



TONLY ELECTRONICS HOLDINGS LIMITED
通力電子控股有限公司

Incorporated in the Cayman Islands with limited liability
Stock Code : 01249

INTERIM REPORT
2017

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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 (Former Chairman)
(resigned with effect from 1 January 2017)
Mr. LIAO Qian (Chairman)
(appointed with effect from 1 January 2017)

Independent Non-Executive Directors

Mr. POON Chiu Kwok
Mr. LI Qi
Mr. LEONG Yue Wing

COMPANY SECRETARY

Mr. TSUI Kwok Ho, Solicitor, Hong Kong
(resigned with effect from 25 April 2017)
Ms. CHOY Fung Yee, Solicitor, Hong Kong
(appointed with effect from 25 April 2017)

AUDITOR

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

LEGAL ADVISOR

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

PRINCIPAL REGISTRAR

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
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BRANCH REGISTRAR

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REGISTERED OFFICE

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Ugland House
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Cornerstones Communications
Unit 1408-10, 14/F, Dominion Centre
43-59 Queen's Road East, Wanchai
Hong Kong

INTERIM RESULTS

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 with comparative figures for the said period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
TURNOVER	4	2,064,807	1,754,525
Cost of sales		(1,755,908)	(1,495,083)
Gross profit		308,899	259,442
Other income and gains, net		34,667	38,968
Selling and distribution costs		(56,347)	(48,938)
Administrative expenses		(96,560)	(71,165)
Research and development costs		(85,601)	(93,051)
Other operating expenses, net		(1,224)	–
Finance costs	5	103,834	85,256
Share of profits of associates		(3,141)	(2,096)
		923	2,080
PROFIT BEFORE TAX	6	101,616	85,240
Income tax expense	7	(22,833)	(19,302)
PROFIT FOR THE PERIOD		78,783	65,938
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of the hedging instruments arising during the period		6,575	27,138
Reclassification adjustments for losses included in the consolidated statement of profit or loss		–	(6,169)
		6,575	20,969
Exchange fluctuation reserve:			
Translation of foreign operations		23,326	(13,677)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		29,901	7,292
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		108,684	73,230
Profit/(loss) attributable to:			
Owners of the parent		78,877	65,942
Non-controlling interests		(94)	(4)
		78,783	65,938
Total comprehensive income/(loss) attributable to:			
Owners of the parent		108,768	73,234
Non-controlling interests		(84)	(4)
		108,684	73,230
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic		HK32.22 cents	HK26.91 cents
Diluted		HK31.47 cents	HK26.89 cents

INTERIM RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	520,451	474,015
Prepaid land lease payments		69,040	67,655
Goodwill		4,132	4,009
Other intangible asset		237	303
Investments in associates		21,423	20,008
Other receivables		9,323	5,603
Deferred tax assets		76,096	73,933
Total non-current assets		700,702	645,526
CURRENT ASSETS			
Inventories		530,564	395,699
Trade receivables	11	919,523	1,253,314
Bills receivable		–	4,683
Prepayments, deposits and other receivables		138,882	135,941
Tax recoverable		289	2,506
Derivative financial instruments		8,293	–
Cash and cash equivalents		783,788	730,495
Total current assets		2,381,339	2,522,638
CURRENT LIABILITIES			
Trade payables	12	928,458	1,064,311
Bills payable		–	227
Other payables and accruals		570,370	622,049
Tax payable		102,431	89,367
Derivative financial instruments		4,673	2,907
Provision		220,006	216,787
Total current liabilities		1,825,938	1,995,648
NET CURRENT ASSETS		555,401	526,990
TOTAL ASSETS LESS CURRENT LIABILITIES		1,256,103	1,172,516
NON-CURRENT LIABILITIES			
Deferred tax liabilities		9,571	7,820
Net assets		1,246,532	1,164,696
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	253,117	249,163
Reserves		993,334	915,368
Non-controlling interests		1,246,451	1,164,531
		81	165
Total equity		1,246,532	1,164,696

