year dividend per share *(HK cents)*			
– Proposed final dividend per share *(HK cents)*	**25.0**	25.0	–

Highlights

For the year ended 31 December 2016, the Group recorded turnover of approximately HK$4,265.7 million, down by 12.2% year-on-year. Gross profit amounted to approximately HK$599.1 million, down by 0.9% year-on-year. Operating profit reached approximately HK$192.8 million, representing a decrease of 0.6% year-on-year. Profit attributable to owners of the parent reached approximately HK$151.8 million, representing a decrease of 8.8% year-on-year. The board of Directors proposed a final dividend of HK25.0 cents per share based on the number of shares as at 31 December 2016.

The overall sales revenue of audio products reached approximately HK$2,899.8 million, representing an increase of 27.3% year-on-year. The sales revenue of video products reached approximately HK$1,159.8 million, representing a decrease of 50.3% year-on-year. The sales revenue of ABS-s products reached approximately HK$267.2 million, representing an increase of 35.7% year-on-year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Twelve months ended 31 December		Three months ended 31 December	
		2016	2015	**2016**	2015
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	4	**4,265,667**	4,857,228	**1,287,522**	1,189,421
Cost of sales		**(3,666,526)**	(4,252,593)	**(1,120,603)**	(1,075,988)
Gross profit		**599,141**	604,635	**166,919**	113,433
Other income and gains, net		**106,316**	131,248	**44,117**	41,992
Selling and distribution costs		**(131,286)**	(156,976)	**(45,186)**	(20,747)
Administrative expenses		**(177,505)**	(190,303)	**(44,338)**	(53,768)
Research and development costs		**(197,962)**	(188,264)	**(57,103)**	(42,147)
Other operating expenses, net		**(5,893)**	(6,320)	**2,258**	4,881
		192,811	194,020	**66,667**	43,644
Finance costs	5	**(4,534)**	(6,553)	**(2,325)**	(1,325)
Share of profits and losses of associates		**4,422**	(1,353)	**1,378**	(1,980)
PROFIT BEFORE TAX	6	**192,699**	186,114	**65,720**	40,339
Income tax expense	7	**(41,008)**	(18,505)	**(15,229)**	(4,635)
PROFIT FOR THE YEAR/PERIOD		**151,691**	167,609	**50,491**	35,704
OTHER COMPREHENSIVE 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 hedging instruments arising during the year/period		**22,231**	(23,538)	**(1,299)**	(33,120)
Reclassification adjustments for gains/(losses) included in the consolidated statement of profit or loss		**(1,598)**	4,839	**(1,598)**	4,839
		20,633	(18,699)	**(2,897)**	(28,281)
Exchange fluctuation reserve:					
Translation of foreign operations		**(49,303)**	(42,416)	**(30,352)**	(15,682)
Release upon disposal of a subsidiary		**–**	556	**–**	556
		(49,303)	(41,860)	**(30,352)**	(15,126)

