TONLY

TONLY ELECTRONICS HOLDINGS LIMITED

通 力 電 子 控 股 有 限 公 司

Incorporated in the Cayman Islands with limited liability

Stock Code : 01249

ANNUAL REPORT 2015

CONTENTS

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(HK$ Million)	2015	2014
Turnover	**4,857**	5,421
Gross profit	**605**	666
Gross profit margin (%)	**12.5%**	12.3%
Profit attributable to owners of the parent	**166**	150
Basic EPS (HK cents)	**67.53**	88.25
Full year dividend per share		
– Proposed final dividend per share (HK cents)	**25.0**	25.0

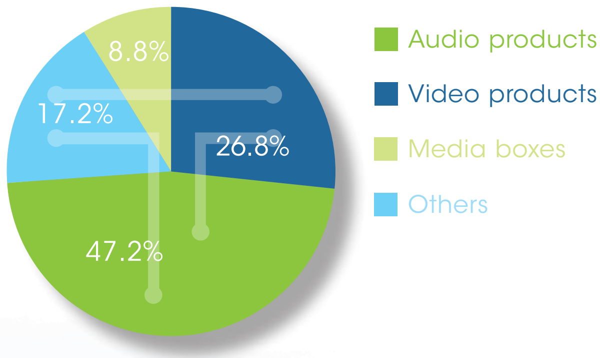
FINANCIAL POSITION

(HK$ Million)	2015	2014
Property, plant and equipment	**471**	466
Cash and cash equivalents	**890**	938
Total assets	**3,203**	3,139
Total liabilities	**2,100**	2,044
Net assets	**1,103**	1,095

OPERATION INDICATORS

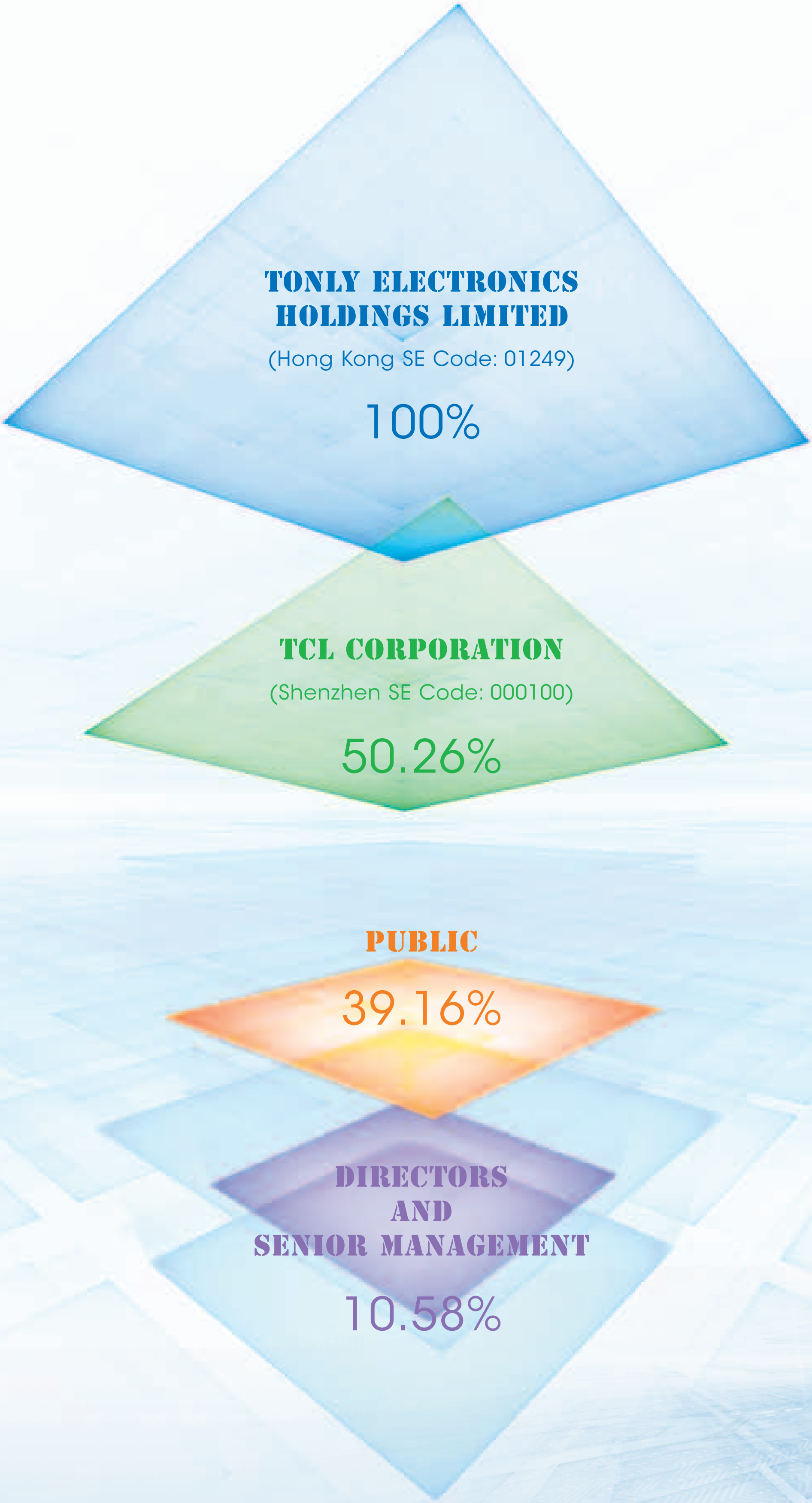
	2015	2014
Inventory turnover (days)	**33**	34
Trade receivables turnover (days)	**77**	62
Trade payables turnover (days)	**93**	79
Current ratio	**1.2**	1.3

Note: The above turnover days are calculated on average balance of the year.



TURNOVER BREAKDOWN
BY PRODUCTS

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

Yuan Bing
Chairman

"WE ADHERE TO PRODUCT INNOVATION AND ARE COMMITTED TO TRANSFORM AND UPGRADE OUR PRODUCTS BY STRENGTHENING OUR DEVELOPMENT CAPABILITIES IN DESIGN AND CORE TECHNOLOGY. WE STRIVE TO BECOME A HIGH-TECH INTELLIGENT PRODUCTS SUPPLIER WITH A COMPETITIVE EDGE."

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board of directors ("Board"), I am pleased to present the Group's annual results and business outlook for the year ended 31 December 2015.

Last year, the continued weakness in the global economy, China's stock market turmoil, the surging US dollar, the European sovereign debt crisis, the devaluation of currencies and credit risk in emerging markets and many other factors, led to overall downturn in the commodities sector. The slump in oil prices also reflected the global economic environment and market concerns, with the global economic outlook remaining hazy. Faced with the unfavourable market conditions in this economic downturn and various challenges, Tonly Electronics adhered to a prudent and pragmatic approach. We continued to optimise our production efficiency internally and implement the "Transformation and Entrepreneurship" strategy externally. Also, we actively explored new business development opportunities and diversified product portfolio to expand customer base and raise market shares, in order to maintain the company's overall competitiveness.

During the year, although overall sales fell slightly, by virtue of the Group's diverse product portfolio and competitive industrial platform, gross profit margin and operating profit continued to register steady growth. For the year ended 31 December 2015, the Group recorded a turnover of approximately HK$4,857.2 million, down 10.4% year-on-year. Gross profit decreased by 9.3% year-on-year to approximately HK$604.6 million, while gross profit margin increased from 12.3% in the same period last year to 12.5%. Operating profit rose by 0.02% year-on-year to approximately HK$192.7 million. Profit attributable to owners of the parent grew by 11.1% year-on-year to approximately HK$166.5 million. The Board of Directors recommends the payment of HK25 cents as final dividend per share for the year ended as of 31 December 2015.

CHAIRMAN'S STATEMENT

Tonly Electronics is a leading global manufacturer of high-tech smart products for the research and development ("R&D") of well-known international brands, and the production and sales of high-quality audio and video products and wireless intelligent interconnectivity products. With the Group's excellent R&D production capacity and overseas distribution supply chain advantages, Tonly Electronics has gradually transformed to a business model which is closer to the market and consumers; and actively developing its "Intelligence + Internet" business, in order to gradually move towards the goal of becoming a high-tech smart products manufacturer. In the past year, under the collaboration of the Group's management and employees, Tonly Electronics achieved breakthrough of electronic developments in the following areas:

Product Upgrading and Restructuring to Deliver Additional Growth: In the face of fierce market competition, outstanding product development capabilities is the key to success. We actively strengthened R&D investment, on the basis of the original audio and video products, to accelerate product transformation and upgrading. Over the past year, we have successfully developed new audio products, as well as further developed single speaker and wireless speaker products. Our first proprietary high-end headphone successfully started commercial shipment as our R&D capabilities received market recognition. In addition, we rebuilt the set top box ("STB") R&D team and set up the overseas electro-acoustic design team and increased over-the-top ("OTT") product R&D investment, with a view to the diversification of the product portfolio and expansion of market share, to drive overall business growth.

Continue to Expand Customer Base to Capture Market Opportunities: In 2015, in addition to continuing to consolidate and deepen our relationship with existing customers, we have also successfully established cooperation with new customers in different areas, such as the «2015 Digital Wireless Coverage Project for Central Radio and TV Programmes». Additionally, in ten months the Group transformed the initial design concept of its first proprietary high-end headphone into a viable product successfully released to the client and drive the development of the new audio products business segments further for the Group.

CHAIRMAN'S STATEMENT

Optimise Production and Supply Chain Management: Tonly Electronics has been committed to enhancing its human resources system, including significantly increasing the use and optimisation of our proportion of automated equipment and automated product testing processes to boost overall production efficiency. During the year, we implemented smart warehouse logistics management to closely integrate all aspects of supply chain, production and logistics, laying a solid foundation for Industry 4.0. To tie in with the future development needs of the Group, construction on the new plant next to the existing plant in Huizhou has commenced. After completion, it will allow the Group to expand production capabilities, complement supply chain management, and increase production efficiency. Last year we also consolidated the moulding and plastic parts manufacturing business of Guangdong Regency Optics-Electron Corp ('Regency Optics") into the Group and completed the acquisition of FP Group Limited in order to realise vertical integration and development of the Group's plastic moulding business, thereby reduce production costs and achieve synergies.

Construction of New Business Ecosystem to Consolidate Profitability: In the first half of 2015, we jointly established strategic alliances with a venture capital fund. By using capital as the linkage to invest in innovative Internet or intelligent hardware-related businesses. This will enable the Group to enter new business areas and accelerate its rapid transformation, in order to build a new business ecosystem and enhance the Group's competitiveness and profitability.

2016 will be a year of opportunities and challenges. The macroeconomic outlook remains uncertain as the deterioration of the global business environment and other negative factors continue to affect consumers' consumption desires and the consumer electronics' market cannot avoid being impacted. Nevertheless, Tonly will rely on its in-depth understanding of the electronic industry, modernised management, strategic marketing capability and other solid strengths, to move forward in the face of fierce market competition.

The coming year may be a significant milestone in Tonly Electronics' transformation and development. We are committed to maintaining healthy business growth, and follow closely to changes in the market. We will adhere to our product innovation as our focused strategy to improve product design and core technology development capabilities, in order to provide better quality and consistency in product and services for our branded customers and consumers. We will try to practice a diversified business strategy, build on our existing solid business foundation to further develop industry competitiveness and become a high-tech smart products manufacturer to deliver sustainable business growth. At the same time, Tonly Electronics is committed to providing superior products and services for the Internet of Things ("IOT") industry. In early 2016, we showcased our KiWi product series at the CES exhibition in the US, which received widespread acclaim for its leading intelligence lifestyle experience. In the future, we hope to work together with partners from all aspects of the industry chain to open up a new chapter in the IOT market.

Finally, I would like to take this opportunity to extend my heartfelt gratitude to all of our shareholders, customers and business partners in the past year for their support, and thank the Group's management and employees for their tireless efforts and contributions. We look forward to moving forward in 2016 together to create better returns for our shareholders.

Yuan Bing
Chairman
29 February 2016, Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

In 2015, the global economy continued to be weak and volatile. China's economic growth continued to decelerate as annual gross domestic product (GDP) last year grew by only 6.9%, the weakest growth since 1990 and the first time in 25 years that it has fallen below 7%. Due to a combination of factors, mainly attributed to the slowing economic growth, as well as external economic impacts, resulted in slumps in domestic industries such as manufacturing, and created unprecedented volatilities in the mainland stock market. In addition, further pressures on the Renminbi exchange rate led to downward declines in the domestic economy. In European markets, the sovereign debt crisis and influx of refugees continued to affect financial markets as Europe faces long-term predicaments in its economic development. Despite the uncertain global economy, decline in overall demand and other risks such as deflation, the Group continued to uphold its prudent and pragmatic approach to deal with the ever-changing market conditions and prepare for the challenges.

With the growing prevalence of wireless technology and smart home related technologies, the new audio products and media boxes market is growing rapidly, along with the steady rise in market demand for its corresponding peripheral products. Improvements in living standards and purchasing powers of China and emerging countries will also bring development opportunities for market integration. During the year under review, the Group continued to implement its "transformation and entrepreneurship" strategy to actively explore new business opportunities, and successfully developed new media boxes and audio products to diversify product portfolio, expanding its customer base and market share, thus the overall business of the Group recorded stable growth.

BUSINESS REVIEW

The Group is one of the world's leading manufacturer of high-tech smart products, and is principally engaged in the research and development for well-known international brands, and the manufacturing and sales of high quality audio-visual products and wireless intelligent interconnectivity products.

MANAGEMENT DISCUSSION & ANALYSIS

In 2015, the Group overcame the difficulties caused by the global economic downturns through internal and external countermeasures. The Group continued to implement internal assimilation of project experiences and address structural and systemic operation issues to improve production efficiency. Externally, it carefully expanded its sales network to optimise customer base and extensive product portfolio. Although sales fell slightly, the Group's profit for the year achieved steady growth through its core strengths of a diversified product portfolio and competitive industrial platform.

The audio and video industry has continued in its acceleration of transformation and upgrading, and as a consequence, the media boxes and new audio products business have become one of the Group's major business segments, with its importance increasing steadily. During the year under review, the Group further increased its business development and R&D efforts in order to maintain its corporate competitiveness. Among these, in September 2015, a subsidiary of the Group won the bid for the Inner Mongolia Autonomous Region's Advanced Broadcasting System-Satellite ("ABS-s") «Hu Hu Ton » project and for CCTV's «2015 Digital Wireless Coverage Project for Central Radio and TV Programmes» satellite signal receiving device project, with a total bid amount of approximately RMB42.7 million. This marked Tonly Electronics' formal entry into the high-tech front-end wireless coverage device sector. On the other hand, the Group's first noise-cancelling Bluetooth headphone successfully started commercial shipment in September 2015, added on the new audio products released in November of the same year, have driven new audio products to become an important business segment for the Group to develop further.

For the year ended 31 December 2015, the Group recorded a turnover of approximately HK$4,857.2 million, down 10.4% year-on-year. Gross profit decreased by 9.3% year-on-year to approximately HK$604.6 million, while gross profit margin slightly increased from 12.3% in the last year to 12.5%. Operating profit increased by 0.02% year-on-year to approximately HK$192.7 million. Profit attributable to owners of the parent for the year under review grew by 11.1% year-on-year to approximately HK$166.5 million. Net profit margin was 3.5%.

MANAGEMENT DISCUSSION & ANALYSIS

Product Sales

The Group's products are classified into four categories: (i) Audio products which include HTS (without wireless technology), Micro & Mini speakers ("Micro & Mini"), wireless speakers, HTS with soundbars (with wireless technology) and headphones, (ii) Video disc players which include digital versatile disc ("DVD") players and Blu-ray disc ("BD") players, (iii) Media boxes and (iv) Other businesses which are mainly ABS-s products, components, R&D income. Tonly Electronics is currently actively developing its "Intelligence + Internet" business, in order to gradually move towards the goal of becoming a high-tech smart products manufacturer with competitive advantages in the industry.

For the year ended 31 December 2015, revenue from the Group's audio product business grew by 4.9% year-on-year to approximately HK$2,294.6 million; revenue from video disc player business decreased by 37.0% year-on-year to approximately HK$1,302.5 million; revenue from media box business rose by 33.3% year-on-year to approximately HK$833.1 million; revenue from other businesses decreased by 21.0% year-on-year to approximately HK$427.0 million.

The Group's revenue breakdown by product:

	2015 *(HK$'000)*	2014 *(HK$'000)*	**Change**
Audio Products			
– Traditional audio products[1]	**893,212**	1,184,503	**-24.6%**
– New audio products[2]	**1,401,434**	1,003,606	**+39.6%**
Subtotal	**2,294,646**	2,188,109	**+4.9%**
Video disc players[3]	**1,302,470**	2,067,255	**-37.0%**
Media Boxes[4]	**833,076**	625,113	**+33.3%**
Other Businesses			
– ABS-s products	**196,875**	297,873	**-33.9%**
– Components	**174,741**	183,001	**-4.5%**
– Research & Development income	**55,420**	59,656	**-7.1%**
Subtotal	**427,036**	540,530	**-21.0%**
Total	**4,857,228**	5,421,007	**-10.4%**

(1) Mainly include HTS and Micro & Mini
(2) Mainly include wireless speakers, soundbars, audio docks and headphones
(3) Mainly DVD players and BD players
(4) Mainly include OTT (over-the-top) Internet services and contents set top box (STB)

MANAGEMENT DISCUSSION & ANALYSIS

Audio Product Business

Benefitting from the rapid development of the Internet and wireless technology, there is strong demand in the market for smartphones, smart TVs and other new audio corresponding peripheral products. In response to market trends, the Group has actively strengthened its R&D investment in wireless technology, power consumption, new technology, new materials and others in the development of more new audio products. Meanwhile, the Group greatly increased its R&D efforts in electroacoustics technology during the year to further develop single speaker and wireless speaker products to enhance the overall product competitiveness.