INTERIM RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent													
	Share capital	Share premium account	Share option reserve	Reserve funds	Capital reserve	Merger reserve	Hedging reserve	Exchange fluctuation reserve	Share held for the Award Scheme	Awarded share reserve	Retained profits	Total	Non-controlling interests	Total equity
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
At 1 January 2016	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
Profit for the period	-	-	-	-	-	-	-	-	-	-	65,942	65,942	(4)	65,938
Other comprehensive income for the period:														
Cash flow hedges	-	-	-	-	-	-	20,969	-	-	-	-	20,969	-	20,969
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(13,677)	-	-	-	(13,677)	-	(13,677)
Total comprehensive income for the period	-	-	-	-	-	-	20,969	(13,677)	-	-	65,942	73,234	(4)	73,230
Contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	-	128	128
Equity-settled share option arrangements	-	-	2,041	-	-	-	-	-	-	-	-	2,041	-	2,041
Share options forfeited during the period	-	-	(349)	-	-	-	-	-	-	-	324	(25)	-	(25)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(10,339)	-	-	(10,339)	-	(10,339)
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	392	(386)	-	6	-	6
Employee share-based compensation benefit under the Award Scheme	-	-	-	-	-	-	-	-	-	405	-	405	-	405
Final 2015 dividend paid	-	(61,334)	-	-	-	-	-	-	-	-	-	(61,334)	-	(61,334)
Transfer from retained profits	-	-	-	4,505	-	-	-	-	-	-	(4,505)	-	-	-
At 30 June 2016	249,163	376,298	17,926	74,242	(77,223)	(6,059)	(2,569)	(491)	(32,907)	811	507,886	1,107,077	124	1,107,201
At 1 January 2017	249,163	376,298	17,623	75,679	(77,223)	(6,059)	(2,905)	(36,108)	(28,088)	3,108	593,043	1,164,531	165	1,164,696
Profit for the period	-	-	-	-	-	-	-	-	-	-	78,877	78,877	(94)	78,783
Other comprehensive income for the period:														
Cash flow hedges	-	-	-	-	-	-	6,575	-	-	-	-	6,575	-	6,575
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	23,316	-	-	-	23,316	10	23,326
Total comprehensive income for the period	-	-	-	-	-	-	6,575	23,316	-	-	78,877	108,768	(84)	108,684
Equity-settled share option arrangements	-	-	3,121	-	-	-	-	-	-	-	-	3,121	-	3,121
Issue of shares upon exercise of share options	3,954	25,319	(5,842)	-	-	-	-	-	-	-	-	23,431	-	23,431
Share options forfeited during the period	-	-	(696)	-	-	-	-	-	-	-	644	(52)	-	(52)
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(2,607)	-	-	(2,607)	-	(2,607)
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	11,865	(11,865)	-	-	-	-
Employee share-based compensation benefit under the Award Scheme	-	-	-	-	-	-	-	-	-	10,510	-	10,510	-	10,510
Final 2016 dividend paid	-	-	-	-	-	-	-	-	-	-	(61,251)	(61,251)	-	(61,251)
At 30 June 2017	253,117	401,617	14,206	75,679	(77,223)	(6,059)	3,670	(12,792)	(18,830)	1,753	611,313	1,246,451	81	1,246,532

* These reserve accounts comprise the consolidated reserves of HK\$993,334,000 (31 December 2016: HK\$915,368,000) in the consolidated statements of financial position as at 30 June 2017.