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

	Note	Twelve months ended 31 December		Three months ended 31 December	
		2016	2015	**2016**	2015
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
OTHER COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		**(28,670)**	(60,559)	**(33,249)**	(43,407)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR/PERIOD		**123,021**	107,050	**17,242**	(7,703)
Profit/(loss) attributable to:					
Owners of the parent		**151,775**	166,479	**50,559**	38,153
Non-controlling interests		**(84)**	1,130	**(68)**	(2,449)
		151,691	167,609	**50,491**	35,704
Total comprehensive income/(loss) attributable to:					
Owners of the parent		**123,114**	107,004	**17,321**	(5,342)
Non-controlling interests		**(93)**	46	**(79)**	(2,361)
		123,021	107,050	**17,242**	(7,703)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic		**HK62.12 cents**	HK67.53 cents		
Diluted		**HK61.38 cents**	HK67.35 cents		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2016** **HK$'000**	31 December 2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**474,015**	471,000
Prepaid land lease payments		**67,655**	73,661
Goodwill		**4,009**	4,279
Other intangible asset		**303**	482
Investments in associates		**20,008**	20,661
Other receivables		**5,603**	–
Deferred tax assets		**73,933**	80,374
Total non-current assets		**645,526**	650,457
CURRENT ASSETS			
Inventories		**395,699**	334,310
Trade receivables	10	**1,253,314**	1,079,186
Bills receivable		**4,683**	7,190
Prepayments, deposits and other receivables		**135,941**	232,804
Tax recoverable		**2,506**	2,577
Derivative financial instruments		**–**	6,380
Cash and cash equivalents		**730,495**	889,892
Total current assets		**2,522,638**	2,552,339
CURRENT LIABILITIES			
Trade payables	11	**1,064,311**	1,068,587
Bills payable		**227**	9,508
Other payables and accruals		**622,049**	683,644
Tax payable		**89,367**	91,537
Derivative financial instruments		**2,907**	31,453
Provision		**216,787**	214,886
Total current liabilities		**1,995,648**	2,099,615
NET CURRENT ASSETS		**526,990**	452,724
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,172,516**	1,103,181

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**31 December 2016** ***HK$'000***	31 December 2015 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,172,516**	1,103,181
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**7,820**	92
Net assets		**1,164,696**	1,103,089
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**249,163**	249,163
Reserves		**915,368**	853,926
		1,164,531	1,103,089
Non-controlling interests		**165**	–
Total equity		**1,164,696**	1,103,089

Notes:

1. **BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has assessed and adopted, to the extent that is applicable to the Group, the following new and revised HKFRSs for the first time for the current year's financial statements.

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

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

   (i) the materiality requirements in HKAS 1;

   (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

   (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any disposal group held for sale during the year.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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

	2016	2015
	HK$'000	*HK$'000*
Interest on factored trade receivables	**4,534**	6,553

6. PROFIT BEFORE TAX

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

	2016	2015
	HK$'000	*HK$'000*
Cost of inventories sold*	**3,651,767**	4,213,568
Cost of services rendered*	**14,759**	39,025
Depreciation	**74,376**	58,207
Amortisation of other intangible asset	**162**	33
Research and development costs		
– current year expenditure	**197,962**	188,264
Amortisation of prepaid land lease payments	**1,403**	1,358
Minimum lease payments under operating leases	**26,991**	33,937
Auditor's remuneration	**1,950**	1,830
Employee benefit expense		
(including directors' remuneration):		
Wages and salaries	**518,829**	410,252
Equity-settled share option expense	**1,624**	10,743
Employee share-based compensation benefits		
under the Award Scheme	**11,134**	1,232
Defined contribution expense	**38,306**	22,414
	569,893	444,641
Product warranty provision:		
Additional provision	**63,200**	60,419
Reversal of unutilised provision	**(33,512)**	(18,473)
	29,688	41,946
Loss on sale of scrap materials**	**9,136**	6,181
Loss on disposal of items of		
property, plant and equipment**	**742**	939
Loss on deemed partial disposal of an associate**	**–**	758
Reversal of impairment of trade receivables, net**	**(3,985)**	(1,558)

* These amounts are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

** These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

7. INCOME TAX

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

	2016	2015
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**1,613**	7,129
Overprovision in prior years	**(208)**	–
Current – Elsewhere		
Charge for the year	**30,445**	29,891
Overprovision in prior years	**–**	(10,435)
Deferred	**9,158**	(8,080)
Total tax charge for the year	**41,008**	18,505

8. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Proposed final dividend – HK25.0 cents (2015: HK25.0 cents) per ordinary share	**62,291**	62,291

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**151,775**	166,479

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue less shares held for the Award Scheme during the year used in the basic earnings per share calculation	**244,322,509**	246,534,446
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	**–**	344,980
Assumed issue at no consideration on deemed vesting of all awarded shares outstanding during the year	**2,934,006**	299,184
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**247,256,515**	247,178,610

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding during the year had an anti-dilutive effect on the basic earnings per share amount presented.

10. TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Due from third parties	**1,211,354**	1,012,295
Provision for impairment	**(5,222)**	(9,666)
	1,206,132	1,002,629
Due from companies controlled by TCL Corporation (note)	**47,182**	76,557
	1,253,314	1,079,186

Note: The amounts are unsecured, non-interest-bearing and repayable within one year.

Sales to third party customers

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

Sales to related parties

Sales to related parties were made on the open-account basis.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables from third parties 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:

	2016	2015
	HK$'000	*HK$'000*
Current to 90 days	**950,355**	882,303
91 to 180 days	**204,564**	165,859
181 to 365 days	**64,112**	8,713
Over 365 days	**34,283**	22,311
	1,253,314	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 31 December 2016, trade receivables factored to banks aggregated HK$293,513,000 (2015: HK$370,416,000), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

11. TRADE PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Due to third parties	**1,003,725**	986,683
Due to companies controlled by TCL Corporation	**60,586**	81,904
	1,064,311	1,068,587

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

	2016	2015
	HK$'000	*HK$'000*
Current to 90 days	**1,001,490**	933,030
91 to 180 days	**49,402**	118,598
181 to 365 days	**2,297**	5,468
Over 365 days	**11,122**	11,491
	1,064,311	1,068,587

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

12. SHARE CAPITAL

Shares

	2016	2015
	HK$'000	*HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
249,162,626 (2015: 249,162,626) shares of HK$1.00 each	**249,163**	249,163

INDUSTRY OVERVIEW

In 2016, the global economy recovered gradually in a tough environment. China's Gross Domestic Product grew by 6.7% last year while Renminbi was weaker against the US dollar and depreciated by 6.2% year-on-year. According to the figures of General Administration of Customs of the P.R.C, the total number of exports amounted to RMB13,845.5 billion, down by 1.9% year-on-year. The International Monetary Fund forecasts an accelerate of global economic activities in 2017 and shows a bright economic prospect, along with the further depreciation of Renminbi will benefit the Group's overall business development. However, due to the economic policies of Donald Trump and the uncertainties in global political situation, the Group, as an export-oriented company, will continue to monitor the potential risks closely and to uphold its prudent and pragmatic approach to deal with the ever-changing market conditions and prepare for the challenges.

With the growing popularity of wireless technology and greater demands for smart products, the new audio and smart product related market is growing rapidly and thus boosting the Group's business. With the insertion of smart voice module into audio products, it enables mutual interaction between users and smart products in a more natural way, in addition to the advance of global big data and artificial intelligence technology, smart voice audio products will be able to embrace a greater market opportunities. According to an estimation by Forrester, Amazon sold more than 6 million Echo equipment, a smart speaker with Alexa interactive voice function, by the end of 2016. In October 2016, Google launched Google Home, a smart voice-activated speaker powered by the Google Assistant, setting up a solid foundation in the voice interaction field. Moreover, according to a research report conducted by Strategy Analytics, the smart home penetration rate would reach 12% in 2019 and the global market scale would exceed USD150 billion, benefiting the Group's smart products business as a whole. The Group has been devoted to developing diversified smart products and continuously implementing an "innovative traction, smart transition" strategy. The Group has not only been keeping innovations in its new audio business, but also proactively developing its smart business, aiming at expanding its client base and increasing market shares through diversified product mix.

BUSINESS OVERVIEW

For the year ended 31 December 2016 ("the year under review"), the Group recorded a turnover of approximately HK$4,265.7 million, down by 12.2% year-on-year. Gross profit decreased by 0.9% year-on-year to approximately HK$599.1 million, while gross profit margin increased from 12.5% in the same period last year to 14.0%. Operating profit decreased by 0.6% year-on-year to approximately HK$192.8 million. Profit attributable to owners of the parent for the period under review declined by 8.8% year-on-year to approximately HK$151.8 million. Net profit margin was 3.6%.