During the year under review, sales of the Group's audio product achieved satisfactory growth, with segment revenue reaching a record high of HK$2,294.6 million, up 4.9% year-on-year.

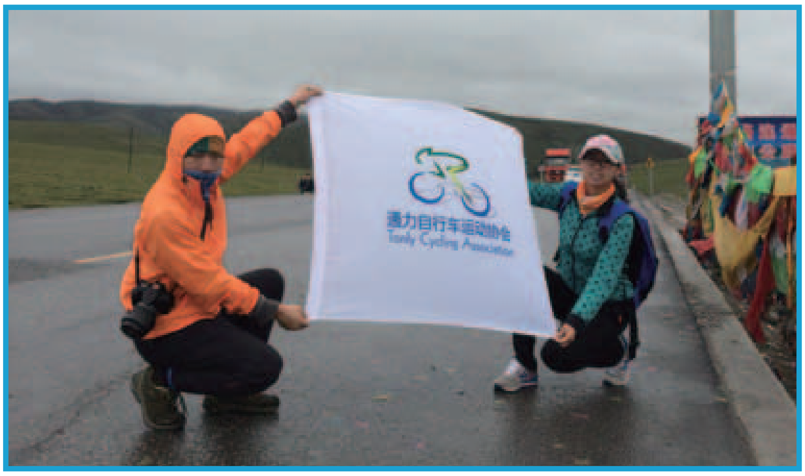
Video Disc Player Business

With the growing popularity of tablet PCs and smartphones applications, there is continued pressure on the demand in the traditional DVD players market for traditional DVD players. At the same time, due to the changes in customer's purchasing strategy, the related branded video disc player business recorded significant decline as a result. Revenue from the Group's video disc player decreased by 37.0% year-on-year to HK$1,302.5 million during the year under review.

Media Box Business

By strengthening software development capabilities and improving product design, the Group was able to enhance the competitiveness of its media box products. As well, through the establishment of cooperation relationships with foreign and domestic internet and telecommunications companies to develop its mobile communications business, sales of the Group's media box business continued to rise.

MANAGEMENT DISCUSSION & ANALYSIS



For the year ended 31 December 2015, revenue from the Group's media box business rose 33.3% year-on year to HK$833.1 million. During the year under review, while consolidating and strengthening relationships with existing customers, the Group rebuilt its overseas set top box ("STB") R&D team to develop more diversified products. The STB business started commercial shipments in September 2015, and is expected that the business will gradually develop into an important revenue source for the Group.

Other Businesses

The Group fully leverages on its competitive advantages in product R&D to provide diversified R&D services to its international leading consumer electronics brand customers. International brand customers have stringent requirements for product quality and specifications, for whom the Group helps to develop new products and functions. This allows the Group to generate additional sources of revenue, while upholding its R&D capabilities and competitiveness so that the team remains at speed with industry trends. Additionally, having satisfied the internal demand for plastic components in production, the Group also sells the surplus to external parties to generate further income.

During the year under review, revenue from the sales of ABS-s products decreased by 33.9% year-on-year to HK$196.9 million, mainly due to the delay in shipments of governmental projects. However, sales of ABS-s products are expected to benefit from the Central Government's gradual opening of the ABS-s retail market.

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. In 2015, the Group significantly increased the proportion of automated equipment and strengthened the stability of skilled workers to boost its per capita production efficiency.

In addition, to fulfill small quantity orders for each of the various types of innovative products, the Group adopted a cellular manufacturing mode and reorganised the location and layout of its plant to boost overall efficiency and reduce non-operating hours. During the year under review, the Group has successfully implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production and logistics, in order to lay a solid foundation for Industry 4.0. Meanwhile, the Group has optimised its equipment maintenance and management system to steadily increase the actual production capacity of the Huizhou production base.

As part of the Group's business diversification strategy, in addition to the existing business, management believes that the acquisition of a strategic restructuring program will help expanding the Group's sources of income. In June 2015, through business reorganisation and capital reduction, the Group proposed to consolidate the moulding and plastic parts manufacturing business of Guangdong Regency Optics-Electron Corp into the Group. The Group also combined the entire production process with its upstream operations to reduce production costs and achieve synergy. This will allow the Group to realise vertical integration and development of the plastic moulding business. At the end of 2015, the merger has been completed, while related business and sales revenue have been consolidated into the Group's financial statements.

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 shipments substantially.

Research and Development (R&D) and Product Innovation

With the advancement of smart technology and electronic product innovations, it is a prerequisite for enterprises to possess professional product innovation capabilities to gain market acceptance. The Group is committed to product innovation, with substantial annual investment in R&D above that of the average industry level. During the year under review, the Group's R&D expenses were approximately HK$188.3 million, representing 3.9% of its total revenue. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an. Its R&D team is comprised of over 600 staff who mainly develop and introduce products to the market catering to clients' specific requirements, and carry out visionary research on fundamental product technologies. The Group has also amassed a design team with foreign experienced electroacoustic professionals, and continued to increase its investment in the R&D of OTT products to meet market opportunities.

MANAGEMENT DISCUSSION & ANALYSIS

In September 2015, the Group's first proprietary high-end noise-canceling wireless headphone combining active noise-canceling, Bluetooth transmission and touch control technologies successfully started commercial shipment. In only ten months, the Group transformed the initial design concept into a viable product released to the reputable client and consumers to earn customer's trust and recognition. In addition, since early on, the Group has stepped into the Internet of Things ("IOT") market, with accumulated experience in technology, design and development of smart IOT products. Its development of smart IOT products series have also begun stabilised production. In the first quarter of 2016, the Group brought a variety of innovative electronic products including three widely acclaimed product series: KiWi, KiWi Mini and KiWi Junior, to the global consumer electronics tradeshow – the Consumer Electronics Show held in Las Vegas, United States. The products provide solutions for users in three major aspects of security, health and fitness, and energy management, offering a wide-ranging package of services encompassing smart sockets, smart lighting and smart switches, and allowing consumers to enjoy the ultimate smart life experience.

Establishment of a Venture Capital Fund

In April 2015, the Group established a venture capital fund with its partners by using capital as the linkage to invest in innovative Internet and intelligent hardware-related businesses. This will enable the Group to enter new business areas and accelerate its rapid transformation, in order to build a new business ecosystem and enhance the Group's competitiveness and profitability.

Future Plans and Outlook

Entering 2016, with the complicated domestic and international economic environment, the macro economy faces downside risks. Global currency exchange rate fluctuations, financial risk in the emerging economies and European debt crisis all lead to a gloomy economic outlook.

MANAGEMENT DISCUSSION & ANALYSIS

Faced with a challenging operating environment, the Group adheres to focus on product innovation as its expansion strategy. It continues to strengthen its development capabilities in product design and core technologies to introduce more innovative products to meet market demands and consumer preferences. With the Group's good relationship with customers, accumulated R&D production capability over the years, as well as overseas distribution supply chain advantages, since 2015, the Group has gradually transitioned to a market- and consumer-oriented business model. In addition to laying a more solid business foundation for future development, this also helps the Group advance towards the goal of becoming a high-tech smart products manufacturer with competitive advantages in the industry, for sustainable business growth.

Looking to 2016, the Group will focus on development of its three major businesses of video products, OTT and media boxes, and IOT innovative business. At the same time, it will enhance its electroaccoustic capabilities through improvements in production and supply chain distribution, and further integrate its plastic moulding business to develop greater injection capabilities with new resources and technology. It will create an integrated operating platform encompassing "Manufacturing, Quality, Supply Chain and Procurement" capabilities. The Group will also strengthen cooperation with strategic partners, continue the transformation and upgrading of products, broaden its customer base by optimising its portfolio of new products to create new business growth drivers.

However, notwithstanding the Group's innovative business plan which takes time to yield its results, the Group expects that there will be a fair degree of decrease in its revenue in the first half of 2016 since the amount of orders placed by one of the Group's major customers started to decrease notably in the fourth quarter of 2015 due to the business restructuring of such customer. It is expected that the amount of orders placed by this customer would continue to decline in 2016.

In addition, the cooperation model between the Group and one of its other customers has changed, and the customer provided the major materials for its orders. In the circumstances, although the business volume with this customer significantly increased, the sales to this customer obviously decreased.

In order to mitigate the negative effect on the Group's financial performance caused by the said customers, the Group is actively approaching new customers, venturing into new markets and, more importantly, devoting more dedication to the business of IOT products and other internet related products.

MANAGEMENT DISCUSSION & ANALYSIS

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

With the Group's effort in developing competitive IOT products and other audio products and developing its overseas markets, the management strives to achieve gradual recovery in the Group's revenue in the second half of 2016.

In addition, to tie in with the future development needs of the Group, construction on the new plant next to the existing plant in Huizhou has commenced, it is expected that the first phase of construction would complete in the fourth quarter this year, which will allow the Group to expand production capabilities and complement supply chain management to increase production efficiency. Overall, Tonly Electronics will expand through new businesses, develop new technologies and new products and enhance productivity, to provide the highest quality products and services for branded enterprises and customers. In addition, the Group is constantly looking for opportunities to actively seek viable business development opportunities, combined with a vision for expanding business categories via its own advantages, to enhance long-term value of the Group, and maximise returns for shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investment held as at 31 December 2015, nor other material acquisitions and disposals of subsidiaries during the period, save as the following:

Acquisition of the land use right in Huizhou

On 24 March 2015, TCL Technoly Electronics (Huizhou) Co., Ltd. (as the grantee), a wholly owned subsidiary of the Company, entered into a land use right grant agreement with Huizhou Land Resources Administration (as the grantor) for grant of the land use right to a piece of land in Huizhou (the "Land") at the consideration of RMB31,760,000, which has been fully settled on 29 March 2015. This transaction did not constitute notifiable transaction as none of the applicable percentage ratios reached 5%. The Land will be used for construction of a production plant and an ancillary office building. The construction project have commenced by September 2015 and the first phase is expected to complete in the fourth quarter this year. The Company considers the acquisition of the land use right an important step to the Company's strategic development and expects that the new production plant would substantially enhance the Group's production efficiency and capacity.

Acquisition of the entire issued share capital of FP Group Limited

On 30 July 2015, Tonly International, a direct wholly-owned subsidiary of the Company, as the purchaser, entered into a sale and purchase agreement with Winmax, as the vendor, and FPI, as the guarantor, (both being independent third parties of the Company), pursuant to which Tonly International conditionally agreed to acquire, and Winmax conditionally agreed to sell, the entire issued share capital of FP Group Limited at a total consideration of RMB88,792,136, subject to adjustment, and FPI conditionally agreed to guarantee the full and punctual performance by Winmax of its obligations under the Sale and Purchase Agreement. Details of the acquisition has been disclosed in the announcement of the Company dated 31 July 2015.

The acquisition was completed on 30 September 2015, and the total consideration, after adjustment, paid and payable by Tonly International for the acquisition is RMB95,545,601.

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 31 December 2015 amounted to approximately HK$889,892,000 of which 6.1% was maintained in Hong Kong dollars, 71.8% in US dollars and 22.1% in Renminbi.

There was no material change in available credit facilities when compared with the year ended 31 December 2014 and there was no asset held under finance lease as at 31 December 2015.

As at 31 December 2015, the Group's gearing ratio was 0% since the Group had cash and bank balances of approximately HK$889,892,000 and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2015.

Capital Commitments and Contingent Liabilities

As at 31 December 2015, the Group had capital commitments of approximately HK$32,620,000 (31 December 2014: HK$34,027,000). The Group did not have any material contingent liabilities as at 31 December 2015.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2015.

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

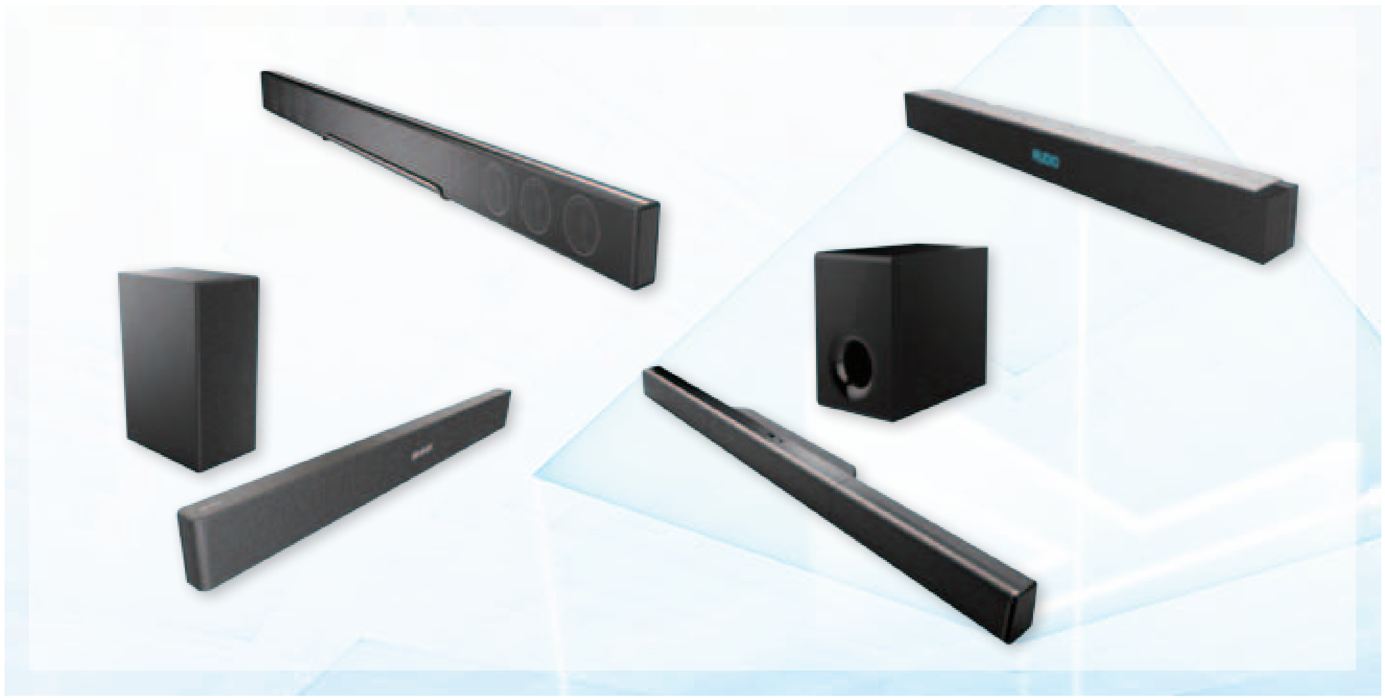
The Group had approximately 5,100 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. 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 13,523,236 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.

Wireless Speaker

Earphone / Headphone

Soundbar/Mini/Micro



Smart gateway / Smart Security / Smart Healthcare&Environment / Smart Power

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

YUAN Bing 1

Chairman and Non-Executive Director

2 **YU Guanghui**

Executive Director and Chief Executive Officer

REN Xuenong 3

Executive Director and Chief Financial Officer

4 **LEONG Yue Wing**

Non-Executive Director

(Re-designated as an Independent Non-Executive Director with effect from 15 January 2016)

POON Chiu Kwok 5

Independent Non-Executive Director

6 **YOUNG Shiao Ming**

Independent Non-Executive Director

(Resigned with effect from 15 January 2016)

SONG Yonghong 7

Executive Director and Chief Operating Officer

8 **LI Qi**

Independent Non-Executive Director

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. YU GUANGHUI

Aged 48, is an executive Director and Chief Executive Officer of our Company. He is currently a director of each member of our Group. He is also the vice president of TCL Corporation. Mr. YU joined TCL Corporation in 1993. He had held the positions of Engineer of TCL Huizhou Shouhua Science Park, Deputy General Manager of TCL King, Deputy General Manager of TCL Electronics (HK) Co., Ltd., General Manager of TCL Overseas Holdings Co., Ltd., Vice President of Electronics Business Unit and Overseas Business Unit of the Company, General Manager of AV Business Unit and President of the Company. Mr. YU has rich management experience in materials procurement, manufacturing, product management, business development and cooperation with world-class companies. Mr. YU graduated from the Shaanxi Normal University with a Master's degree in Physics in 1993, and obtained a MBA degree from Peking University in 2005 and an EMBA degree from Cheung Kong Graduate School of Business in 2009.

MR. SONG YONGHONG

Aged 49, is an executive Director and Chief Operating Officer of our Company. He is currently a director of TCL Technoly Electronics (Huizhou) Co. Ltd., Huizhou TCL Audio Video Electronics Co. Ltd., Shenzhen Tongli Science and Technology Development Co. Ltd. and Xi'an TCL Software Development Co. Ltd.. Mr. SONG joined TCL Corporation Group in 2003. Since 2010, he has been the Deputy Managing Director and General Manager of Product Centre of AV Division of our Group. From 2003 to 2009, he had been the Deputy General Manager of AV Division of TCL Multimedia Technology Holdings Limited ("TCL Multimedia"). From 2009 to 2010, Mr. SONG had held the position of General Manager of Global Product Centre of TCL Multimedia and Senior Vice President of TCL Multimedia. Prior to joining TCL Corporation, Mr. SONG had held the positions of Deputy General Manager of Dongguan Jinzheng Digital Technology Co., Ltd. Mr. SONG has substantial experience in management and business development in the field of electronic products. Mr. SONG graduated from the Faculty of Physics of Shaanxi Normal University with a Bachelor's degree in Science in 1990 and obtained an IEMBA degree from the Hong Kong University of Science and Technology in 2012.