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from/(used in) operations	154,081	(21,298)
Interest paid	(3,141)	(2,096)
Income taxes paid	(10,340)	(13,748)
Net cash flows from/(used in) operating activities	140,600	(37,142)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,058	3,296
Increase in other receivables	(3,765)	–
Purchases of items of property, plant and equipment	(56,520)	(29,844)
Settlement of consideration payable in respect of acquisition of a subsidiary in the prior year	–	(23,996)
Investments in an associate	–	(7,337)
Proceeds from disposal of items of property, plant and equipment	1,413	732
Net cash flows used in investing activities	(55,814)	(57,149)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution by a non-controlling shareholder	–	128
Purchase of shares for the Award Scheme	(2,607)	(10,339)
Proceeds from issue of share upon exercise of share options	23,431	–
Dividends paid	(61,251)	(61,334)
Net cash flows used in financing activities	(40,427)	(71,545)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	44,359	(165,836)
Cash and cash equivalents at beginning of period	730,495	889,892
Effect of foreign exchange rate changes, net	8,934	(8,766)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	783,788	715,290
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	783,788	715,290

INTERIM RESULTS

Notes:

1. BASIS OF PREPARATION

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

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7
Amendments to HKAS 12
Annual Improvements
2014-2016 Cycle

Disclosure Initiative
Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to a number of HKFRSs

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

INTERIM RESULTS

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 2	<i>Classifications and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
Amendments to HKAS 40	<i>Transfers to Investment Property¹</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to a number of HKFRSs⁴</i>
HK(IFRIC) – Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>

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

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

³ No mandatory effective date yet determined but available for adoption

⁴ Effective for annual periods beginning on or after 1 January 2018, with early application permitted

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

4. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of audio-visual products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on factored trade receivables	3,141	2,096

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Depreciation	34,649	25,796
Amortisation of other intangible assets	74	64
Amortisation of prepaid land lease payments	682	714
Employee share-based compensation benefits under the Award Scheme	9,996	411
Equity-settled share option expense	2,502	2,016
Loss/(gain) on disposal/write-off of items of property, plant and equipment	840	(107)
Write-off of damaged inventories	2,979	–

INTERIM RESULTS

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Current – Hong Kong		
Charge for the year	4,323	–
Current – Elsewhere		
Charge for the year	16,664	10,285
Underprovision in prior years	–	60
Deferred	1,846	8,957
Total tax charge for the period	22,833	19,302

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

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

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

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	78,877	65,942
Number of shares		
Six months ended 30 June		
	2017 (unaudited)	2016 (unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	244,812,682	245,033,655
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	1,502,453	–
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the period	4,322,865	203,707
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	250,638,000	245,237,362

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

INTERIM RESULTS

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group incurred HK\$86,412,000 (six months ended 30 June 2016: HK\$29,844,000) on the additions of items of property, plant and equipment.

11. TRADE RECEIVABLES

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

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

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

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Current to 90 days	693,134	950,355
91 to 180 days	118,013	204,564
181 to 365 days	51,200	64,112
Over 365 days	57,176	34,283
	919,523	1,253,314

Certain subsidiaries of the Group have entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2017, trade receivables factored to banks aggregated to HK\$422,076,000 (31 December 2016: HK\$293,513,000), and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

12. TRADE PAYABLES

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

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Current to 90 days	913,451	1,001,490
91 to 180 days	12,047	49,402
181 to 365 days	2,707	2,297
Over 365 days	253	11,122
	928,458	1,064,311

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

INTERIM RESULTS

13. SHARE CAPITAL

Shares

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Authorised:		
500,000,000 shares of HK\$1.00 each	500,000	500,000
Issued and fully paid:		
253,117,455 (31 December 2016: 249,162,626) ordinary shares of HK\$1.00 each	253,117	249,163

During the six months ended 30 June 2017, the subscription rights attaching to 3,763,840 and 190,989 share options were exercised at the subscription prices of HK\$6.02 and HK\$4.05 per share, respectively, resulting in the issue of an aggregate of 3,954,829 shares of HK\$1.00 each for a total cash consideration of HK\$23,431,000 before expenses.