During the year under review, the Group strongly committed to developing audio products and smart products businesses, of which soundbars and headphones received considerable amount of orders in overseas markets. Meanwhile, the Group started to work with several well-known internet companies in the second half of 2016 in developing the smart speaker with voice recognition, in an effort to maintain substantial growth in the audio products business in the future. Video products and smart products in the overseas markets also recorded solid growth. Due to business restructuring of one of the Group's major customers, its orders decreased significantly since the fourth quarter of 2015 and led to a decline of the Group's turnover in the first half of 2016. Benefiting from the expansion of new clients and new businesses, the decline had successfully been narrowed down in successive quarters and the turnover recorded a 8.2% increase year-on-year in the fourth quarter during the year under review. However, the profit contributed from new products has not been maximised as the production efficiency had yet to reach the optimal level and the new businesses were still in its developing stage.

Apart from that, the Group continued to develop the smart product business. By paying close attention to the dynamics of IoT industry, and continuously increasing investment in integrating research and development (R&D) and supply chain, the Group would further deepen its cooperation with partners from all aspects of the industry chain to develop the new IoT market with great potential, orienting it to be one of the business directions of the Group. The Group would further develop its "Intelligence + Internet" business and gradually move towards the goal of becoming a high-tech smart products supplier with a competitive edge in the industry.

Product Sales

To complement the Group's business transformation, its products had 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 products which include smart audio, smart security and smart gateway etc.; and (iv) Other businesses which are mainly components and R&D income. For the year ended 31 December 2016, turnover from the Group's audio product business increased by 27.3% year-on-year to approximately HK$2,899.8 million; turnover from video product business decreased by 50.3% year-on-year to approximately HK$1,159.8 million; turnover from the smart product business increased by 0.1% year-on-year to approximately HK$17.0 million; turnover from other businesses decreased by 17.9% year-on-year to approximately HK$189.1 million.

The Group's turnover breakdown by product:

	2016	2015	Change
	HK$'000	*HK$'000*	
Audio Products[1]	**2,899,803**	2,277,662	27.3%
Video Products[2]	**1,159,791**	2,332,421	–50.3%
Smart Products	**17,001**	16,984	0.1%
Other Businesses	**189,072**	230,161	–17.9%
Total	**4,265,667**	4,857,228	–12.2%

Notes:

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

(2) Mainly DVD players, BD player, contents 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 strengthen its R&D efforts in electroacoustics' technology to further develop single-speaker and other smart speaker products to optimize its product mix and enhance its overall product competitiveness. With the successful expansion of new clients and business, the turnover from audio product business further increased by 27.3% year-on-year to HK$2,899.8 million, accounting for 68.0% of the total turnover.

The Group has been committed to developing smart audio products. During the year under review, the Group had successfully launched audio products with voice interactive functions to act as living assistant and central controlling platform, demonstrating the Group's capability in innovative technologies, design and R&D of smart IoT products and its ability to utilize the advantages of smart technologies to improve users' living standard. Regarding the new audio products, soundbars business had achieved a significant progress and the products were being shipped to overseas clients. Meanwhile, the headphones continued to receive large amount of orders from overseas markets and had brought remarkable increase in turnover for the audio product segment. As headphone business went through its initial stage, there would be an even larger development potential for the business. The improvement in the Group's audio product business was a reflection of the achievements made by the Group in exploring new products and developing new products and enhancing profitability.

Video Product Business

The traditional video disc player market has continuously received severe pressure, causing the DVD and Blu-ray players industry to further decline. Consequently, the Group's turnover of video product business dropped by 50.3% year-on-year to HK$1,159.8 million. In spite of the unfavorable market conditions, the Group leveraged on its economies scale and technological advantages as a leading manufacturer of video disk players to ensure a reasonable profit margin and continue to increase its cash flow. However, in order to focus resources on business segments with higher potentials, the Group would control resources for video disc product related R&D investments.