DIRECTORS AND SENIOR MANAGEMENT

MR. REN XUENONG

Aged 45, is an executive Director and Chief Financial Officer of our Company. Since July 2004, Mr. REN has been the Financial Controller and the Head of the Finance Department of AV Division of our Group. He is currently a director of all subsidiaries of our Group established in the PRC. Mr. REN is a practising accountant in the PRC and has rich financial and accounting experience in the field of electronic products. From 1996 to 2001, Mr. REN had been the Deputy Manager of the Finance Department of TCL King Electrical Appliances (Huizhou) Co., Ltd.. Mr. REN graduated from Hunan College of Finance and Economics with a certificate of accountancy and audit in 1991.

NON-EXECUTIVE DIRECTOR

MR. YUAN BING

Mr. YUAN Bing aged 46, the Chairman and a non-executive Director of the Company and also the chairman of the nomination committee and a member of the remuneration committee. He is also the chairman of T.C.L. Industries Holdings (H.K.) Limited, the chairman and a non-executive Director of TCL Display Technology Holdings Limited, the issued shares of which are listed on the Stock Exchange (Stock Code: 334) and the vice president of TCL Corp the issued shares of which are listed on the Shenzhen Stock Exchange (stock code: 100). Mr. Yuan currently holds certain positions in the TCL Group, namely, the president and a director of Xinjiang TCL Equity Investment Co., Ltd and the legal representative and chairman of Beijing Sinopharm Hundric Medline Info. Tech. Co., Ltd., the legal representative and chairman of Guangzhou TCL Medical Equipment Co., Ltd, the legal representative and chairman of Beijing Wemed Medical Equipment Co., Ltd.* (北京唯邁醫療設備有限公司), a director of Highly Information Industry Co. Ltd and a director of TCL New Technology (Huizhou) Co., Ltd. Mr. Yuan also holds certain positions in a number of entities in which the TCL Group invests, including the legal representative and an executive director of Urumqi TCL Chuangdong Equity Investment Management Co., Ltd, the legal representative and chairman of Huizhou TCL Kaichuang Enterprise Management Co., Ltd,

DIRECTORS AND SENIOR MANAGEMENT

an executive partner (authorised representative) of Huizhou Kaichuang Venture Capital Partners (Limited Partnership), the legal representative and an executive director of Nanjing Chuangdong Equity Investment Fund Management Co., Ltd., an executive partner (authorised representative) of Nanjing Zijin Chuangdong Investment Partnership (Limited Partnership), the legal representative and chairman of Shanxi TCL-Huirong Venture Capital Management Co., Ltd., a director of Shanxi TCL-Huirong Creative Investment Co., Ltd., the legal representative and chairman of Urumqi TCL Equity Investment Management Co., Ltd.* (烏魯木齊TCL股權投資管理有限公司), an executive partner (authorised representative) of TCLWX Creative Capital Partnership (Limited Partnership), a director of Yixing Jiangnan Tianyuan Investment Consulting Co., Ltd.* (宜興江南天源投資諮詢有限公司), the legal representative and chairman of Urumqi Qixinda Equity Investment Management Co., Ltd., an executive partner (accredited representative) of Wuxi TCL-SK Semiconductor Industry Investment Fund Partnership (Limited Partnership)* (無錫TCL愛思開半導體產業投資基金合夥企業(有限合夥)), an executive partner (accredited representative) of Xinjiang Dongpeng Waichuang Equity Investment Partnership (Limited Partnership)* (新疆東鵬偉創股權投資合夥企業(有限合夥)), a director of Tibet Rongxin Venture Capital Management Co., Ltd, the legal representative and executive director of Tibet Dongwei Investment Management Co., Ltd.* (西藏東偉投資管理有限公司), a director of Pharmaxyn Laboratories Ltd., a director of Wuxi DK Electronic Materials Co., Ltd.* (無錫帝科電子材料科技有限公司), a director of Beijing Enji Saiwei Energy Saving Technology Co., Ltd.* (北京恩吉賽威節能科技有限公司), a director of CRTVU-Online Educational Technology Co., Ltd., a director of Petro AP Company Limited, a director of Petro AP (Hong Kong) Company Limited, a director of Shanxi United Magnesium Industry Co., Ltd., a director of National Day International Limited* (華慶國際有限公司), a director of Golive Movies Limited, a director of Eastern Ray Investment Limited* (東輝投資有限公司), a director of Global Fortune Ventures Limited* (環球機遇有限公司) and a director of Shenzhen Momoda Internet Communication Company Limited. Mr. Yuan is also the legal representative, an executive director and a general manager of Shenzhen Empyrean Matrix Investment Management Co., Ltd.* (深圳市九天矩陣投資管理有限公司), and a supervisor of Huizhou Dongxu Zhiyue Equity Investment Management Co., Ltd.* (惠州市東旭智嶽股權投資管理有限公司). Mr. Yuan joined TCL Corp in May 1999. From May 1999 to August 2000, Mr. Yuan was a supervisor of the Financial Department of TCL Corp. From September 2000 to May 2004, he was a manager of the Financial Department of TCL International Holdings Company Limited. From May 2004 to May 2005, he was the deputy general manager of TCL International Holdings Limited. He successively served as the vice chief and chief at the Strategic Development Department of TCL Corp during the period from January 2002 to May 2005 and from June 2005 to July 2005 respectively. From August 2005 to April 2006, he was the general manager of the Financial Management Centre of TCL Corp. He was an executive director and the chief financial officer of TCL Multimedia from October 2006 to January 2009. From May 2006 to June 2008, he was the financial director of TCL Corp. He was the adjunct head of department of the Investment Management Department of the Financial Management Centre of TCL Corp from July 2006 to September 2007. He was the vice-president of TCL Corp from July 2007 to January 2011. He was the senior vice-president of TCL Corp from February 2011 to July 2011. Mr. Yuan has over 25 years of experience in the consumer electronic products industry.

* English translation for identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

MR. LEONG YUE WING

Aged 63, is a non-executive Director (re-designated as an Independent Non-Executive Director with effect from 15 January 2016) of our Company. Mr. LEONG had previously been CEO of TCL Multimedia from 1 October 2007 to 30 September 2009 and was responsible for the overall management of TCL Multimedia including strategy, business development and operations. Prior to joining TCL Multimedia, Mr. LEONG was associated with Royal Philips Electronics since 1978 and retired in April 2007 as Executive Vice President of Philips Consumer Electronics. Mr. LEONG has extensive management experience in the production and sales of AV and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets. Mr. LEONG obtained a Bachelor's degree in Mechanical Engineering in 1976 and a MBA from the University of Singapore (currently the National University of Singapore) in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. POON CHIU KWOK

Aged 54, is an independent non-executive Director of our Company. Mr. Poon possesses years of appropriate accounting and related financial management expertise. He now serves as an executive director, vice president and company secretary of Huabao International Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 336), an independent non-executive director of Yuanda China Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2789), Changan Minsheng APLL Logistics Co., Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1292), Sunac China Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1918) TUS International Limited (stock code: 872), AUX International Holdings Limited (stock code: 2080) and Sany Heavy Equipment International Holdings Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 631). He served as an independent non-executive director of China Tianrui Group Cement Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1252) from December 2011 to December 2012, Guangzhou Shipyard International Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 317) and the Shanghai Stock Exchange (stock code: 600685) from May 2011 to May 2014, and Ningbo Port

DIRECTORS AND SENIOR MANAGEMENT

Company Limited, the shares of which are listed on the Shanghai Stock Exchange (stock code: 601018) from April 2008 to May 2014. Mr. Poon is associate Fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel and Professional Development Committee He is a member and Associate Instructor of Hong Kong Securities and Investment Institute. He obtained a master's degree in international accounting, a post-graduate diploma in laws, a bachelor's degree in laws and a bachelor's degree in business studies. Mr. Poon joined the Group in July 2013.

MR. LI QI

Aged 55, is an independent non-executive Director of our Company. Mr. Li is an associated professor in the Department of Applied Economics and the Dean at Guanghua School of Management of Peking University, as well as the Dean of Guanghua School of Management, Shenzhen and Shanghai Branch. At present, his research covers various areas including the economy of the PRC and corporate governance. From April 2003 to December 2006, Mr. Li served as an independent director of Shandong Juli Group Co., Limited which is listed on the Shenzhen Stock Exchange (stock code: 000880). Mr. Li graduated from the Economics Department of Peking University in July 1983. From July 1983 to June 1989, he held a teaching position at the Department of Economics and Management of the School of Economics of Peking University. He received his doctorate degree in social and economic science from Vienna University of Economics and Business of Austria in June 1997.

MR. YOUNG SHIAO MING

Aged 65, is an independent non-executive Director (resigned with effect from 15 January 2016) of our Company. Mr. Young has years of experience in information technology, financial services and business management. Mr. Young is currently the Deputy Chairman of Shanghai Fu Gang Electronics Trading Company Limited which is principally engaged in the retail sales of electronic products and related accessories. Mr. Young had also served in a variety of senior executive management roles in the Greater China Region of IBM. Mr. Young had also served as the Senior Advisor for the Greater China Region of Silver Lake Private Equity. Mr. Young received his Bachelor's degree in Applied Mathematics from the National Chung Hsing University, Taiwan in 1973.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

MR. WANG XIAOFENG

Aged 50, is a vice president and chief marketing officer of the Company, also served as general manager of AV business center and AV products. He served as a director of 深圳市前海浩方科技有限公司 in June 2014. He has been a deputy general manager and general manager of sales center of Tonly Electronics since October 2006. Mr. WANG joined the TCL Corporation in 1997. From December 1998 to May 2001, he served as the Manager of the Marketing Department and the Product Planning Department of TCL Electrical Appliance Sales Company. From May 2001 to September 2002, he had been the General Manager of the Monitor Division of TCL Multimedia. From September 2002 to May 2004, Mr. WANG had held the office of General Manager of the AV Division of TCL Multimedia. From May 2004 to November 2005, he had been a Director of Human Resources and a Director of Operation of Component Strategic Business Unit of TCL Corporation. From November 2005 to October 2006, he had been General Manager of the Flat Panel Business Group of TTE Corporation. Mr. WANG has strong ability in the management process from product planning to sales and marketing, as well as advertising and promotion, particularly in TV and AV industry. Mr. WANG graduated from the School of Management of Xi'an Jiaotong University with a Bachelor's degree in Management Engineering in 1988 and obtained a Master degree in International Industrial Trading from Xi'an Jiaotong University in 1994 and an EMBA degree from the University of Texas at Arlington in 2006. Mr. WANG is now taking CEIBS (China Europe International Business School) Global EMBA programme.

MR. HUANG WEI

Aged 41, is a Deputy General Manager of our Group. He is currently the chairman and a director of Regency Optics-Electron. He joined TCL Corporation in 1998. From 1998 to 2005, he had been the Head of Computer Technology Research & Development Department and Procurement Department of TCL Computer Technology Company. From 2005 to 2009, Mr. HUANG had been the Operation Controller and Supply Chain Controller of TCL Communication. From 2009 to 2011, he had been the General Manager of Moulding Centre and General Manager of General Utilities Sourcing Division of Global Manufacturing Centre of TCLM. In 2010, Mr. HUANG had been the Deputy General Manager of our Group and General Manager of Supply Chain Centre of our Group. Mr. HUANG has rich management experience in procurement, supply, management and business development in the field of electronic products. Mr. HUANG graduated from Nanjing University of Science and Technology with a Bachelor's degree in Mechanical Design & Manufacturing in 1996, and obtained an EMBA degree from the CEIBS (China Europe International Business School) in 2009.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

MS. PANG SIU YIN

Aged 55, is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung Tong & Rosa Solicitors, Hong Kong. She is also a member of the Chartered Institute of Arbitrators, the United Kingdom and the Hong Kong Securities and Investment Institute. She holds a Master's degree of Laws from The Victoria University of Manchester. She is also the company secretary of TCLM, TCL Communication, Perfectech International Holdings Limited (stock code: 00765) and DaChan Food (Asia) Limited (stock code: 03999), all of which are companies listed on the Stock Exchange.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. YUAN Bing (Chairman)
Mr. LEONG Yuewing (Re-designated as an Independent Non-Executive Director with effect from 15 January 2016)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. POON Chiu Kwok
Mr. LI Qi
Mr. YOUNG Shiao Ming (Resigned with effect from 15 January 2016)

COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

AUDITOR

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

LEGAL ADVISOR

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

CORPORATE INFORMATION

PRINCIPAL REGISTRAR

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

BRANCH REGISTRAR

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

PRINCIPAL OFFICE

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

REGISTERED OFFICE

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

INVESTOR AND MEDIA RELATIONS

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

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board of Directors of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the AV industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

On 12 July 2013, the Company has adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") revised code on corporate governance (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2015, the Company has complied with the Code Provisions with the following exceptions:

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 respective pre-arranged business commitments which must be attended to by certain directors:

1. Mr. LEONG Yue Wing, being a non-executive director of the Company at that time (redesignated as an independent non-executive director with effect from 15 January 2016) and Mr. LI Qi and Mr. YOUNG Shiao Ming (resigned with effect from 15 January 2016), both being independent non-executive directors of the Company, were not present at the annual general meeting and the extraordinary general meeting of the Company held on 17 April 2015; and

2. Mr. YUAN Bing and Mr. LEONG Yue Wing (re-designated as an independent non-executive director with effect from 15 January 2016), being a non-executive directors of the Company at that time, and Mr. POON Chiu Kwok and Mr. YOUNG Shiao Ming (resigned with effect from 15 January 2016), being independent non-executive directors at that time, were not present at the extraordinary general meeting of the Company held on 30 December 2015.

However, Mr. YUAN Bing, being the Chairman and non-executive director of the Company, Mr. REN Xuenong, being executive director and the Chief Financial Officer of the Company and Mr. POON Chiu Kwok, being independent non-executive director of the Company, were present in the annual general meeting and the extraordinary general meeting of the Company held on 17 April 2015; and Mr. REN Xuenong, being the executive director and Chief Financial Officer of the Company and Mr. LI Qi, being independent non-executive director of the Company, were present in the extraordinary general meeting of the Company held on 30 December 2015 to ensure an effective communication with the shareholders.

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, Ms. PANG Siu Yin is a partner of the Company's legal advisor, Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the company secretary of the Company since July 2013. The Company has also assigned Mr. REN Xuenong, an executive director of the Company, as the contact person with Ms. PANG. 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 through the contact person assigned. Given the long-term relationship between Ms. PANG and the Group, she 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 she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. PANG as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Corporation and T.C.L. Industries Holdings (H.K.) Limited (the "Covenantors") signed by them confirming that for the period from 1 January 2015 to 31 December 2015 and up to the date of signing the Confirmation by the relevant Covenantor, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 (the "Deed of Non-Competition") and, in particular, they and their respective Associates have not, directly or indirectly, carry on or be engaged or interested in the research and development, manufacturing and sales relating to AV Products (excluding TV sets), which is from time to time carried on or engaged or interested in by the Group.

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

DIRECTORS

THE BOARD

The Board of Directors, led by the chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the directors in person or through other electronic means of communication.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

There are currently 7 directors, all with professional backgrounds and/or extensive expertise for the direction and oversight of the Group's strategic priorities. The Board of the Company currently comprises the following directors:

Executive Directors
Mr. YU Guanghui
Mr. SONG Yonghong
Mr. REN Xuenong

Non-executive Director
Mr. YUAN Bing *(Chairman)*

Independent Non-executive Directors *(Note 1)*
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. LEONG Yue Wing *(Note 2)*

Notes:

(1) Mr. YOUNG Shiao Ming resigned as an independent non-executive director of the Company with effect from 15 January 2016.

(2) Mr. LEONG Yue Wing was re-designated as an independent non-exeuctive director of the Company with effect from 15 January 2016.

An updated list of the Company's directors by category identifying their role and function is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the director is an independent non-executive director and sets out the respective roles and functions of each director.

The Company identifies the independent non-executive directors in all corporate communications which disclose the names of directors.

Details of the biographies of the directors are given under the section "Director and Senior Management" of this annual report on pages 22 to 30.

Save as disclosed in the Directors and Senior Management profile of this annual report, there are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

CORPORATE GOVERNANCE REPORT

The non-executive directors play an important role on the Board. Accounting for more than one-third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. Throughout the year of 2015, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive directors has represented at least one-third of the Board.

ATTENDANCE RECORD OF DIRECTORS IN 2015

During the year of 2015, the Board held 4 regular meetings at about quarterly intervals and 9 additional meetings. As regards general meeting, the Company held the annual general meeting on 17 April 2015 and one extraordinary general meeting on the same day to consider the matters regarding revision of annual caps of continuing connected transactions; and one extraordinary general meeting on 30 December 2015 to consider matters regarding renewal of exiting continuing connected transactions. Attendance of individual directors at the Board meetings and general meetings in 2015 is as follows:

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Executive Directors			
Mr. YU Guanghui	4/4	7/9	0/3
Mr. SONG Yonghong	4/4	9/9	0/3
Mr. REN Xuenong	4/4	9/9	3/3
Non-executive Directors			
Mr. YUAN Bing *(Chairman)*	4/4	6/9	2/3
Mr. LEONG Yue Wing	4/4	9/9	2/3
Independent Non-executive directors			
Mr. POON Chiu Kwok	4/4	9/9	2/3
Mr. LI Qi	4/4	5/9	1/3
Mr. Young Shiao Ming	4/4	7/9	0/3

Notice of regular Board meetings are served to all directors at least 14 days before the meeting while reasonable notice is generally given for other board meetings.