14. COMMITMENTS

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

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Contracted, but not provided for:		
Buildings	–	15,367

INTERIM RESULTS

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
The companies controlled by TCL Corporation:		
Sales of raw materials	76,367	58,563
Sales of finished goods	13,219	4,331
Purchases of raw materials	78,757	60,373
Subcontracting fee expense	3,841	8,853
Rental expense	5,015	5,146
Interest income	1,725	385
Other finance service fee	24	22
Call centre services fee	11	27
Technology support services	267	2,253
Licence fee on usage of premises	162	–
Fitting out fees	114	–

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
An associate	294	3,904	254	–
TCL corporation and its affiliates	45,058	49,738	46,325	87,509

16. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 26 July 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2017, the global economy maintained a steady growth and market confidence was boosted by the continuing economic recovery in major economies. The "World Economic Outlook" published by International Monetary Fund ("IMF") in April 2017 raised the forecast for global economic growth to 3.5% attributable to the active financial markets and periodical recovery of manufacturing industry and global trade. China's economy also achieved outstanding performance in the first half of 2017. IMF raised its forecast on China's Gross Domestic Product ("GDP") growth to 6.7%, and Institute of International Finance of Bank of China also predicted that China's GDP growth for the first half and the full year of 2017 would reach 6.8% in their report. The favorable economic environment brought about beneficial conditions to the Group's export-oriented electronic product business. Riding on the development trends of smart technology, the Group will continue to penetrate into the markets of smart audio speaker and peripheral products and utilize its advantages as a lead in the market and technology, in order to capture the potential market opportunities.

With the popularization of 4G mobile network brought by global operators, the Internet of Things ("IoT") and 5G technology have been developing rapidly, and faster connection and wider internet band-width are bringing users a more convenient experiences. As for the maturing smartphone market, internet companies around the globe has been actively looking for new carriers and gateway for the next generation of information flow from the internet. The research report "Global Wi-Fi Speaker Forecast 2014-2022" issued by market research company Strategy Analytics showed that shipment of Wi-Fi wireless speakers in the global markets grew by 62% in 2016 to reach 14 million units, of which Amazon occupied 77% of the market share. Shipment of smart audio speaker around the globe reached 5.9 million units and is expected to increase by ten times by 2022, with market value of US\$5.5 billion. The proportion of smart audio speaker in Wi-Fi speaker market is expected to rise from 42% in 2016 to 90% in 2022.

The renowned market research firm eMarketer predicted that the number of monthly active users of smart speakers in the United States of America in 2017 would increase by 128.9% year-on-year to 35.6 million, of which Amazon Echo will account for 70.6% of market share in the United States of America, followed by 23.8% from Google Home in the second place and other brands including Lenovo, LG, Harman Kardon, etc. In May 2017, Harman Kardon announced the launching of Invoke, a smart audio speaker equipped with Cortana voice assistant co-developed with Microsoft. It also plans to make debut in Autumn this year. In June 2017, Apple also launched the HomePod, a smart audio speaker based on Siri technology, at the unit price of US\$349. With smart speaker as the core, combining voice recognition technology, big data analysis, cloud technology and artificial intelligence, the new generation of human-computer interaction will facilitate faster development of smart home and other markets.

Business Overview

For the six months ended 30 June 2017 ("the period under review"), the Group recorded a turnover of approximately HK\$2,064.8 million, up by 17.7% year-on-year. Gross profit increased by 19.1% year-on-year to approximately HK\$308.9 million. Operating profit rose by 21.7% year-on-year to approximately HK\$103.8 million. Profit attributable to owners of the parent for the period under review rose by 19.7% year-on-year to approximately HK\$78.9 million.