Along with the gradually opening of retail ABS-s market by the State Administration of Radio, Film, and Television (SARFT), the turnover of ABS-s business rose by 35.7% year-on-year to HK$267.2 million during the year under review, reflecting the achievements made in the business development during the course. In order to consolidate the streaming media player business and enhance its technical level, the Group's overseas set-top boxes team focused on the development of high-end set-top boxes in the European in recent years, 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 turnover and profit source for the Group.

Smart Business

Smart business is one of the Group's future business highlights. Through applying smart audio as well as efficient networking technologies into smart projects, the Group can provide full range smart products and to become a focus under spotlight. The Group focused on four categories including smart audio and video, smart security, smart health and fitness as well as smart internet management. Apart from various types of smart audio and video products, the Group also launched a diversity of products include smart door locks and smart gateway, smart switches and related products during the year under review, and extended target markets to overseas countries such as the United States of America.

As a leading supplier of high-tech smart products, the Group has successfully expanded its business to the IoT field and conducted cross-border cooperation. The Group strived to join hands with partners from all aspects in the industry chain to explore cooperation opportunities in the IoT market. During the year under review, the Group has successfully launched several projects with business partners such as "CSRmesh™ Smart Home Solutions" and "Safe Home Smart Community 3.0", setting a solid foundation for the long-term development of smart business.

For the year ended 31 December 2016, turnover from the Group's smart products amounted to approximately HK$17.0 million. Although smart business is still under developing stage, we believe the combination of smart products and IoT platform could generate an even greater market potential. With the increasing popularity of smart life, the business will continue to develop and become one of the Group's important sources of turnover and profits.

Other Businesses

The Group fully leveraged 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 helped develop new products and functions. This allowed the Group to generate additional sources of turnover, while upholding its R&D capabilities and competitiveness to ensure the team to remain in pace with industry trends. Additionally, having satisfied the internal demand for production, the Group also sold 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 committed to enhancing its human resources system. During the year under review, 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 also committed to optimizing its equipment maintenance and management systems. It had successfully implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production and logistics, setting a solid foundation for Industry 4.0 as well as increasing the actual production capacity of the Huizhou production base. Currently, the Group had completed phase one of Huizhou production base extension and had put it into operation in the first quarter of 2017. This would allow the Group to centralize the production and to expand its product line and integrate its supply chain management to increase production efficiency.

Research and Development (R&D) and Product Innovation

The Group has been committed to developing new products. During the year under review, the Group's R&D expenses were approximately HK$198.0 million, representing 4.6% of its total turnover. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an with more than 600 staffs. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team carries out visionary research and development on fundamental product technologies. The Group had 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 stress on the R&D of smart products. Currently, the investment in smart product accounts for the largest part of R&D costs. The Group had successfully launched a wide range of smart products in the market during the year under review, starting to contribute to the Group's overall turnover and the segment is expected to bring a greater turnover in the future.

Future Plans and Outlook

According to the "Economic and Financial Prospect Report for 2017" compiled by the Institute of International Finance of Bank of China, the world's economy is expected to go slowly on the track of recovery. However, with even more complicated domestic and international environment, the economic downturn pressure still exists in China and the uncertainties in the global political and economic arena can constitute hidden threats. The Group will continue to uphold the steady operation strategy. By leveraging on the product innovation and R&D capabilities, the Group will continue to strengthen its skills, optimize product mix as well as introducing diversified products to meet market demands and consumer preferences, in order to maintain the market competitiveness.

In the third quarter of this year, shipment of the Group's headphones rose significantly and the rising trend had been kept in the fourth quarter. It is expected that the headphones can further boost the turnover for the audio product business in 2017. As the soundbars, which can be equipped with thinner TV screens to provide users with spectacular smart TV sound effects, is becoming more and more popular among consumers, the Group will further strengthen cooperation with existing TV manufacturing customers and explore new customers among global TV brands to tap into the overseas markets. It is anticipated that the soundbars business in the overseas markets will increase significantly in 2017. The Group will increase the investment in developing smart speaker with voice recognition as 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 environment of big data and artificial intelligence. The Group will cooperate with global internet enterprises and leverage on its advanced technologies in smart audio to strive for market leading position and pioneer advantages. The Group believes that audio products will further contribute to the growth in 2017, while set-top box business had expanded to overseas markets successfully, the management is confident to the businesses development and turnover growth in 2017. In order to largely explore the overseas market, the subsidiaries of the Group in America and France had been set up, and the subsidiary in India is in process.