CORPORATE GOVERNANCE REPORT

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the directors or members of the relevant committees, to ensure that they had sufficient time to review the board papers, be adequately prepared for the meeting, keep the directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each director, upon reasonable request, have access to independent professional advice to assist them in performing their duties to the Company, at the Company's expense. When needed and upon making request to the Board, directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and Audit Committee and Remuneration Committee and Nomination Committee meetings are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the directors or members of the relevant committees in sufficient detail the matters considered and decisions reached, including any concern raised by directors or dissenting views expressed. Any director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all directors or committee members for their record.

According to the current Board practice, any transaction, which involves a conflict of interests between a substantial shareholder or a director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive directors who have no material interest in the said transaction. Directors would abstain from voting and would not be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its directors and officers arising out of corporate activities.

CHAIRMAN AND CHIEF EXECUTIVE

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The position of the Chairman is held by Mr. YUAN Bing while the position of Chief Executive Officer is held by Mr. YU Guanghui during the year ended 31 December 2015. This ensures a clear distinction between the Chairman's duty to manage the Board and the Chief Executive Officer's duty to oversee the overall internal operation of the Company.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF MEMBERS OF THE BOARD

Under article 16.18 of the Company's Article of Association, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring directors shall be eligible for re-election. Any director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting.

At the annual general meeting held on 17 April 2015, Mr. POON Chiu Kwok, Mr. LI Qi and Mr YOUNG Shiao Ming retired from office by rotation and were re-elected as directors thereat.

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive director of his/her independence to the Company. The Company has assessed the independence and considers all of the independent non-executive directors to be independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

The Company confirms that year of service of all INEDs is less than 9 years.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Accordingly, the terms of appointment for the non-executive directors of the Company are as follows:

Name of Non-executive director	Terms of Appointment
Mr. YUAN Bing *(Chairman)*	until Annual General Meeting of the Company ("AGM") to be held in 2016
Mr. LEONG Yue Wing	until AGM to be held in 2016
Mr. POON Chiu Kwok	until AGM to be held in 2018
Mr. LI Qi	until AGM to be held in 2018

NOMINATION OF DIRECTORS

On 12 July 2013, the Board has established a nomination committee (the "Nomination Committee") to provide a framework and set the standards for the appointment of high quality directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

RESPONSIBILITIES OF DIRECTORS

The Company officers work closely with the newly appointed directors both immediately before and after his/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed director. The package also includes information relating to the operations and business of the Group. The directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Company Registry of Hong Kong and The Hong Kong Institute of Directors have also been forwarded to each director for his/her information and/or reference.

The Board views that the non-executive directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board Meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and/or Nomination Committee.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The contribution made by the directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all directors, including executive, independent non-executive and other non-executive directors and ensures the better understanding of the views of shareholders by directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

CORPORATE GOVERNANCE REPORT

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the directors made inquiries during the Board meetings and board committee meetings. The queries raised by directors have received a prompt and full response.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2015 to 31 December 2015:

Directors	Read materials	Attend seminars/ briefings
Executive Directors		
Mr. YU Guanghui	✔	✔
Mr. SONG Yonghong	✔	✔
Mr. REN Xuenong	✔	✔
Non-executive Directors		
Mr. YUAN Bing *(Chairman)*	✔	✔
Mr. LEONG Yue Wing (redesignated as an independent non-executive director with effect from 15 January 2016)	✔	✔
Independent Non-executive Directors		
Mr. POON Chiu Kwok	✔	✔
Mr. LI Qi	✔	✔
Mr. Young Shiao Ming (resigned with effect from 15 January 2016)	✔	✔

SECURITIES TRANSACTIONS GUIDELINES

The Board has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all directors and they have confirmed that throughout the year ended 31 December 2015, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

CORPORATE GOVERNANCE REPORT

The directors' interests in shares of the Company as at 31 December 2015 are set out on pages 63 to 64 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, including any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

MANAGEMENT FUNCTIONS

The Board delegates its powers and authorities from time to time to the Board Committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- corporate governance duties.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

In 2015, the Board had three Board Committees, namely the Remuneration Committee, the Audit Committee and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs. An executive committee was formed on 24 February 2016 for the purpose of efficient administration, operation and management of the business and affairs of the Group.

Attendance of the relevant members of the Board Committees at the meetings of the committees in 2015 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Executive Directors			
Mr. YU Guanghui	N/A	1/1	1/1
Mr. SONG Yonghong	N/A	N/A	N/A
Mr. REN Xuenong	N/A	N/A	N/A
Non-executive Directors			
Mr. YUAN Bing *(Chairman)*	N/A	1/1	1/1
Mr. LEONG Yue Wing	N/A	N/A	N/A
Independent non-executive directors			
Mr. POON Chiu Kwok	4/4	1/1	1/1
Mr. LI Qi	4/4	1/1	1/1
Mr. YOUNG Shiao Ming	4/4	1/1	1/1

Nomination Committee

The Nomination Committee was established on 12 July 2013. A majority of the members are Independent Non-executive Directors. This Committee is chaired by Mr. YUAN Bing a non-executive director with Mr. YU Guanghui, an executive director, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. YOUNG Shiao Ming (resigned with effect from 15 January 2016), being independent non-executive directors as members. The Committee held one meeting during year 2015.

The Nomination Committee is governed by its terms of reference, which are closely aligned with the relevant Code Provisions requirements and are available at both the Company's website www.tonlyele.com and HKEx's website www.hkex.com.hk.

CORPORATE GOVERNANCE REPORT

The main duties of the Nomination Committee include the following:

- determining the policy for the nomination of directors;
- review and supervise the structure, size and composition of the Board;
- identify and recommend qualified individuals to become members of the Board;
- assess the independence of the Independent Non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of directors, and any proposed change to the Board to implement the Company's corporate strategy;

The work performed by the Nomination Committee during 2015 included:

- reviewing policy for nomination of directors;
- reviewing the current Board structure, diversity and composition;

The Nomination Committee follows the procedures below when considering nomination of directors:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive director).
2. Consider the role and capabilities required for the particular vacancy.
3. Identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Make recommendations to the Board on the appointment or re-appointment of directors.

The Nomination Committee uses the following criteria when evaluating the nomination of directors:

1. Common Criteria for All Directors

   (a) Character and integrity

   (b) The willingness to assume broad fiduciary responsibility

   (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company

   (e) Significant business or public experience relevant and beneficial to the Board and the company

   (f) Breadth of knowledge about issues affecting the company

   (g) Ability to objectively analyse complex business problems and exercise sound business judgment

   (h) Ability and willingness to contribute special competencies to Board activities

   (i) Fit with the company's culture

2. Criteria Applicable to Non-executive Directors/Independent Non-executive Directors

   (a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings

   (b) Accomplishments of the candidate in his/her field

   (c) Outstanding professional and personal reputation

   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

Board Diversity Policy

The Company has adopted a board diversity policy ("Board Diversity Policy") in 12 July 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against object criteria, having due regard for the benefits of diversity on the Board. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Board has set measurable objectives (in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Board will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Nomination Committee considers that the current composition of the Board is characterised by diversity after taking into account the Company's own business model and specific needs, whether considered in terms of professional background and skills.

Remuneration Committee

The Remuneration Committee had been chaired by Mr. YOUNG Shiao Ming, an independent non-executive director, until 15 January 2016 (effective date of his resignation). As from 15 January 2016, the Remuneration Committee has been chaired by Mr. LEONG Yue Wing, an independent non-executive director (as redesignated with effect from 15 January 2016) It consists of 4 other members, including Mr. YU Guanghui, Mr. YUAN Bing, Mr. POON Chiu Kwok and Mr. LI Qi, the majority of whom are independent non-executive directors.

The Remuneration Committee is governed by its terms of reference adopted by the Board on 12 July 2013. The terms of reference are made available on the Company's website www.tonlyele.com and HKEx's website www.hkex.com.hk.

The Remuneration Committee was established in 12 July 2013 pursuant to Rule 3.25 of the Listing Rules. It meets from time to time to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by references to corporate goals and objectives resolved by the Board from time to time, and determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

During 2015, the Remuneration Committee accomplished the following:

- assessing the performance of executive directors; and
- discussing and approving the grant of share options to the directors.

The Human Resource Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Emolument Policy and Long-Term Incentive Plan

The Group provides a competitive remuneration package to its directors to attract and retain talents. A large portion of the package for executive directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive directors to achieve the best performance. Part of the remuneration of executive directors may comprise of long-term incentive plan which comprises the share option scheme and the share award scheme. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive plan of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees to consistently perform at a high standard and bring along long-term benefits to the Group.

The Non-executive directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee; and
- awarded shares or share options of the Group under the long term incentive plan, which are awarded subject to the discretion of the Board.

CORPORATE GOVERNANCE REPORT

The fees and any other reimbursement or emolument payable to the Directors and senior management are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee currently comprises 3 members, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing (with effect from 15 January 2016). Mr. POON Chiu Kwok is the chairman of the Audit Committee. Mr. YOUNG Shiao Ming has been a member of the Audit Committee until his resignation took effect on 15 January 2016.

The Audit Committee usually meets 4 times a year to review and monitor the integrity of the Group's financial statements. The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee is governed by its terms of reference adopted on 12 July 2013 pursuant to the Revised Code. The terms of reference are made available on the Company's website www.tonlyele.com and HKEx's website www.hkex.com.hk.

The work performed by the Audit Committee during 2015 included consideration of the following matters:

- the completeness and accuracy of the 2015 annual, interim and quarterly financial statements;
- the Company's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Company;
- review of the effectiveness of the system of internal control of the Group;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors which the Board agreed and accepted.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Committee is also supported by the staff of internal audit department and the external auditor.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" on pages 72 to 74.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 74 to 163 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out in pages 8 to 21 in this report.

The Management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The Management also provides all directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for ensuring that an effective risk management and internal control system is maintained within the Company. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of risk management and internal controls. The risk management and internal control systems are reviewed on annual basis. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the risk management and internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Company has adopted a set of risk management and internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Executive Committee of the Board.

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the auditor's report, which often cover issues relating to internal control. The Audit Committee also reviews the risk management and internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company's internal audit department independently reviewed the effectiveness of the risk management and internal controls, including financial, operational and compliance, in the key business activities of the Company. The internal audit department has also reviewed (i) the internal control mechanism and its implementation, (ii) project basis auditing and made recommendations for improvement, and (iii) management of tendering and made recommendations for improvement. The head of the Company's internal audit department reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the system of internal control of the Group.

CORPORATE GOVERNANCE REPORT

External auditors will also report on the weakness in the Group's internal control and accounting procedure which have come to their attention during the course of their audit.

For the year of 2015, no critical internal control issues have been identified.

The Audit Committee has reviewed the effectiveness of the Group's internal control and risk management system and is of the opinion that the resources for and qualifications of staff of the Company's accounting and financial reporting function are adequate and effective. Based on information furnished to it and on its own observations, the Audit Committee is satisfied with the adequacy and effectiveness of the internal control system of the Group.

AUDITORS' REMUNERATION

For the year under review, the remuneration paid for services provided by the auditors, Ernst & Young is roughly as follows:

Statutory audit services	HK$1,830,000
Non-audit services (which include taxation compliance, agreed upon procedures and other professional services)	HK$1,645,000
Continuing connected transactions	HK$120,000

COMPANY SECRETARY

The position of Company Secretary is held by Ms. PANG Siu Yin, a practising solicitor of Hong Kong, who is not an employee of the Company. The Company Secretary can contact the Company through the Finance Director of the Company, Mr. REN Xuenong. The Company Secretary is responsible to the Board and reports to the Board Chairman from time to time. All directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

Ms. PANG is required to take no less than 15 hours of relevant professional training each year. She has fulfiled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group strives to uphold a high level of corporate transparency and provides full support to the investor relations team by involving senior management in close contact and interactive dialogue with research analysts and institutional investors through different channels including meetings, teleconferences, luncheons and plant visits. The Company also keeps investors abreast of its latest corporate information through releasing monthly shipment data of its core products.

CORPORATE GOVERNANCE REPORT

In addition to frequent meetings with investors, the Group arranged non-deal road shows and investor conference in Nanjing, Xiamen, Hong Kong, Shanghai and Shenzhen in which analysts and fund managers attended with favorable response during the year under review.

Key Investor Events in 2015

Date	Events
2015	
May	Investor conference in Nanjing (Organised by CICC)
	Investor conference in Xiamen (Organised by SWS)
	Investor conference in Hong Kong (Organised by Goldman Sachs)
June	Investor conference in Hong Kong (Organised by KIMENG)
September	Investor conference in ShenZhen (Organised by Morgan Stanley)
	Non-deal road show in Shanghai (Organised by Essence Securities)
	Non-deal road show in Shenzhen (Organised by CICC)
October	Investor conference in Hong Kong (Organised by SWS)
November	Non-deal road show in Shanghai (Organised by CICC)

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the Independent Board Committee, are available to answer questions at the shareholders' meetings.

The external auditor of the Company, Messes. Ernst & Young also attended the Annual General Meeting held on 17 April 2015 to answer questions about the conduct of the audit, the preparation and content of the auditor's report, and auditor independence. The independent financial adviser, South China Capital Limited, also attended the extraordinary general meeting held on 17 April 2015 where revision of annual caps of two major and continuing connected transactions was considered and approved, to answer shareholders enquiries thereat. The independent financial adviser, Gram Capital Limited, also attended the extraordinary general meeting held on 30 December 2015 where renewal of exiting continuing connected transactions was considered and approved, to answer shareholders' enquiries thereat.

VOTING BY POLL

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings were held.

SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

General meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Based on the requirement under Code, a Shareholders Communication Policy was formulated in 12 July 2013 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the shareholders communication policy had been reviewed by the Board during the year.

All published information, including all the statutory announcements, press release and event calendars, is promptly posted on the Group's website at http://tonlyele.com. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholders' meetings to the Board or senior management.

CORPORATE GOVERNANCE REPORT

In addition to the general meetings, press conferences and analysts briefings are held at least four times a year subsequent to the quarterly, interim and final results announcements in which the directors and management are available to answer questions about the Group. Investors can also submit enquiries to management by sending emails to ir@tonlyele.com or by call to our investor hotline at (852) 2437 7430. The Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

CONSTITUTIONAL DOCUMENTS

In 2015, no amendment had been made to the memorandum and articles of association of the Company.

CONCLUSION

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website http://www.tonlyele.com. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the board or senior management by contacting the Investor Relations Department via e-mail to ir@tonlyele.com, or directly through the questions and answers session at shareholder meetings or press conference.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

HUMAN RESOURCES:

In 2015, adhering to the spirit of the business development strategy, "transformation and entrepreneurship", the Company enforced a series of human resources management works and made a lot of productive efforts for the selection and training of new technical personnel, establishment of project-oriented incentives, creation of "learn and growth" atmosphere within the organization, as well as optimal allocation of human resources.

1. BASIC INFORMATION ON HUMAN RESOURCES

As at 31 December 2015, a total of 5,117 people were employed, the distribution of which is set out as follows:

Mainland China:	5,111
Hong Kong, China:	3
Overseas	3

Faced with the unpromising domestic and international economic environments and other difficulties, the Company's sales volume was basically flattish compared with that in the same period last year. However, attributable to enhanced corporate operational efficiency and adoption of automation technologies, the total number of employees was maintained at last year's scale, excluding the number of employees in acquired company. Under such circumstances, emphasis was laid on scientific knowledge and optimization in the process of staff allocation. On the training front, the Company has adopted a "continuous learning and growth" approach to increase employee efficiency as well as individual and team professional capabilities aiming at reducing the Company's labour costs to the maximum.

2. CORE WORK OF HUMAN RESOURCES

In 2015, Tonly actively expanded the core business to diversified territories of audio and video products. In particular, we continued to improve synergies by vertically integrating upstream and downstream industries which laid a solid foundation for the Company's sustainable development. To keep in line with changes in the development strategy and business models, the Company has taken a series of positive and effective measures to elevate staff efficiency and professional capacity, encourage work inspiration, fabricate harmonious organization atmosphere and enhance growth of employees.

Facing the advancement of technologies and emerging innovative products in the consumer electronics industry while upholding the spirit of "transformation and entrepreneurship", the Company is committed to becoming one of the few superior audio and video products ODM suppliers having capability along the whole industry chain through its industrial competitiveness of independent research and development as well as technological innovation and the vertical integration of the supply chain and the strategic layout abroad.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

By combing the organizational structure and core processes, organizational effectiveness was improved. The core processes were continuously optimized as well. Meanwhile, we established the "product line" and "business line" end to end incentive model to promote prompt delivery of products and ensure customer's satisfactions.

The Company has established reward scheme which addressed compensation, benefits, recognition and appreciation to cultivate staff to be customer-oriented while interrelating staff benefits with project performances and team compatibility. Meanwhile, the Company is committed to creating a "happy work and healthy life" work atmosphere through activities like skill contest, staff proposal, team development and interest associations in order to raise involvement and create a sense of belonging of staffs while supporting the development of business at the same time.

The Company has always put increasing resources in the developments and trainings of personnel. In the past year, to coordinate the Company's demand for professionals, the Company continually sought for the industry's professionals and carried out an "Elite Eagle Training Programme" to focus on the development of the capabilities of technical professionals and reinforce knowledge training in key business areas. In addition, to encourage the development and rapid transformation of newly-appointed junior management cadres, a new "Sino-European Online Learning and Offline Sharing" training event led by the Company's human resources was successfully held for three sessions and over 40 junior cadres were trained. Employees and the Company have therefore synchronized their growth when supporting rapid operation development.

The Company strived to consummate the human resources policies and systems and promote the perfection and use of Electronic Human Resources (E-HR) system so as to achieve systematic business processes and improve efficiency and quality of personnel services through standardized IT systems.