During the period under review, the Group was strongly committed to developing audio products and smart ancillary products, of which wireless speaker, soundbars and headphones achieved considerable growth. Benefited from products delivery for new clients and new businesses expansion, the Group's turnover recorded an increase of 17.7% year-on-year. Meanwhile, riding on the advantages as industry pioneer in developing smart audio speaker, the Group has started the cooperation or discussion with several well-known internet companies since the second half of 2016. During the period under review, the Group has established cooperation with an increasing number of internet corporations in joint development of smart audio speakers or became their business partner in this regard. It enabled the Group to maintain sound growth momentum for the development of audio products and smart ancillary products in the future. However, the smart audio speaker market is currently still at its early development stage, such products have not yet produced discernible contribution to the profits of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group has continued to expand the new audio product business and the market for smart ancillary products by improving production efficiency, prudently expanding the sales and customer network, optimizing customer base and enriching product mix. The soundbars, headphones and wireless speakers have achieved promising results in the markets in Europe and the United States of America. The Group will optimize the resources allocation to speed up the expansion of new business, and make the audio product and smart ancillary product businesses the major segment of the Group through continued efforts in speeding up the transformation and upgrade of audio and video industry. The Group will gradually move towards the goal of becoming a high-tech smart products supplier with industrial competitive edge and commit itself to becoming core contributor to the establishment of smart voice ecosystem. To maintain the competitiveness, the Group will further deepen its cooperation with current clients, expand new clients and strength the R&D.

Product Sales

The Group's products mainly include four categories: (i) Audio products which include HTS (without wireless technology), Micro & Mini speakers ("Micro & Mini"), wireless speakers, HTS with soundbars (with wireless technology) and headphones, (ii) Video products which include digital versatile disc ("DVD") players, Blu-ray disc ("BD") players, STB and ABS-s receivers, (iii) Smart ancillary products which include smart speaker, smart speaker key parts, smart security and smart gateway, etc., and (iv) Other businesses which are mainly components and R&D income.

For the six months ended 30 June 2017, turnover from the Group's audio product business increased by 48.7% year-on-year to approximately HK\$1,489.5 million; turnover from video product business decreased by 34.3% year-on-year to approximately HK\$431.8 million; turnover from the smart ancillary products rose by 5.8 times to approximately HK\$55.3 million; and other businesses increased by 1.6% year-on-year to approximately HK\$88.3 million. The Group's turnover breakdown by product during the period under review and the corresponding period in 2016 are set out below:

	The first six months ended 30 June 2017 (unaudited) (HK\$'000)	The first six months ended 30 June 2016 (unaudited) (HK\$'000)	Change
Audio Products ⁽¹⁾	1,489,505	1,001,859	48.7%
Video Products ⁽²⁾	431,782	657,644	-34.3%
Smart Ancillary Products ⁽³⁾	55,259	8,143	578.6%
Other Businesses	88,261	86,879	1.6%
Total	2,064,807	1,754,525	17.7%

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

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

⁽³⁾ Mainly include smart speaker, smart speaker key parts, smart security and smart gateway, etc.

In view of the market's strong demand for new audio ancillary products related to smartphones and smart TVs, the Group has actively strengthened its R&D investments in wireless technology, low energy consumption, new crafting, new materials, and structural units of product display and other functions, to develop a variety of audio products. Meanwhile, the Group has continued to strengthen its R&D efforts in electroacoustic technology to further develop single-speaker and other smart speaker products to enhance its overall product competitiveness and boost profitability. During the period under review, the Group had been committed to developing the soundbars, headphones and wireless speaker business and provided product design and production for domestic and overseas renowned brands. The turnover of audio product increased by approximately 48.7% year-on-year to HK\$1,489.5 million, reflecting the Group's achievement in exploring new clients and developing new products to enhance profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

Riding on the advantages of strong R&D team and leading development position in smart audio speaker, the Group continued to expand its smart audio speaker business during the period under review, and began to cooperate with renowned internet corporations or become their partner in building smart audio ecosystem. Under the rapid development of language recognition and analysis, big data analysis and artificial intelligence, smart audio speakers that enable voice interaction in a natural way are widely recognized. Currently, an increasing number of internet and technological enterprises are launching smart audio speakers compatible to their specific voice recognition platform and the ecosystem of the platforms are being strengthening and enriching. At the same time, more and more internet services and smart products are supporting users' interaction via smart audio speaker.