Looking forward, the Group will focus on "Intelligence + Internet" to carry out smart business transition, aiming to become a leading high-tech smart products supplier to bring brand new experiences to consumers. At the same time, the Group will explore the potential combining smart technologies with IoT as well as strengthening cooperation with strategic partners, in order to develop the IoT market and grasp the enormous growth potentials in the foreseeable future. The Group will continue to expand its smart business by investing resources to develop more new smart products and enlarge the market share. We believe the smart business will bring greater contribution to our profit growth. The Group is confident in the future growth, we will further strengthen our businesses and seek potential M&A opportunities to bring greater returns for shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

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

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 December 2016 amounted to approximately HK$730,495,000 of which 1.2% was maintained in Hong Kong dollars, 85.4% in US dollars, 11.8% in Renminbi and 1.6% in Euros.

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

As at 31 December 2016, the Group's gearing ratio was nil since the Group had cash and bank balances of approximately HK$730,495,000 and without interest-bearing bank borrowings.

Pledge of Assets

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

Capital Commitments and Contingent Liabilities

As at 31 December 2016, the Group had capital commitments of approximately HK$15,367,000 (31 December 2015: HK$32,620,000). The Group did not have any material contingent liabilities as at 31 December 2016.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 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 5,666 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. In order to align the interests of staff with those of shareholders, share options were granted to selected employees under the Company's share option schemes. Options for subscribing a total of 20,631,904 shares remained outstanding at the end of the reporting period.

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 28 August 2014 pursuant to which existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held on trust by the trustee for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the rules of the Award Scheme.

PURCHASES, SALES OR REDEMPTION OF SHARES

Pursuant to the rules of the Award Scheme adopted by the Company on 28 August 2014, the trustee for the Award Scheme purchased from the market a total of 4,048,000 shares being the awarded shares for the Award Scheme during the year. The total amount paid to acquire such shares was approximately HK$15,184,000.

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board has proposed a final dividend, for the year ended 31 December 2016, of HK25.0 cents (2015: HK25.0 cents) in cash per share.

Subject to approval at the forthcoming annual general meeting on 23 May 2017, Tuesday the said final dividend will be payable on or about 15 June 2017, Thursday to shareholders whose names appear on the register of members of the Company on 8 June 2017, Thursday.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2017, Thursday to 23 May 2017, Tuesday, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the Shares may be registered during the said. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 17 May 2017, Wednesday.

The register of members of the Company will be closed from 6 June 2017, Tuesday to 8 June 2017, Thursday (both dates inclusive), for the purposes of determining the entitlements of the shareholders to the proposed final dividend upon the passing of relevant resolution. No transfer of the Shares may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 5 June 2017, Monday.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 23 May 2017, Tuesday. The notice of annual general meeting will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited and despatched to the shareholders of the Company in due course.

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 year ended 31 December 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. The reasons for the deviation from the Code Provisions F.1.1 remain the same as those set out in the Company's 2015 annual report.

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

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

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

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.

The company secretary of the Company, Mr. TSUI Kwok Ho is a practising solicitor of the Company's legal advisor, Cheung Tong & Rosa Solicitors. Mr. TSUI has been appointed as the company secretary of the Company since August 2016. The Company has also assigned Mr. REN Xuenong, an executive director of the Company, as the contact person with 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 Mr. TSUI through the contact person assigned. Given the long-term relationship between Mr. TSUI and the Group, he is 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 he will get hold of the Group's development promptly without material delay and with his expertise and experience, the Board is confident that having 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 consolidated financial statements for the year ended 31 December 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 year ended 31 December 2016.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 21 March 2017

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