SOCIAL RESPONSIBILITIES

During the year under review, the Group has always adhered to its principle of performing social responsibility, and contributed to the community with concrete action by actively taking part in campaigns such as public charity, educational support, environmental protection and construction.

Social responsibility management system is an important part of the Company's overall business management system. The Company is committed to protect the rights of employees and external personnel, creating documentation of the social responsibility management system, paying efforts to prevent and reduce harm to the process of production of social responsibility. The Company's social responsibility management system adheres to the Company's standards and requirements carried out by the "plan, do, check, review" dynamic cycle. In the year under review, the Company has passed a total of more than 60 customers' reviews.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

FOCUS ON EDUCATION

The Company is committed to "shouldering social responsibility and becoming an outstanding corporate citizen" and pays close attention to the educational undertakings.

SCHOOL-ENTERPRISE COOPERATION

– In recent years, the Group has visited a number of campuses and attracted and reserved a group of talents who tally with the characteristics of the Company's development. We have held some seminars for such "Eyas" that enable them to understand the full picture of the Company's development, gain in-depth knowledge of the Company's culture, learn how to plan their personal development via scientific career planning, prepare unyielding minds to cope with future challenges, obtain preliminary understanding on the background business knowledge required in their work and complete mental transformation from a student to an employee in order to obtain growth through experience.

– In order to make sure that manufacturing employment and technical personnel needs are met for the development, the Company has gradually solidified colleges and school-enterprise cooperation projects. In 2015, the Company opened "Tonly Class" in Huanggang Polytechnic College, Hengyang Technician College, Yunfu City School and Guangxi Talent International College respectively, the Company took full participation in teaching management and assessment, and provided the necessary instructional support to schools, and also provided the academically excellent students special training and scholarships support.

ENVIRONMENTAL PROTECTION

– Adhering to the highly responsible attitude toward employees, customers and the environment, in the product formation process from raw materials to market, toxic and hazardous substances are strictly regulated and controlled, and toxic and hazardous substances are prohibited to enter all aspects of production, packaging, distribution, marketing, etc., and any harm of the health of employees and consumer safety, destruction of natural environment and other serious incidents is prohibited.

– On 21 March 2015, in order to practice the social responsibility of forest conservation, expansion of forest resources and improving the ecological environment, hundreds of youth volunteers of Tonly's Party Working Committee participated in the voluntary tree-planting and environmental protection activity with the theme of "Green Earth, starting with me" in Safflower Lake Scenic Area for the fourth consecutive year. The tree-planting activity received strong support from Safflower Lake Scenic Area CMC and was highly valued.

REPORT OF THE DIRECTORS

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2015.

CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 February 2013. On 15 August 2013, the shares of the Company ("Shares") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There was no significant change in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the section headed "Management Discussion and Analysis" of this Annual Report.

To the Company's knowledge, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group.

For the key relationships with its employees and the Group's environmental policies and performance, please refer to the "Human Resources & Social Responsibility" section of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 74 to 163.

The Board has recommended a final dividend, for the year ended 31 December 2015, of HK25 cents in cash per share.

Subject to approval at the forthcoming annual general meeting, the said final dividend will be payable on or about 16 May 2016, Monday to shareholders whose names appear on the register of members of the Company on 3 May 2016, Tuesday.

The register of members of the Company will be closed on 22 April 2016, Friday, 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 on that date. 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 21 April 2016, Thursday.

REPORT OF THE DIRECTORS

The register of members of the Company will be closed from 3 May 2016, Monday, to 5 May 2016, 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 29 April 2016, Friday.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/ reclassified as appropriate, is set out on page 164. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital (including issue of shares by the Company) during the year, together with the reasons therefore, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Pursuant to the rules of the restricted share award scheme adopted by the Company on 28 August 2014, the Company instructed the trustee for the scheme to purchase from the market a total of 3,262,000 shares being the restricted shares during the year. The total amount paid to acquire such shares was approximately HK$19,606,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately HK$437,632,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contribution.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

The five largest supplied combined contributed to less than 30% of the Group's purchases.

Sales

– the largest customer	22%
– the five largest customers combined	76%

None of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2015 and up to the date of this report were:

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

Non-executive Directors:
Mr. YUAN Bing *(Chairman)*
Mr. LEONG Yue Wing *(Note)*

Independent Non-executive Directors:
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. YOUNG Shiao Ming *(Note)*

Note:

Mr. YOUNG Shiao Ming resigned as an Independent Non-executive Director of the Company and Mr. LEONG Yue Wing was re-designated as an Independent Non-executive Director of the Company with effect from 15 January 2016.

In accordance with article 16.18 of the Company's articles of association, Mr. YUAN Bing, Mr. LEONG Yue Wing and Mr. YU Guanghui will retire by rotation. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

Each of the existing Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and hence are independent.

REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Particulars of the remuneration of the directors and the five highest paid employees during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 33 to 54 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the directors.

REPORT OF THE DIRECTORS

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 2.4 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 30 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the financial year.

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

As at 31 December 2015, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held Personal Interest	Number of ordinary shares held Other Interest	Number of shares held under equity derivatives	Total	Approximate percentage of issued share capital of the Company
YU Guanghui	–	26,358,607	561,456 *(Note 1)*	26,920,063	10.80
SONG Yonghong	–	26,358,607	430,450 *(Note 2)*	26,789,057	10.75
REN Xuenong	72,000	–	224,582	296,582	0.12
YUAN Bing	–	–	557,000	557,000	0.22
LEONG Yue Wing	74,200	–	334,200	408,400	0.16
POON Chiu Kwok	–	–	334,200	334,200	0.13
YOUNG Shiao Ming	–	–	334,200	334,200	0.13
LI Qi	–	–	334,200	334,200	0.13

(B) Interests in Associated Corporation of the Company – Long Positions
TCL Corporation *(Note 3)*

Name of Director	Nature of Interest	Interest in shares held	Approximate percentage of issued share capital of the relevant associated corporation
YU Guanghui	Beneficial owner	307,800	0.003

(C) Interests in Associated Corporation of the Company – Long Positions
TCL Multimedia *(Note 4)*

Name of Director	Nature of Interest	Interests in shares held	Appropriate percentage of issued share capital of the relevant associated corporation
LEONG Yue Wing	Beneficial owner	494,672	0.04

(D) Interests in Associated Corporation of the Company – Long Positions
TCL Communication *(Note 5)*

Name of Director	Nature of Interest	Interests in shares held	Appropriate percentage of issued share capital of the relevant associated corporation
YU Guanghui	Beneficial owner	740	0.00

Notes:

1. As at 31 December 2015, Run Fu Holdings Limited ("Run Fu") was owned as to 44.44% by Huizhou Yinhuiyu Investment Partnership Enterprise (Limited Partnership) ("Yinhuiyu") in which Mr. YU Guanghui and his wife respectively held 99% and 1% effective interest. Accordingly, Run Fu is a controlled corporation of Mr. YU Guanghui and hence Mr. YU was deemed to be interested in 10.58% interest in the Company held by Run Fu.

2. As at 31 December 2015, Run Fu was owned as to 55.56% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) ("Guangsheng") in which Mr. SONG Yonghong held 37% effective interest. Accordingly, Run Fu is a controlled corporation of Mr. SONG Yonghong and hence Mr. SONG was deemed to be interested in 10.58% interest in the Company held by Run Fu.

3. TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

4. TCL Multimedia is a subsidiary of TCL Corporation.

5. TCL Communication is a subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2015, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2015, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(i) Long positions in shares of the Company:

Name of Shareholder	Nature of Interest	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	125,234,170 *(Note 1)*	50.26 *(Note 2)*
Run Fu Holdings Limited ("Run Fu")	Beneficial owner	26,458,607 *(Note 3)*	10.62

Notes:

1. For the purpose of SFO, TCL Corporation was deemed to be interested in the 125,234,170 Shares through its controlled corporation, TCL Industries (its direct wholly-owned subsidiary).

2. Such percentage was calculated based on the issued share capital of the Company as at the Latest Practicable Date, being 249,162,626 Shares in issue.

3. This is the figure recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO. The Company has been notified by Run Fu that the holding of Run Fu as at 31 December 2015 was 26,358,607 shares of the Company. However, the decrease of such holding did not give rise to any disclosure obligation under the SFO.

Save as disclosed above, as at 31 December 2015, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year ended 31 December 2015 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The following share options were outstanding under the share option scheme adopted by the Company on 17 April 2014 during the year:

	Number of share options								
Name or category of participant	At 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2015	Date of grant of share options	Exercise price of share options (HK$)	Exercise period of share options	Share price immediate before the date of grant of share options (HK$)
Directors									
Executive directors									
YU Guanghui	561,456 (Note 1)	-	-	-	561,456 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
SONG Yonghong	430,450 (Note 1)	-	-	-	430,450 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
REN Xuenong	224,582 (Note 1)	-	-	-	224,582 (Note 1)	30 September 2014	6.020 (Note 1)	Note 3	6.45
Non-executive directors									
YUAN Bing	557,000 (Note 1)	-	-	-	557,000 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
LEONG Yue Wing	334,200 (Note 1)	-	-	-	334,200 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45

Name or category of participant	At 1 January 2015	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2015	Date of grant of share options	Exercise price of share options (HK$)	Exercise period of share options	Share price immediate before the date of grant of share options (HK$)
Independent Non-executive Directors									
POON Chiu Kwok	334,200 (Note 1)	-	-	-	334,200 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
LI Qi	334,200 (Note 1)	-	-	-	334,200 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
YOUNG Shiao Ming	334,200 (Note 1)	-	-	-	334,200 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
Sub-total	3,110,288				3,110,288				
Other employees and those who have contributed or may contribute to the Group	11,343,862 (Note 1)	-	194,560	736,354	10,412,948 (Note 1)	30 September 2014	6.020 (Note 2)	Note 3	6.45
Sub-total	11,343,862				10,412,948				
Total	14,454,150 (Note 1)				13,523,326				

Note:

(1) After adjustment due to the completion of the rights issue on 21 November 2014.

(2) As a result of the completion of the rights issue on 21 November 2014, the exercise price of the share options was adjusted from HK$6.706 to HK$6.020.

(3) 50% of such share options are exercisable commencing from 1 May 2015 to 30 September 2017, and the remaining 50% are exercisable commencing from 1 May 2016 to 30 September 2017.

The total number of shares of the Company that could be issued upon exercise of (i) all outstanding share options and (ii) all share options that could be granted under the then available scheme mandate limit as at 31 December 2015 was 13,523,326 and 24,898,406 shares respectively, which represented about 5.4% and 10.0% of the issued share capital of the Company as at 31 December 2015.

REPORT OF THE DIRECTORS

RESTRICTED SHARE AWARD SCHEME

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

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

	Number of Restricted Shares						
	Granted but not vested as at 1 January 2015	Granted during the year ended 31 December 2015	Vested during the year ended 31 December 2015	Lapsed during the year ended 31 December 2015	Granted but not vested as at 31 December 2015	Grant Date(s)	Vesting Date(s)
Directors	-	-	-	-	-		
Employees	-	523,216	73,161	5,769	444,286	21 May 2015	15 June 2015 (as to 73,161 Restricted Shares) 15 May 2016 (as to 73,147 Restricted Shares) 15 May 2018 (as to 376,908 Restricted Shares)

As at 31 December 2015, 16,080,424 further Restricted Shares might be granted to the eligible participants of the Scheme, which represented about 6.5% of the issued share capital of the Company as at 31 December 2015.

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transaction and continuing connected transactions with TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being an associate (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Corporation Group").

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2015:

(a) Pursuant to the Technology Support Services and Trade Name Licence Agreement dated 12 July 2013 entered into between the Company and TCL Corporation, TCL Corporation has granted to the Group, a non-exclusive, non-licensable and non-transferable licence to use (i) the general technology support services provided by TCL Corporation Group; and (ii) to use "TCL" trade name and other trade names from time to time used by TCL Group. During the year under review, HK$7,046,000 was paid by the Group to TCL Corporation Group as licence fee.

(b) Pursuant to the Master Lease (Tenant) Agreement dated 12 July 2013 entered into between the Company and TCL Corporation, the Group leased certain premises from TCL Group. During the year under review, HK$9,152,000 was paid by the Group to TCL Corporation Group as rental, repair and maintenance fee under the Master Lease (Tenant) Agreement as supplemented by the supplemental agreement dated 27 August 2014.

(c) Pursuant to the Master Overseas Materials Sourcing Agreement dated 12 July 2013 entered into between the Company and TCL Corporation, the Group (i) purchased overseas materials form TCL Group amounting to HK$69,558,000 (inclusive of administrative expense paid) and (ii) sold overseas materials amounting to HK$62,157,000 during the year, to TCL Corporation Group.

(d) Pursuant to the Master Sale and Purchase Agreement dated 12 July 2013 entered into between the Company and TCL Corporation, the Group (i) sold components, parts and accessories to TCL Corporation Group amounting to HK$45,060,000 and (ii) sourced components and parts from TCL Corporation Group amounting to HK$38,573,000 during the year.

(e) Pursuant to the Master Financial Services Agreement dated 21 October 2013 entered into among the Company, TCL Finance Company Limited ("Finance Company", a non-wholly owned subsidiary of TCL Corporation) and TCL Corporation, the Group paid HK$276,000 as fees for the other financial services provided by Finance Company during the year. The maximum daily balance of deposits placed by the Group with Finance Company during the year was HK$599,365,000.

    The interest rates offered by Finance Company were not lower than the interest rates offered by other independent financial institution during the year. Pursuant to the Master Financial Services Agreement, if any relevant member of the Group demands repayment of any deposits placed by it with Finance Company in accordance with the terms and procedure thereof and Financial Company fails to follow the repayment demand, such member of the Group shall have the right to request TCL Corporation to repay the outstanding amount on behalf of Finance Company in full. There was no collateral provided by Finance Company for the deposit placed by the Group during the year.

REPORT OF THE DIRECTORS

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the abovementioned continuing connected transactions were entered into:

(a) in the ordinary and usual course of the Group's business;

(b) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(c) either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certificated Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, the controlling shareholder and any of its subsidiaries had no contract of significance with the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 33 to 54 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry with all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2015.

CHANGE IN INFORMATION OF DIRECTORS

Mr. POON Chiu Kwok was appointed as an independent non-executive director of AUX International Holdings Limited (formerly known as Magnum Entertainment Group Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2080),an independent non-executive director of Jinheng Automotive Safety Technology Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 872) and an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 631), on 15 May 2015, 1 September 2015 and 18 December 2015 respectively.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme and the Award Scheme as disclosed above and in note 27 to the financial statements respectively and the grant letters issued pursuant to the schemes, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that the Directors shall be indemnified out of the assets of the Company from and against all losses or liabilities which they incur or sustain as a Director of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the Directors and directors of the subsidiaries of the Group.

ON BEHALF OF THE BOARD

YUAN BING
Chairman

Hong Kong
29 February 2016

INDEPENDENT AUDITORS' REPORT

EY 安永

To the shareholders of Tonly Electronics Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tonly Electronics Holdings Limited (the "Company") and its subsidiaries set out on pages 74 to 163, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
29 February 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
TURNOVER	5	**4,857,228**	5,421,007
Cost of sales		**(4,252,593)**	(4,754,614)
Gross profit		**604,635**	666,393
Other income and gains, net	5	**131,248**	83,548
Selling and distribution costs		**(156,976)**	(189,088)
Administrative expenses		**(190,303)**	(180,826)
Research and development costs	7	**(188,264)**	(174,710)
Other operating expenses, net	7	**(6,320)**	(12,687)
		194,020	192,630
Finance costs	6	**(6,553)**	(6,686)
Share of profits and losses of associates		**(1,353)**	1
PROFIT BEFORE TAX	7	**186,114**	185,945
Income tax expense	10	**(18,505)**	(24,560)
PROFIT FOR THE YEAR		**167,609**	161,385
OTHER COMPREHENSIVE LOSS			
Other comprehensive 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		**(23,538)**	(4,839)
Reclassification adjustments for losses included in the consolidated statement of profit or loss		**4,839**	–
		(18,699)	(4,839)
Exchange fluctuation reserve:			
Translation of foreign operations		**(42,416)**	(1,915)
Release upon disposal of a subsidiary		**556**	–
		(41,860)	(1,915)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(60,559)**	(6,754)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**107,050**	154,631

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Profit attributable to:			
Owners of the parent		**166,479**	149,894
Non-controlling interests		**1,130**	11,491
		167,609	161,385
Total comprehensive income attributable to:			
Owners of the parent		**107,004**	144,042
Non-controlling interests		**46**	10,589
		107,050	154,631
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK67.53 CENTS**	HK88.25 cents
Diluted		**HK67.35 CENTS**	HK88.25 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	471,000	465,608
Prepaid land lease payments	14	73,661	38,960
Goodwill	15	4,279	–
Other intangible asset	16	482	–
Investments in associates	17	20,661	–
Deferred tax assets	26	80,374	80,247
Total non-current assets		650,457	584,815
CURRENT ASSETS			
Inventories	18	334,310	432,187
Trade receivables	19	1,079,186	978,182
Bills receivable		7,190	15,168
Prepayments, deposits and other receivables	20	232,804	187,443
Tax recoverable		2,577	2,381
Derivative financial instruments	21	6,380	840
Cash and cash equivalents	22	889,892	938,303
Total current assets		2,552,339	2,554,504
CURRENT LIABILITIES			
Trade payables	23	1,068,587	1,087,559
Bills payable		9,508	19,903
Other payables and accruals	24	683,644	631,768
Tax payable		91,537	97,558
Derivative financial instruments	21	31,453	8,011
Provisions	25	214,886	196,539
Total current liabilities		2,099,615	2,041,338
NET CURRENT ASSETS		452,724	513,166