For the six months ended 30 June 2017, smart ancillary products has contributed approximately HK\$55.3 million to the revenue of the Group. Since the market for smart speakers is in the early stage of development, such products have not yet produced discernible contribution to the results of the Group. However, the Group believes that the market for smart voice-activated speakers has enormous growth potential in the future, and will keep on increasing R&D in this area to open more windows of opportunity in the market. The Group participated in the 2017 Consumer Electronics Show ("CES 2017") held in Las Vegas, the United States of America in early January this year, unveiling its product prototypes including smart speakers with voice recognition, IoT series products, soundbar, headphones, as well as wireless speakers, further boosting the presence and influence of the Group in the industry.

As the market for traditional video disc players such as DVD players and BD players continues to shrink, the Group will take advantage of the technological strengths and scale effect to expand the market when a reasonable profit margin is ensured. This business can bring consistent cash flow to the Group. However, the Group strictly controls the investments on related products in order to focus its resources on other business segments with higher development potential.

The Group fully leverages on its competitive advantages in product R&D to provide diversified R&D services to its international leading consumer electronics brand customers. International brand customers have stringent requirements for product quality and specifications, for whom the Group helps to develop new products and functions. This allows the Group to generate additional sources of revenue, while upholding its R&D capabilities and competitiveness so that the team remains in pace with industry trends. Additionally, having satisfied the internal demand for production, the Group also sells the surplus of plastic components, loudspeakers, speakers and so on to external parties to generate additional income. At the same time, the Group is prepared to accommodate the smart speaker market by providing core product components, to create more market opportunities and strengthen the loyalty of the customers.

Production and Supply Chain Management

In the face of China's labour shortage problems and rising wages, the Group is committed to enhancing its human resources system. During the period under review, the Group continued to increase the proportion of automated equipment and strengthened the stability of skilled workers to boost its per capita production efficiency. The Group has successfully implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production and logistics, in order to set a solid foundation for Industry 4.0. The Group is committed to optimising its equipment maintenance and management systems in order to increase the actual production capacity of the Huizhou production base. Currently, extension of the production base has commenced and phase one of the project has completed and put into operation. This allows the Group to expand its product line and integrate its supply chain, complementing supply chain management to increase production efficiency. Since the total orders received and expected to receive in the second half of this year will increase, in order to satisfy product manufacturing and delivery needs, the Group has signed a production plant lease agreement with Huizhou TCL Mobile Communication Co., Ltd.* (惠州TCL移動通訊有限公司) during the period under review.

In terms of the vertical integration of the supply chain, the Group consolidated the moulding and plastic parts manufacturing and electroacoustic units of its subsidiaries to achieve synergy and reduce production costs. On top of this, the Group took advantage of its global supply chain and strengthened the operational capability of its overseas supply chain with the aim of providing more competitive products for customers. The Group has established production lines in its factory in Indonesia which procured some of its raw materials locally to acquire new customers, thus boosting shipment substantially in the region, consolidating market presence and laying solid foundation for expanding to southeastern markets.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

In June 2017, a fire accident occurred in the material warehouse and the secondary workshop of the factory area located at Dongguan, Guangdong, China, which is operated by FP Group (Dongguan) Limited* (惠州普笙電子科技有限公司), an indirect wholly-owned subsidiary of the Company. As a result of the fire accident, some of the raw material, half-finished goods, finished goods, part of the plant and production facilities in the factory area have been damaged. Whilst the fire accident may have a temporary adverse impact on the short term financial position of the Group and the products delivery schedule, it is expected that the fire accident will neither cause material adverse impact on the overall financial position of the Group for the financial year ended 31 December 2017, nor will it cause material damage on the Group's production, sales and operation. Please refer to the announcement of Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 12 June 2017.

Research and Development (R&D) and Product Innovation

The Group is committed to R&D of new products that cater to the market needs as well as the building of competitive R&D teams. During the period under review, the Group's R&D expenses were approximately HK\$85.6 million, representing 4.1% of its total revenue, which is above industrial level. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an with more than 700 staffs. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team will carry out visionary research and development on fundamental product technologies. The Group has also amassed a design team with experienced electroacoustic professionals from overseas, and continued to increase its investment in the R&D to meet market growth opportunities. The Group will continue to put its emphasis on investing in the smart home business this year. As some of the products have begun mass production already, it is expected that it can contribute to the growth in revenue for the Group in the future.

Future Plans and Outlook

The World Bank forecasts in the latest issue of "Global Economic Outlook" published in June 2017 that the manufacturing and trade are picking up, confidence is improving, and international financing conditions remain benign. In emerging market and developing economies (EMDEs), growth is predicted to recover as obstacles to growth in commodity exporters diminish amid moderately rising commodity prices, and activity in commodity importers remains robust. Global growth is projected to strengthen to 2.7% in 2017, although risks to the global outlook remain tilted to the downside. These include increased trade protectionism; elevated economic policy uncertainty; the possibility of financial market disruptions; and, over the longer term, weaker potential growth. The Chinese Academy of Social Sciences, IMF, and the World Bank predicted that China's GDP growth in 2017 will be between 6.5% and 6.8%. The rebound of the world economy was beneficial to the Group's expansion of product sales. The Group will periodically assess its operation strategy. Based on its product innovation and strengths in R&D, the Group will launch a variety of products which meet the market demands and consumer preferences, so as to reinforce the Group's competitiveness in China and overseas markets.

Looking ahead, the Group will emphatically develop the smart ancillary products business, in particular the smart speaker and voice-related intelligent products. The Group will continue to strengthen its technological advantages in the area of smart audio, focusing on the smart speaker type products to collaborate with various voice recognition platforms across the globe and explore more market opportunities. The Group will strive to become core partner of the global internet corporations to develop smart audio, aiming to achieve mutual growth in the ecosystem and bring the experience of mutual interaction between users and smart products to more consumers.

From the vast cloud services, extensive connection of smart products to the smarter artificial intelligence environment, smart speakers, as the next generation gateway for information flow between human-computer interaction and internet input, can provide users a more convenient, faster, and safer experiences in a natural way for daily life, consultation, and travel and so on. The smart audio also create new demands in the online education and medical service industries. According to market research firm Strategy Analytics, the global shipment of smart speakers will grow from 5.9 million sets in 2016, to ten times that amount in 2022, with a market value of US\$5.5 billion, accelerating the rapid development of smart home industry, and the market size of the smart home related hardware will reach US\$155 billion in 2022.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, the Group's R&D capabilities in headphones is gradually becoming established. The shipment this year is forecast to grow significantly, and contribute to the Group's future audio products revenue. Currently, soundbar products are becoming more and more popular among households as thinner TV screens equipped with soundbars will drive the upgrade of current flat-panel TV, meanwhile users can also improve the audio effects of their smart TVs through the purchase of a single product. The Group will further strengthen cooperation with existing TV manufacturing customers while exploring new customers among global TV brands to increase market share and grasp the growth opportunities in the soundbar market. At present, North America is the most mature among the international soundbar markets with higher user acceptance. The Group has laid a solid customer foundation on which future development continues to be optimistic. As the Chinese market is at the infancy stage, the room for growth is massive, which is favourable to the continual progress of the Group's soundbar business.

The Group further engaged in R&D to raise the competitiveness. Apart from smart audio products and other new audio products, the Group has given priority to the development of smart products such as smart door locks and smart gateway. The Group will continue to enhance its electroacoustic capabilities through improvements in production and supply chain distribution. It will also further integrate its plastic moulding business to develop greater injection capabilities with new resources and technologies and create an integrated operating platform encompassing "Manufacturing, Quality, Supply Chain and Procurement" capabilities. Meanwhile, the Group will strengthen cooperation with strategic partners, integrate R&D and supply chain and optimise its portfolio of new products to create new business growth drivers.