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,103,181**	1,097,981
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**92**	2,655
Net assets		**1,103,089**	1,095,326
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**249,163**	248,968
Reserves	28	**853,926**	818,499
		1,103,089	1,067,467
Non-controlling interests		**–**	27,859
Total equity		**1,103,089**	1,095,326

YUAN Bing
Director

YU Guanghui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to owners of the parent													
	Notes	Share capital HK$'000	Share premium account HK$'000 (Note 27)	Share option reserve HK$'000 (Note 28(i))	Reserve funds HK$'000 (Note 28(ii))	Capital reserve HK$'000 (Note 28(iii))	Merger reserve HK$'000 (Note 28(iv))	Hedging reserve HK$'000 (Note 28(v))	Exchange fluctuation reserve HK$'000	Shares held for the Award Scheme HK$'000 (Note 27)	Awarded share reserve HK$'000 (Note 28(vi))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2014		133,316	-	-	58,513	11,251	(6,059)	-	54,975	-	-	172,705	424,701	124,526	549,227
Profit for the year		-	-	-	-	-	-	-	-	-	-	149,894	149,894	11,491	161,385
Other comprehensive income for the year:															
Cash flow hedge		-	-	-	-	-	-	(4,839)	-	-	-	-	(4,839)	-	(4,839)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(1,013)	-	-	-	(1,013)	(902)	(1,915)
Total comprehensive income for the year		-	-	-	-	-	-	(4,839)	(1,013)	-	-	149,894	144,042	10,589	154,631
Rights issue	27	82,989	340,256	-	-	-	-	-	-	-	-	-	423,245	-	423,245
Share issue expenses	27	-	(1,993)	-	-	-	-	-	-	-	-	-	(1,993)	-	(1,993)
Acquisition of non-controlling interests	33(d)	32,663	160,046	-	-	(85,453)	-	-	-	-	-	-	107,256	(107,256)	-
Equity-settled share option arrangements		-	-	5,739	-	-	-	-	-	-	-	-	5,739	-	5,739
Purchase of shares for the Award Scheme	27	-	-	-	-	-	-	-	-	(3,794)	-	-	(3,794)	-	(3,794)
Final 2013 dividend declared		-	-	-	-	-	-	-	-	-	-	(31,729)	(31,729)	-	(31,729)
Transfer from retained profits		-	-	-	3,937	-	-	-	-	-	-	(3,937)	-	-	-
At 31 December 2014 and 1 January 2015		248,968	498,309*	5,739*	62,450*	(74,202)*	(6,059)*	(4,839)*	53,962*	(3,794)*	-*	286,933*	1,067,467	27,859	1,095,326
Profit for the year		-	-	-	-	-	-	-	-	-	-	166,479	166,479	1,130	167,609
Other comprehensive income for the year:															
Cash flow hedges		-	-	-	-	-	-	(18,699)	-	-	-	-	(18,699)	-	(18,699)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(41,332)	-	-	-	(41,332)	(1,084)	(42,416)
Release upon disposal of a subsidiary	33(c)	-	-	-	-	-	-	-	556	-	-	-	556	-	556
Total comprehensive income for the year		-	-	-	-	-	-	(18,699)	(40,776)	-	-	166,479	107,004	46	107,050
Acquisition of non-controlling interests	33(b)	-	-	-	-	(3,021)	-	-	-	-	-	-	(3,021)	(12,064)	(15,085)
Disposal of a subsidiary	33(c)	-	-	-	(2,530)	-	-	-	-	-	-	2,530	-	(15,841)	(15,841)
Equity-settled share option arrangements		-	-	11,630	-	-	-	-	-	-	-	-	11,630	-	11,630
Issue of shares upon exercise of share options	27	195	1,224	(248)	-	-	-	-	-	-	-	-	1,171	-	1,171
Share options forfeited during the year		-	-	(887)	-	-	-	-	-	-	-	-	(887)	-	(887)
Purchase of shares for the Award Scheme	27	-	-	-	-	-	-	-	-	(19,606)	-	-	(19,606)	-	(19,606)
Vesting of shares under the Award Scheme		-	-	-	-	-	-	-	-	440	26	-	466	-	466
Employee share-based compensation benefit under the Award Scheme		-	-	-	-	-	-	-	-	-	766	-	766	-	766
Final 2014 dividend declared		-	(61,901)	-	-	-	-	-	-	-	-	-	(61,901)	-	(61,901)
Transfer from retained profits		-	-	-	9,817	-	-	-	-	-	-	(9,817)	-	-	-
At 31 December 2015		249,163	437,632*	16,234*	69,737*	(77,223)*	(6,059)*	(23,538)*	13,186*	(22,960)*	792*	446,125*	1,103,089	-	1,103,089

* These reserve accounts comprise the consolidated reserves of HK$853,926,000 (2014: HK$818,499,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		186,114	185,945
Adjustments for:			
Finance costs	6	6,553	6,686
Share of profits and losses of associates		1,353	(1)
Interest income	5	(13,807)	(41,772)
Loss on liquidation of a subsidiary	7	–	8
Gain on disposal of a subsidiary	7	(3,984)	–
Loss on disposal of an associate	7	–	25
Loss on deemed partial disposal of an associate	7	758	–
Loss on disposal of items of property, plant and equipment	7	939	290
Unrealised fair value (gain)/loss on derivative financial instruments, net – transactions not qualifying as hedges	7	(799)	2,333
Depreciation	7	58,207	40,975
Amortisation of other intangible asset	7	33	–
Amortisation of prepaid land lease payments	7	1,358	634
(Reversal)/impairment of trade receivables, net	7	(1,558)	12,364
Equity-settled share option expense	7	10,743	5,739
Employee share-based compensation benefits under the Award Scheme	7	1,232	–
		247,142	213,226
Decrease in inventories		114,420	26,029
Increase in trade receivables		(56,797)	(116,773)
(Increase)/decrease in prepayments, deposits and other receivables		(46,152)	10,982
(Increase)/decrease in bills receivable		(411)	6,747
(Decrease)/increase in trade payables		(92,716)	131,133
Decrease in bills payable		(10,395)	(199,635)
Increase in other payables and accruals		81,161	22,257
Increase in provisions		31,058	16,114
Cash generated from operations		267,310	110,080
Interest paid		(6,553)	(6,686)
Hong Kong profits tax paid		(881)	(5,982)
Overseas taxes paid		(27,645)	(14,410)
Net cash flows from operating activities		232,231	83,002

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Net cash flows from operating activities		**232,231**	83,002
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**13,807**	41,772
Purchases of items of property, plant and equipment		**(96,001)**	(117,119)
Acquisition of a subsidiary	33(a)	**(48,845)**	–
Disposal of a subsidiary	33(c)	**(9,567)**	–
Investments in associates		**(3,916)**	–
Prepayment of land lease payments		**(41,403)**	–
Disposal of other investment		**–**	135,991
Proceeds from disposal of items of property, plant and equipment		**2,202**	2,554
Net cash flows (used in)/from investing activities		**(183,723)**	63,198
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares	27	**–**	423,245
Purchase of shares for the Award Scheme	27	**(19,606)**	(3,794)
Proceeds from issue of share upon exercise of share options	27	**1,171**	–
Share issue expenses	27	**–**	(1,476)
New bank loan		**–**	38,757
Repayment of a bank loan		**–**	(38,757)
Dividends paid		**(61,901)**	(31,729)
Dividend paid to non-controlling shareholders		**–**	(8,400)
Net cash flows (used in)/from financing activities		**(80,336)**	377,846
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(31,828)**	524,046
Cash and cash equivalents at beginning of year		**938,303**	410,460
Effect of foreign exchange rate changes, net		**(16,583)**	3,797
CASH AND CASH EQUIVALENTS AT END OF YEAR		**889,892**	938,303
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**889,892**	938,303

1. CORPORATE AND GROUP INFORMATION

Tonly Electronics Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located at 13/F, TCL Tower, 8 Tai Chung Road, Tsuen Wan, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the manufacture and sale of audio-visual products and the rendering of research and development services.

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tonly International Limited	British Virgin Islands/ Hong Kong	US$100	100	–	Investment holding
Tonly Electronics Limited ("TEL")	British Virgin Islands/ Hong Kong	HK$105,800,000	–	100 (Note 33(d))	Investment holding
TCL Technology (HK) Company Limited	Hong Kong	HK$50,000,000	–	100	Trading of audio-visual products and components
TCL OEM Sales Limited	Hong Kong	HK$2	–	100	Trading of audio-visual products and components

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
TCL Technoly Electronics (Huizhou) Co., Ltd.*/# (TCL通力電子(惠州)有限公司)	PRC	RMB161,500,000	–	100	Manufacture and sale of audio-visual products and components
Huizhou TCL Audio Video Electronics Co., Ltd.*/# (惠州TCL音視頻電子有限公司)	PRC	RMB25,000,000	–	100	Manufacture and sale of audio-visual products and components
Xi'an TCL Software Development Co., Ltd.*/# (西安TCL軟體發展有限公司)	PRC	US$2,000,000	–	100	Software development
Shenzhen Tongli Science and Technology Development Co., Ltd.# (深圳市通力科技開發有限公司)	PRC	RMB10,000,000	–	100	Software development
FP Group Limited ("FP")	Hong Kong	US$5,000,000	–	100	Investment holding
FP Group (Dongguan) Limited*/# (東莞普笙電子科技有限公司)	PRC	RMB31,700,000	–	100	Manufacture and sale of audio-visual products and components

* Registered as wholly-foreign-owned enterprises under PRC law

\# The English names of these companies are not official and are direct translation from their Chinese names for identification purposes only.

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

During the year, the Group acquired FP and FP Group (Dongguan) Limited (collectively, the "FP Group") from an independent third party. Further details of this acquisition are included in note 33(a) to the financial statements.

During the year, the Group's interest in Guangdong Regency Optics-Electron Corp. ("Guangdong Regency") was diluted from 60% to 26.32% and Guangdong Regency was then accounted for by the Group as an associate. Further details of this deemed disposal are included in note 33(c) to the financial statements.

2.1 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 2015. 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.

2.1 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

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 in the accounting policy for subsidiaries below. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

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

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
4 No mandatory effective date is determined but is available for early adoption

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

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 and is currently assessing the impact of the standard.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The 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 amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

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 September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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 statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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 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 to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN ASSOCIATES

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT (CONTINUED)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	20%
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 33.3%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and plant and machinery in the process of installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (including derivate financial instruments), loans and receivables or available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, trade and bills receivables, other receivables and derivative financial instruments (the accounting policy of which is further explained in the accounting policy under the section "Derivative financial instruments and hedge accounting").

Subsequent measurement

The subsequent measurement of financial assets as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and derivative financial instruments (the accounting policy of which is further explained in the accounting policy under the section "Derivative financial instruments and hedge accounting").

Subsequent measurement

The subsequent measurement of financial liabilities as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Cash flow hedges (continued)

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

TREASURY SHARES

Own equity instruments which are reacquired and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT GRANTS

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the rendering of services, when the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

EMPLOYEE BENEFITS

Share-based payments

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (continued)

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

OTHER EMPLOYEE BENEFITS

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT COSTS

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

DIVIDENDS

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting.

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENT

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Derecognition of financial assets – Receivable purchase arrangements

The Group has entered into certain receivable purchase arrangements with banks on its trade receivables. As at 31 December 2015, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with certain trade receivables factored to banks under these arrangements. Accordingly, the relevant trade receivables with an aggregate carrying amount of HK$370,416,000 (2014: HK$541,399,000) are fully derecognised. Further details are given in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was HK$4,279,000 (2014: Nil). Further details are given in note 15.

(ii) Useful lives and impairment of property, plant and equipment

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

(iii) Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact on the carrying amount of the receivables and impairment losses/reversal of impairment losses in the period in which the estimate has been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

(iv) Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of the reporting period.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

(v) Warranty provisions

Provision has been made for value-added costs to repair or replace defective goods, such as labour costs (whether incurred internal or external) and material costs, and costs that may not be recoverable from suppliers for the rework, in accordance with contractual terms or the Group's policy. In determining the amount of provisions, the management estimates the extent of repairs and replacements with reference to its past experience, technological needs and industrial averages for defective products. The estimation may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore affect the ultimate repair and replacement costs to be incurred in the future periods. Details of the movement in the provisions are set out in note 25 to the financial statements.

(vi) Deferred tax assets

Deferred tax assets are recognised for temporary difference arising from warranty provision, accrual of expenses and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details on deferred tax assets are included in note 26 to the financial statements.

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.

GEOGRAPHICAL INFORMATION

Revenue from external customers based on the locations of these customers is analysed as follows:

	2015 HK$'000	2014 HK$'000
PRC	1,255,495	1,080,439
Japan	1,241,155	2,024,727
Europe	1,104,314	1,365,252
United States	749,295	305,131
Korea	422,632	543,433
Brazil	46,586	–
India	28,355	98,166
Others	9,396	3,859
	4,857,228	5,421,007

The non-current assets of the Group (excluding deferred tax assets and goodwill) are substantially located in the PRC.

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year is set out below:

	2015 HK$'000	2014 HK$'000
Customer A	1,066,997	1,338,205
Customer B	881,643	1,085,941
Customer C	739,544	N/A*
Customer D	537,366	N/A*
Customer E	N/A*	543,433

* Less than 10% of revenue

5. TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year.

An analysis of the Group's turnover, other income and gains, net, is as follows:

	Notes	2015 HK$'000	2014 HK$'000
Revenue			
Sale of goods		4,801,808	5,361,350
Rendering of services		55,420	59,657
		4,857,228	5,421,007
Other income			
Interest income		13,807	41,772
Sale of raw materials and scrap materials		–	8,372
Realised gains on settlement of derivative financial instruments		9,973	–
Unrealised fair value gain on derivative financial instruments, net – transactions not qualifying as hedges	21	799	–
Government grants*		8,448	2,658
Value-added tax refund		39,085	21,713
Gain on disposal of a subsidiary	33(c)	3,984	–
Others		10,332	8,229
		86,428	82,744
Gains, net			
Foreign exchange difference, net		44,820	804
		131,248	83,548

* Certain government grants have been received from the relevant government authorities in the PRC to subsidise the Group's export business, future business development and high technology research and development. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

6. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on bank loans	–	448
Interest on factored trade receivables	6,553	6,238
	6,553	6,686

7. PROFIT BEFORE TAX

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

	Notes	2015 HK$'000	2014 HK$'000
Cost of inventories sold*		4,213,568	4,718,314
Cost of services rendered*		39,025	41,265
Reversal of inventories to net realisable value*		–	(4,965)
Depreciation	13	58,207	40,975
Amortisation of other intangible asset	16	33	–
Research and development costs – current year expenditure		188,264	174,710
Realised (gains)/losses on settlement of derivative financial instruments, net		(9,973)	791
Unrealised fair value (gains)/losses on derivative financial instruments, net – transactions not qualifying as hedges	21	(799)	2,333
Amortisation of prepaid land lease payments	14	1,358	634
Minimum lease payments under operating leases		33,937	28,573
Auditors' remuneration		1,830	1,680

7. PROFIT BEFORE TAX (CONTINUED)

	Notes	2015 HK$'000	2014 HK$'000
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		410,252	456,860
Equity-settled share option expense		10,743	5,739
Employee share-based compensations benefit under the Award Scheme		1,232	–
Defined contribution expense		22,414	18,118
		444,641	480,717
Product warranty provision:			
Additional provision	25	60,419	83,826
Reversal of unutilised provision	25	(18,473)	(40,164)
		41,946	43,662
Foreign exchange differences, net		(44,820)	(804)
Gain on disposal of a subsidiary	33(c)	(3,984)	–
Loss on sale of scrap materials**		6,181	–
Loss on disposal of items of property, plant and equipment**		939	290
Loss on liquidation of a subsidiary**	33(e)	–	8
Loss on deemed partial disposal of an associate**	17	758	–
Loss on disposal of an associate**		–	25
(Reversal)/impairment of trade receivables**	19	(1,558)	12,364

* 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.

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 HK$'000	2014 HK$'000
Fees	360	540
Other emoluments:		
Salaries, allowances and benefits in kind	3,405	3,503
Discretionary performance-related bonuses	2,771	1,434
Equity-settled share option benefits	2,484	1,227
Pension scheme contributions	344	428
	9,004	6,592
	9,364	7,132

8. DIRECTORS' REMUNERATION (CONTINUED)

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The remuneration paid to independent non-executive directors during the year was as follows:

	Fees HK$'000	Equity-settled share option benefits HK$'000	Total remuneration HK$'000
2015			
Mr. POON Chiu Kwok	**180**	**267**	**447**
Mr. LI Qi	**–**	**267**	**267**
Mr. YOUNG Shiao Ming	**180**	**267**	**447**
	360	**801**	**1,161**

	Fees HK$'000	Equity-settled share option benefits HK$'000	Total remuneration HK$'000
2014			
Mr. POON Chiu Kwok	180	132	312
Mr. LI Qi	180	132	312
Mr. YOUNG Shiao Ming	180	132	312
	540	396	936

There were no other emoluments payable to the independent non-executive directors during the year. (2014: Nil)

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8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

The remuneration paid to executive directors and non-executive directors during the year was as follows:

	Salaries, allowances and benefits in kind HK$'000	Discretionary performance-related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2015					
Executive directors:					
Mr. YU Guanghui	1,236	1,259	448	142	3,085
Mr. SONG Yonghong	1,085	962	344	105	2,496
Mr. REN Xuenong	814	550	179	97	1,640
	3,135	2,771	971	344	7,221
Non-executive directors:					
Mr. YUAN Bing	90	-	445	-	535
Mr. LEONG Yue Wing	180	-	267	-	447
	270	-	712	-	982
	3,405	2,771	1,683	344	8,203

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (CONTINUED)

	Salaries, allowances and benefits in kind HK$'000	Discretionary performance-related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2014					
Executive directors:					
Mr. YU Guanghui	1,249	643	221	191	2,304
Mr. SONG Yonghong	1,068	461	170	125	1,824
Mr. REN Xuenong	826	330	89	112	1,357
	3,143	1,434	480	428	5,485
Non-executive directors:					
Mr. YUAN Bing	180	–	220	–	400
Mr. LEONG Yue Wing	180	–	131	–	311
	360	–	351	–	711
	3,503	1,434	831	428	6,196

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2014: three), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2014: two) non-director, highest paid employees for the year are as follows:

	2015 HK$'000	2014 HK$'000
Salaries, allowances and benefits in kind	1,448	1,956
Discretionary performance-related bonuses	1,150	466
Equity-settled share option benefits	388	120
Pension scheme contributions	196	178
	3,182	2,720

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2015	 2014
HK$1,000,001 to HK$1,500,000	2	2

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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.

10. INCOME TAX (CONTINUED)

	2015 HK$'000	2014 HK$'000
Current – Hong Kong		
Charge for the year	7,129	6,728
Overprovision in prior years	–	(13)
Current – Elsewhere		
Charge for the year	29,891	26,982
Overprovision in prior years	(10,435)	–
Deferred (note 26)	(8,080)	(9,137)
Total tax charge for the year	18,505	24,560

Certain of the Group's subsidiaries in the PRC enjoyed a total exemption of Corporate Income Tax for two years and a half reduction for three years. Also, a subsidiary of the Group in the PRC was designated as a "High and New Technology Enterprise" and accordingly could enjoy a preferential Corporate Income Tax rate of 15%.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates to the tax expense at the effective tax rates is as follows:

	2015 HK$'000	2014 HK$'000
Profit before tax	186,114	185,945
Tax at the statutory/applicable tax rates of different countries/jurisdictions	48,202	46,765
Lower tax rates for specific provinces or enacted by local authorities	(25,547)	(28,888)
Adjustments in respect of current tax of previous periods	(10,435)	(13)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	4,301	4,037
Income not subject to tax	(2,177)	(155)
Expenses not deductible for tax	2,850	2,546
Tax losses not recognised	1,227	456
Tax losses utilised from previous periods	(444)	(188)
Profits and losses attributable to associates	528	–
Tax charge at the Group's effective tax rate	18,505	24,560

The share of tax attributable to associates amounting to HK$839,000 (2014: Nil) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2015 HK$'000	2014 HK$'000
Proposed final dividend – HK25.0 cents (2014: HK25.0 cents) per ordinary share	62,291	62,242

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

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

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

	2015 HK$'000	2014 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	166,479	149,894

	Number of shares 2015	 2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	246,534,446	169,857,974
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	299,184	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	247,178,610	169,857,974

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2014 in respect of a dilution as the impact of the share options outstanding during the prior year had an anti-dilutive effect on the basic earnings per share amount presented.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2015							
At 1 January 2015:							
Cost	190,036	100,604	195,520	58,041	6,697	37,504	588,402
Accumulated depreciation	(8,961)	(12,046)	(66,867)	(31,137)	(3,783)	-	(122,794)
Net carrying amount	181,075	88,558	128,653	26,904	2,914	37,504	465,608
At 1 January 2015, net of accumulated depreciation	181,075	88,558	128,653	26,904	2,914	37,504	465,608
Additions	-	39,957	31,194	13,432	427	10,991	96,001
Acquisition of a subsidiary (note 33(a))	-	2,028	18,825	6,377	-	-	27,230
Disposals	-	-	(2,822)	(156)	(163)	-	(3,141)
Disposal of a subsidiary (note 33(c))	-	-	(29,760)	-	-	-	(29,760)
Transfer	42,519	-	-	-	-	(42,519)	-
Depreciation provided during the year	(9,347)	(22,019)	(15,870)	(10,204)	(767)	-	(58,207)
Exchange realignment	(10,591)	(5,230)	(6,966)	(1,580)	(171)	(2,193)	(26,731)
At 31 December 2015, net of accumulated depreciation	203,656	103,294	123,254	34,773	2,240	3,783	471,000
At 31 December 2015:							
Cost	221,441	140,165	214,050	85,536	5,871	3,783	670,846
Accumulated depreciation	(17,785)	(36,871)	(90,796)	(50,763)	(3,631)	-	(199,846)
Net carrying amount	203,656	103,294	123,254	34,773	2,240	3,783	471,000

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2014							
At 1 January 2014:							
Cost	214,474	4,333	169,126	44,438	5,564	38,741	476,676
Accumulated depreciation	-	(2,386)	(53,231)	(24,811)	(3,033)	-	(83,461)
Net carrying amount	214,474	1,947	115,895	19,627	2,531	38,741	393,215
At 1 January 2014, net of accumulated depreciation	214,474	1,947	115,895	19,627	2,531	38,741	393,215
Additions	-	52,846	26,479	15,251	1,145	21,398	117,119
Reclassification	(45,201)	45,201	-	-	-	-	-
Disposals	-	(2,092)	(554)	(198)	-	-	(2,844)
Transfer	21,552	-	955	-	-	(22,507)	-
Depreciation provided during the year	(8,920)	(9,741)	(13,814)	(7,745)	(755)	-	(40,975)
Exchange realignment	(830)	397	(308)	(31)	(7)	(128)	(907)
At 31 December 2014, net of accumulated depreciation	181,075	88,558	128,653	26,904	2,914	37,504	465,608
At 31 December 2014:							
Cost	190,036	100,604	195,520	58,041	6,697	37,504	588,402
Accumulated depreciation	(8,961)	(12,046)	(66,867)	(31,137)	(3,783)	-	(122,794)
Net carrying amount	181,075	88,558	128,653	26,904	2,914	37,504	465,608

NOTES TO FINANCIAL STATEMENTS

31 December 2015

14. PREPAID LAND LEASE PAYMENTS

	2015 HK$'000	2014 HK$'000
Carrying amount at 1 January	**39,654**	40,419
Additions	**41,403**	–
Amortised during the year (note 7)	**(1,358)**	(634)
Exchange realignment	**(4,603)**	(131)
Carrying amount at 31 December	**75,096**	39,654
Current portion included in other receivables (note 20)	**(1,435)**	(694)
Non-current portion	**73,661**	38,960

15. GOODWILL

	HK$'000
Cost and net carrying amount at 1 January 2014, 31 December 2014 and 1 January 2015	–
Acquisition of a subsidiary (note 33(a))	4,368
Exchange realignment	(89)
Net carrying amount at 31 December 2015	4,279
At 31 December 2015:	
Cost	4,279
Accumulated impairment	–
Net carrying amount	4,279

15. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through acquisition of a subsidiary is allocated to the cash-generating unit ("CGU") of manufacture and sale of audio-visual products and components for impairment testing.

The recoverable amount of the CGU was determined based on value in use calculations using cash flow projections of financial budgets covering a five-year period approved by Management. The discount rate applied to the cash flow projections was 9.97% (2014: Nil).

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rate used is before tax and reflects specific risks relating to the units.

16. OTHER INTANGIBLE ASSET

	Customer relationships HK$'000
Cost at 1 January 2014, 31 December 2014 and 1 January 2015, net of accumulated amortisation and impairment	–
Acquisition of a subsidiary (note 33(a))	522
Amortisation provided during the year (note 7)	(33)
Exchange realignment	(7)
At 31 December 2015	482

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17. INVESTMENTS IN ASSOCIATES

	2015 HK$'000	2014 HK$'000
Share of net assets	**20,661**	–

The Group's other receivables due from an associate are disclosed in note 20 to the financial statements.

SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

The following table illustrates the aggregate summarised financial information of the Group's other associates that are not individually material:

	2015 HK$'000
Share of the associates' profits and losses for the year	(1,353)
Loss on deemed partial disposal of an associate (note 7)	(758)
Aggregate carrying amount of the Group's investments in these associates	20,661

NOTES TO FINANCIAL STATEMENTS

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18. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	134,206	93,074
Work in progress	69,968	79,113
Finished goods	130,136	260,000
	334,310	432,187

19. TRADE RECEIVABLES

	2015 HK$'000	2014 HK$'000
Due from third parties	1,012,295	971,615
Provision for impairment	(9,666)	(12,411)
	1,002,629	959,204
Due from companies controlled by TCL Corporation (note)	76,557	18,978
	1,079,186	978,182

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 an open-account basis with credit terms of no more than 180 days.

19. TRADE RECEIVABLES (CONTINUED)

SALES TO RELATED PARTIES

Sales to related parties were made on an 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:

	2015 HK$'000	2014 HK$'000
Current to 90 days	882,303	728,346
91 to 180 days	165,859	77,890
181 to 365 days	8,713	130,423
Over 365 days	22,311	41,523
	1,079,186	978,182

The movements in the provision for impairment of trade receivables are as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	12,411	–
Impairment loss recognised	543	12,364
Disposal of a subsidiary	(543)	–
Reversal of impairment provision	(2,101)	–
Exchange realignment	(644)	47
At 31 December	9,666	12,411

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to a customer who was in dispute with the Group and only a portion of the receivables is expected to be recovered.

19. TRADE RECEIVABLES (CONTINUED)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2015 HK$'000	2014 HK$'000
Neither past due nor impaired	967,614	911,825
Less than 90 days past due	110,276	47,739
90 to 180 days past due	–	18,618
Over 180 days past due	1,296	–
	1,079,186	978,182

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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 2015, trade receivables factored to banks aggregated to HK$370,416,000 (2014: HK$541,399,000), and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Prepayments and deposits	30,201	32,483
Other receivables	185,923	150,546
Prepaid land lease payments (note 14)	1,435	694
Due from related parties:		
Companies controlled by TCL Corporation (note)	1,609	3,720
An associate (note)	13,636	–
	232,804	187,443

Note: The amounts were unsecured, interest-free and repayable within one year.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 HK$'000	2014 HK$'000
Assets		
Forward currency contracts	6,380	840
Liabilities		
Forward currency contracts	31,453	8,011

Forward currency contracts are designated as hedging instruments in respect of forecast future sales and forecast purchases in US$. The forward currency contract balances vary with the levels of expected foreign currency sales and purchases and changes in foreign exchange forward rates. A net unrealised gain of HK$799,000 as a result of the ineffective portion of change in fair values of these hedging derivative financial contracts was recognised in profit or loss for the year ended 31 December 2015 (2014: net unrealised loss of HK$2,333,000).

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The cash flow hedges were assessed to be highly effective and net losses of HK$18,699,000 (2014: HK$4,839,000) were included in the hedging reserve as follows:

	2015 HK$'000	2014 HK$'000
Total fair value losses included in the hedging reserve	23,538	4,839
Reclassified from other comprehensive income and recognised in the statement of profit or loss	(4,839)	–
Net losses on cash flow hedges	18,699	4,839

The fair values of derivative financial instruments were classified as Level 2 of the fair value hierarchy.

The fair value of the Group's forward currency contracts is determined by discounting the estimated future cash flows which are based on forward exchange rates and contract forward rates, and the discount rate used reflects the credit risk of the forward contract counterparties.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for the financial instruments.

22. CASH AND CASH EQUIVALENTS

	2015 HK$'000	2014 HK$'000
Cash and bank balances	889,892	938,303

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with banks with high credit ratings and no recent history of default.

Included in the Group's cash and bank balances were deposits of HK$501,963,000 (2014: HK$391,834,000) placed with a subsidiary of TCL Corporation, a financial institution approved by the People's Bank of China. The interest rates for these deposits ranged from 0.02% to 1.31% (2014: 0.39% to 1.27%) per annum, being the savings rates offered by the People's Bank of China. Further details of the interest income attributable to the deposits with the subsidiary of TCL Corporation are set out in note 32 to the financial statements.

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23. TRADE PAYABLES

	2015 HK$'000	2014 HK$'000
Due to third parties	**986,683**	1,063,420
Due to companies controlled by TCL Corporation	**81,904**	24,139
	1,068,587	1,087,559

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

	2015 HK$'000	2014 HK$'000
Current to 90 days	**933,030**	1,036,144
91 to 180 days	**118,598**	35,023
181 to 365 days	**5,468**	2,334
Over 365 days	**11,491**	14,058
	1,068,587	1,087,559

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

24. OTHER PAYABLES AND ACCRUALS

	2015 HK$'000	2014 HK$'000
Other payables (note (a))	212,430	147,709
Accruals	406,935	422,734
Receipts in advance	33,901	18,029
Due to related parties:		
Companies controlled by TCL Corporation (note (b))	30,378	43,296
	683,644	631,768

Notes:

(a) Other payables are non-interest-bearing and are expected to be settled within one year.

(b) The amounts are unsecured, repayable within one year and interest-free.

25. PROVISIONS

PRODUCT WARRANTIES

	2015 HK$'000	2014 HK$'000
At 1 January	196,539	180,947
Additional provision	60,419	83,826
Amount utilised during the year	(10,888)	(27,645)
Reversal of unutilised amounts	(18,473)	(37,162)
Liquidation of a subsidiary	–	(3,002)
Exchange realignment	(12,711)	(425)
At 31 December	214,886	196,539

The warranty provisions represent management's best estimate of the Group's liability under warranties of 15 to 36 months granted on its products, based on prior experience and industry averages for defective products.

26. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

DEFERRED TAX LIABILITIES

	Notes	Depreciation allowance excess of related depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Withholding tax for dividend HK$'000	Total HK$'000
Gross deferred tax liabilities at 1 January 2014		–	–	4,176	4,176
Deferred tax charged/(credited) to profit or loss during the year	10	128	–	(1,649)	(1,521)
Gross deferred tax liabilities at 31 December 2014 and 1 January 2015		128	–	2,527	2,655
Acquisition of a subsidiary	33(a)	–	502	–	502
Deferred tax credited to profit or loss during the year	10	(52)	(486)	(2,527)	(3,065)
Gross deferred tax liabilities at 31 December 2015		76	16	–	92

26. DEFERRED TAX (CONTINUED)

DEFERRED TAX ASSETS

	Notes	Elimination of unrealised profits arising from intra-group transactions HK$'000	Deferred income HK$'000	Accruals and other provisions HK$'000	Total HK$'000
Gross deferred tax assets at 1 January 2014		–	–	72,826	72,826
Deferred tax credited to profit or loss during the year	10	–	1,577	6,039	7,616
Exchange realignment		–	7	(202)	(195)
Gross deferred tax assets at 31 December 2014 and 1 January 2015		–	1,584	78,663	80,247
Deferred tax credited to profit or loss during the year	10	204	–	4,811	5,015
Exchange realignment		(7)	(92)	(4,789)	(4,888)
Gross deferred tax assets at 31 December 2015		197	1,492	78,685	80,374

The Group has tax losses of HK$5,689,000 (2014: HK$2,761,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

26. DEFERRED TAX (CONTINUED)

DEFERRED TAX ASSETS (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

27. SHARE CAPITAL

SHARES

	2015	2014
	HK$'000	HK$'000
Issued and fully paid:		
249,162,626 (2014: 248,968,066) ordinary shares of HK$1.00 each	**249,163**	248,968

27. SHARE CAPITAL (CONTINUED)

SHARES (CONTINUED)

During the year, the movements in share capital and share premium account of the Company were summarised as follows:

	Notes	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2014		133,316,234	133,316	–	133,316
Issue of consideration shares	(a)	32,662,477	32,663	160,046	192,709
Issue of right shares	(b)	82,989,355	82,989	340,256	423,245
Share issue expenses	(b)	–	–	(1,993)	(1,993)
At 31 December 2014 and 1 January 2015		248,968,066	248,968	498,309	747,277
Issue of shares upon exercise of share options	(c)	194,560	195	1,224	1,419
Final 2014 dividend declared		–	–	(61,901)	(61,901)
At 31 December 2015		249,162,626	249,163	437,632	686,795

Notes:

(a) On 15 May 2014, the Company issued 32,662,477 ordinary shares of the Company at a market price of HK$5.9 per share as the consideration for the acquisition of 20% equity interest in TEL not owned by the Group. Further details are set out in note 33(d).

(b) On 21 November 2014, the Company completed a rights issue (the "Rights Issue") of one rights share for every two existing shares held by qualifying shareholders at an issue price of HK$5.10 per rights share and a total 82,989,355 rights shares were issued at a total cash consideration, before expenses, of approximately HK$423,245,000. The related share issue expenses charged to share premium account amounted to HK$1,993,000.

(c) The subscription rights attaching to 194,560 share options were exercised at the subscription price of HK$6.02 per share, resulting in the issue of 194,560 shares for a total cash consideration, before expenses, of HK$1,171,000. An amount of HK$248,000 was transferred from the share option reserve to share premium upon the exercise of the share options.

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS

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

The purpose of the Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Pursuant to the Scheme and subject to shareholders' approval, the maximum number of shares in respect of which options may be granted under the Scheme is such a number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the Scheme and any other scheme).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than ten years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Hong Kong Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

The following share options were outstanding under the Scheme during the year:

	2015		2014	
	Weighted average exercise price per share HK$	Number of options '000	Weighted average exercise price per share HK$	Number of options '000
At 1 January	6.02	14,454	–	–
Granted during the year	–	–	6.02	14,454
Forfeited during the year	6.02	(736)	–	–
Exercised during the year	6.02	(195)	–	–
At 31 December	6.02	13,523	6.02	14,454

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2015 was HK$6.93 per share (2014: No share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2015

Number of options '000	Exercise price* per share HK$	Exercise period
13,523	6.02	Note 1
13,523		

2014

Number of options '000	Exercise price* HK$ per share	Exercise period
14,454	6.02	Note 1
14,454		

27. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. As a result of the completion of the Rights Issue on 21 November 2014, the exercise price of the share options was adjusted from HK$6.706 to HK$6.020 per share.

Note 1: 50% of such share options are exercisable commencing from 1 May 2015 to 30 September 2017, and the remaining 50% are exercisable commencing from 1 May 2016 to 30 September 2017.

The fair value of the share options granted during the prior year was HK$19,410,000 (HK$1.34 each), of which the Group recognised a share option expense HK$5,739,000 during the year ended 31 December 2014.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2014:

	2014
Dividend yield (%)	3.87
Historical volatility (%)	47.631
Risk-free interest rate (%)	0.925
Expected life of options (year)	3

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 13,523,236 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 13,523,236 additional ordinary shares of the Company and additional share capital of HK$13,523,236 and share premium account of HK$67,886,645 (before issue expenses), respectively.

At the date of approval of these financial statements, the Company had 13,523,326 share options outstanding under the Scheme, which represented approximately 5.43% of the Company's shares in issue as at that date.

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME

On 28 August 2014 (the "Adoption Date"), the Board approved a restricted share award scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of the Awarded Shares awarded to the Selected Employees under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the Trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they vest in accordance with the rules of the Award Scheme.

Also, the Board shall not make any further award of the Awarded Shares which will result in the aggregate number of the Shares awarded by the Board under the Scheme exceeding 10% of the issued share capital of the Company as at the Adoption Date.

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of 10 years unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees under the Award Scheme.

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31 December 2015

27. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

The following Awarded Shares were outstanding under the Award Scheme during the year:

	Notes	2015 Number of Awarded Shares '000	2014 Number of Awarded Shares '000
At 1 January		656	–
Purchased during the year	(a)	3,262	656
Awarded and vested	(b)	(523)	–
At 31 December		3,395	656

Notes:

(a) For the year ended 31 December 2015, the Trustee purchased 3,262,000 (2014: 656,000) Awarded Shares at a total cost (including related transaction costs) of HK$19,606,000 (2014: HK$3,794,000).

(b) For the year ended 31 December 2015, 523,216 (2014: Nil) Awarded Shares were granted to certain Selected Employees as settlement of their performance bonuses for the year ended 31 December 2014. The weighted average fair value of the Awarded Shares on the date of grant was HK$6.05 (2014: Nil) per share. 73,162 (2014: Nil) Awarded Shares had been awarded and vested for the year ended 31 December 2015.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(I) SHARE OPTION RESERVE

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire after the vesting period.

28. RESERVES (CONTINUED)

(II) RESERVE FUNDS

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

(III) CAPITAL RESERVE

The Group's capital reserve comprised the difference between the amounts of the consideration and the carrying value of the non-controlling interests acquired or disposed of and the deemed capital contribution from TCL Multimedia Technology Holdings Limited ("TCL Multimedia").

(IV) MERGER RESERVE

The merger reserve of the Group represents the capital contributions from the equity holders of the subsidiaries now comprising the Group before the completion of the reorganisation in 2013 and the par value of the Company's shares issued to TCL Multimedia for the acquisition of a subsidiary pursuant to the reorganisation in 2013.

(V) HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

(VI) AWARDED SHARE RESERVE

The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The following table lists the information relating to Guangdong Regency, a former subsidiary of the Group which has material non-controlling interests.

	2015	2014
Percentage of equity interests held by non-controlling interests:		
Guangdong Regency	N/A*	40%

	2015 HK$'000	2014 HK$'000
Profit for the year allocated to non-controlling interests:		
Guangdong Regency	1,130	1,188
Accumulated balances of non-controlling interests at the reporting dates:		
Guangdong Regency	N/A*	27,859

* Guangdong Regency became an associate during the year end its summarised financial information for the current year is not presented accordingly. Further details are set out in note 33(c).

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following table illustrates the summarised financial information of and post-acquisition financial information of Guangdong Regency. The amounts disclosed are before any inter-company eliminations:

	Guangdong Regency HK$'000
2014	
Revenue	236,385
Total expenses	24,336
Profit for the year	2,969
Total comprehensive income for the year	2,771
Current assets	98,358
Non-current assets	52,536
Current liabilities	(81,101)
Non-current liabilities	–
Net cash flows used in operating activities	(7,961)
Net cash flows used in investing activities	(4,838)
Net cash flows from financing activities	8,292
Net decrease in cash and cash equivalents	(4,507)

30. OPERATING LEASE ARRANGEMENTS

AS LESSEE

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK$'000	2014 HK$'000
Within one year	3,815	4,301
In the second to fifth years, inclusive	–	1,400
	3,815	5,701

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the end of the reporting period:

	2015 HK$'000	2014 HK$'000
Contracted, but not provided for:		
Buildings	–	34,027
Capital contributions payable to an associate	32,620	–

As at the end of the reporting period, the Company had no significant commitment.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2015 HK$'000	2014 HK$'000
The companies controlled by TCL Corporation:			
Sales of raw materials	(i)	62,157	136,276
Sales of finished goods	(ii)	45,060	63,262
Purchases of raw materials	(iii)	67,610	140,256
Rental expense	(iv)	9,152	7,436
Interest income	(v)	867	1,563
Other finance service fee	(vi)	276	372
Call centre service fee	(vii)	38	55
Subcontracting fee expense	(viii)	38,573	51,503
Technology support services and trade name licence fee	(ix)	7,046	7,908
Administrative expense for importation and delivery of raw materials	(x)	1,948	–

Notes:

(i) The sales of raw materials were made at a cost.

(ii) The sales of finished goods were made by reference to the prevailing market prices for comparable transactions.

(iii) The purchases of raw materials were made at prices similar to those set by independent third party suppliers.

(iv) The rental expense was determined with reference to the rates of similar premises for comparable transactions.

(v) The interest was charged at rates ranging from 0.02% to 1.31% (2014: 0.39% to 1.27%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China.

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

(vi) The other finance service fee was determined with reference to the rates of similar services for comparable transactions.

(vii) The call centre service fee was calculated based on the actual usage in connection with the provision of the call centre service.

(viii) The subcontracting fee expense was determined with reference to subcontracting fees charged by third party companies offering similar services.

(ix) The technology support services and trade name licence fee was charged at a rate of 0.15% of the Group's turnover for the period from the Listing Date to 31 December 2015.

(x) The administrative expense was charged for importation and delivery of raw materials at a service fee similar to those set by independent third party service providers.

(b) Outstanding balances with related parties

Other than the balances with related parties as disclosed in notes 19, 20, 23 and 24 to the financial statements, the Group had no outstanding balances with related parties.

(c) Compensation of key management personnel of the Group

Further details of compensation of key management personnel of the Group are included in note 8 and 9 to the financial statements.

All the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2015

(a) Acquisition of a subsidiary

On 30 July 2015, the Group entered into a sale and purchase agreement with Winmax Group Limited, an independent third party to the Group, to purchase the 100% equity interest in FP at a total consideration of RMB88,792,000, subject to adjustment. The acquisition was completed on 30 September 2015, and FP became a wholly-owned subsidiary of the Group since then. The total consideration after adjustment for the acquisition was RMB95,546,000 (equivalent to HK$116,406,000). The FP Group is principally engaged in manufacture and sale of audio products and related components.

The fair values of the identifiable assets and liabilities of the FP Group as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	13	27,230
Other intangible asset	16	522
Inventories		33,047
Trade receivables		113,258
Prepayments, deposits and other receivables		1,385
Cash and cash equivalents		39,831
Trade payables		(89,547)
Other payables and accruals		(13,186)
Deferred tax liabilities	26	(502)
Total identifiable net assets at fair value		112,038
Goodwill on acquisition	15	4,368
		116,406
Satisfied by:		
Cash		88,676
Other payable		27,730
		116,406

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) Acquisition of a subsidiary (continued)

The fair values and the contractual amounts of the trade receivables and other receivables as at the date of acquisition amounted to HK$113,258,000 and HK$443,000, respectively.

The Group incurred transaction costs of HK$1,050,000 for this acquisition. These transaction costs have been expensed and are included administrative expense in the consolidated statement of profit and loss and other comprehensive income.

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of the FP Group is as follows:

	HK$'000
Total cash consideration	(116,406)
Consideration payable included in other payable	27,730
Cash and bank balances acquired	39,831
Net outflow of cash and cash equivalents included in cash flows from investing activities	(48,845)

Since the acquisition, the FP Group contributed approximately HK$52,632,000 to the Group's revenue and a loss of HK$3,848,000 to the Group's consolidated profit for the year ended 31 December 2015.

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$5,159,503,000 and HK$174,290,000, respectively.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Acquisition of non-controlling interests in the Mould Business

During the year, the Group reached an agreement with Guangdong Regency and the other two non-controlling shareholders of Guangdong Regency, and pursuant to which Guangdong Regency spun off and transferred its moulds and plastics production business (the "Mould Business") to the Group and in return, the Group surrendered RMB20 million capital (the "Equity Consideration") in Guangdong Regency as purchase consideration (the "Regency Restructuring").

Upon completion of the Regency Restructuring on 31 August 2015, the entire Mould Business was transferred to the Group and Guangdong Regency only retained the optics-electron production business. The registered capital of Guangdong Regency was reduced from RMB50 million to RMB30 million and accordingly, the Group's interest in Guangdong Regency was diluted from 60% to 33.33%.

The transfer of the Mould Business was considered as an acquisition of 40% non-controlling interests of the Mould Business by the Group as the Mould Business was originally owned as to 60% by the Group through its 60% equity interest in Guangdong Regency and the difference between the fair value of the Equity Consideration and the carrying value of the 40% non-controlling interests in the Mould Business of HK$3,021,000 was recognised in capital reserve in equity.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Disposal of a subsidiary

Upon completion of the Regency Restructuring, the Group also ceased to have control over Guangdong Regency. As such, the dilution of equity interest in Guangdong Regency is considered as a deemed disposal of a subsidiary and details of the net assets of Guangdong Regency disposed of and their financial impacts are summarised below:

	HK$'000
Net assets disposed of:	
Property, plant and equipment (note 13)	29,760
Inventories	16,504
Trade receivables	71,253
Bills receivable	8,389
Prepayments, deposits and other receivables	2,917
Cash and cash equivalents	9,567
Trade payables	(15,803)
Other payables and accruals	(73,068)
Tax payable	(4,277)
Non-controlling interests	(15,841)
	29,401
Realisation of exchange fluctuation reserve	556
Gain on disposal of a subsidiary (note 7)	3,984
	33,941
Satisfied by:	
Fair value of the Equity Consideration	15,085
Fair value of the remaining interest in Guangdong Regency	18,856
	33,941

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Disposal of a subsidiary (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of Guangdong Regency is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances disposed of	(9,567)
Net outflow of cash and cash equivalents in respect of the disposal of Guangdong Regency	(9,567)

YEAR ENDED 31 DECEMBER 2014

(d) Acquisition of non-controlling interests in TEL

On 25 February 2014, the Company entered into an acquisition agreement with Run Fu Holdings Limited and Star Force Investment Limited (collectively, the "Non-controlling Shareholders"), the non-controlling shareholders of TEL, pursuant to which the Company agreed to acquire the 20% equity interest in TEL held by the Non-controlling Shareholders by way of issuing 32,662,477 ordinary shares of the Company (the "Consideration Shares") to the Non-controlling Shareholders as consideration. This acquisition was completed on 15 May 2014 (the "Completion Date") and TEL became a wholly-owned subsidiary of the Group. The Consideration Shares were issued on the Completion Date at a market price of HK$5.9 per share with an aggregate fair value of approximately HK$192,709,000.

(e) Liquidation of a subsidiary

Tongli OEM Sales Limited, a wholly-owned subsidiary of the Group incorporated in the United States, was wound-up voluntarily during the prior year.

	HK$'000
Loss on liquidation of a subsidiary (note 7)	8
Net inflow of cash and cash equivalents in respect of the liquidation of a subsidiary	–

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise trade and bills receivables and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions including principally forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

Management has assessed that the fair values of cash and bank balances trade and bills receivables, trade and bills payables, financial assets included in other receivables, other investment and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to these financial statements.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet the borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At the subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at the Group level.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain bank loans were denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurs, so as to alleviate the impact on business due to exchange rate fluctuations. The Group uses forward currency contracts to reduce the foreign currency exposures.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates %	**Increase/ (decrease) in profit before tax** HK$'000
2015		
If Hong Kong dollar weakens against United States dollar	**5**	44,697
If Renminbi weakens against United States dollar	**5**	6,357
If Hong Kong dollar strengthens against United States dollar	**(5)**	(44,697)
If Renminbi strengthens against United States dollar	**(5)**	(6,357)
2014		
If Hong Kong dollar weakens against United States dollar	5	14,613
If Renminbi weakens against United States dollar	5	(33,179)
If Hong Kong dollar strengthens against United States dollar	(5)	(14,613)
If Renminbi strengthens against United States dollar	(5)	33,179

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. The Group had certain concentrations of credit risks of the total trade receivables due from the Group's largest external customer and the Group's five largest external customers as follows:

	As at 31 December	
	2015	2014
	%	%
Due from the Group's largest external customer	**6.2**	7.2
Due from the Group's five largest external customers	**58.4**	31.2

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 19 and 20, respectively, to the financial statements.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK (CONTINUED)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand	
	2015	2014
	HK$'000	HK$'000
Trade payables (note 23)	**1,068,587**	1,087,559
Bills payable	**9,508**	19,903
Other payables (note 24)	**212,430**	147,709
Due to companies controlled by TCL Corporation (note 24)	**30,378**	43,296
	1,320,903	1,298,467

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the two years ended 31 December 2015 and 2014.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT (CONTINUED)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank borrowings less cash and bank balances. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	2015 HK$'000	2014 HK$'000
Interest-bearing bank borrowings	–	–
Less: Cash and bank balances (note 22)	(889,892)	(938,303)
Net cash	(889,892)	(938,303)
Equity attributable to owners of the parent	1,103,089	1,067,467
Gearing ratio	–	–

35. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015	2014
	HK$'000	HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**147,325**	137,830
Total non-current assets	**147,325**	137,830
CURRENT ASSETS		
Due from subsidiaries	**529,054**	605,904
Other receivables	**442**	6,206
Cash and cash equivalents	**2,218**	485
Total current assets	**531,714**	612,595
CURRENT LIABILITIES		
Other payables and accruals	**527**	560
Total current liabilities	**527**	560
NET CURRENT ASSETS	**531,187**	612,035
TOTAL ASSETS LESS CURRENT LIABILITIES	**678,512**	749,865
EQUITY		
Share capital	**249,163**	248,968
Reserves (note)	**429,349**	500,897
Total equity	**678,512**	749,865

YUAN Bing
Director

YU Guanghui
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account HK$'000 (Note 27)	Share option reserve* HK$'000 (Note 28(i))	Shares held for the Award Scheme HK$'000 (Note 27)	Award share reserve# HK$'000 (Note 28(vi))	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2014		-	-	-	-	33,600	33,600
Loss for the year and total comprehensive loss for the year		-	-	-	-	(1,228)	(1,228)
Rights issue	27	340,256	-	-	-	-	340,256
Share issue expenses	27	(1,993)	-	-	-	-	(1,993)
Acquisition of non-controlling interests	33(d)	160,046	-	-	-	-	160,046
Equity-settled share option arrangement		-	5,739	-	-	-	5,739
Purchase of shares for the Award Scheme	27	-	-	(3,794)	-	-	(3,794)
Final 2013 dividend declared		-	-	-	-	(31,729)	(31,729)
At 31 December 2014 and 1 January 2015		498,309	5,739	(3,794)	-	643	500,897
Loss for the year and total comprehensive loss for the year		-	-	-	-	(2,992)	(2,992)
Equity-settled share option arrangements		-	11,630	-	-	-	11,630
Issue of shares upon exercise of share options	27	1,224	(248)	-	-	-	976
Share options forfeited during the year		-	(887)	-	-	-	(887)
Purchase of shares for the Award Scheme	27	-	-	(19,606)	-	-	(19,606)
Vesting of shares under Award Scheme		-	-	440	26	-	466
Employee share-based compensation benefits under the Award Scheme		-	-	-	766	-	766
Final 2014 dividend declared		(61,901)	-	-	-	-	(61,901)
At 31 December 2015		437,632	16,234	(22,960)	792	(2,349)	429,349

* The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire after the vesting period.

\# The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 February 2016.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the Group's published audited financial statements and reclassified/re-presented as appropriate, is set out below.

	YEAR ENDED 31 DECEMBER				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
TURNOVER	**4,857,228**	5,421,007	4,554,275	3,673,063	4,099,454
PROFIT BEFORE TAX	**186,114**	185,945	151,491	110,749	124,728
Income tax expense	**(18,505)**	(24,560)	(17,433)	(15,587)	(28,856)
PROFIT FOR THE YEAR	**167,609**	161,385	134,058	95,162	95,872
Attributable to:					
Owners of the parent	**166,479**	149,894	106,679	95,162	95,872
Non-controlling interests	**1,130**	11,491	27,379	–	–
	167,609	161,385	134,058	95,162	95,872

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	AS AT 31 DECEMBER				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,202,796**	3,139,319	2,624,681	3,563,611	2,886,226
Total liabilities	**(2,099,707)**	(2,043,993)	(2,075,454)	(3,173,257)	(2,260,408)
Non-controlling interests	**–**	(27,859)	(124,526)	(98,270)	–
	1,103,089	1,067,467	424,701	292,084	625,818

TONLY

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