In conclusion, the Group will strive to provide products and services of the highest quality to its brand enterprises and customers through expanding new business, developing new techniques and new products, and raising productivity. As the business of intelligent ancillary products matures, and the deliveries of new audio products increases, the management expects the Group's turnover to continue to grow in the second half of 2017. In addition, the Group will continually look for opportunities to actively seek viable business development prospects, combined with a vision for expanding business segments through its own advantages, to enhance long-term value of the Group, and maximise returns for shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investment held as at 30 June 2017, nor other material acquisitions and disposals of subsidiaries during the period.

Liquidity and Financial Resources

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

The cash and cash equivalents of the Group as at 30 June 2017 amounted to approximately HK\$783.8 million of which 2.1% was maintained in Hong Kong dollars, 89.0% in US dollars, 8.0% in Renminbi and 0.9% in Euros.

There was no material change in available credit facilities when compared with the year ended 31 December 2016 and there was no asset held under finance lease as at 30 June 2017.

As at 30 June 2017, the Group's gearing ratio was nil since the Group held cash and cash equivalents of approximately HK\$783.8 million and without interest-bearing bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

There was no pledge of assets by the Group as at 30 June 2017.

Capital Commitments and Contingent Liabilities

As at 30 June 2017, the Group did not have any capital commitments (31 December 2016: HK\$15.4 million) which were contracted but not provided for. The Group did not have any material contingent liabilities as at 30 June 2017.

Pending Litigation

The Group had not been involved in any material litigation as at 30 June 2017.

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 7,697 dynamic and talented employees. They were all dedicated to uphold product and service quality. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company.

OTHER INFORMATION

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

As at 30 June 2017, the interests and short positions of the directors and chief executives in shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivations (Note 4)	Total	Appropriate percentage of the number of issued shares of the Company (Note 5)
	Personal interests	Family/corporate interests	Other interests (Note 3)			
LIAO Qian	4,305	–	8,611	347,649	360,565	0.14%
YU Guanghui	1,066,981	11,869,339 (Note 1)	234,790	1,378,846	14,549,956	5.75%
SONG Yonghong	818,019	14,489,268 (Note 2)	180,006	677,115	16,164,408	6.39%
REN Xuenong	498,792	–	93,916	551,538	1,144,246	0.45%
LEONG Yue Wing	74,200	–	–	300,000	374,200	0.15%
POON Chiu Kwok	–	–	–	300,200	300,200	0.12%
LI Qi	–	–	–	634,200	634,200	0.25%

Notes:

- For the purpose of the SFO, as at 30 June 2017, other than the personal interests and the other interests as stated in the above table, Mr. YU Guanghui ("Mr. YU") was deemed to be interested in 11,869,339 shares held by Vast Bright Investment Limited ("Vast Bright") which was wholly owned by Mr. YU.
- For the purpose of the SFO, as at 30 June 2017, other than the personal interests and the other interests as stated in the above table, Mr. SONG Yonghong was deemed to be interested in the 14,489,268 shares held by Run Fu Holdings Limited, which was wholly owned by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG Yonghong held 37% effective interest.
- These other interests are awarded shares which remained unvested as at 30 June 2017.
- As at 30 June 2017, these equity derivatives were outstanding share options granted to the relevant directors under the Share Option Scheme on 30 September 2014 and 30 December 2016.
- Such percentage was calculated based on the total number of shares and underlying shares in which each of the directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 30 June 2017, being 253,117,455 Shares.

OTHER INFORMATION

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

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

TCL Multimedia Technology Holdings Limited

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of the number of issued shares of TCL Multimedia (Note 6)
	Personal interests	Family interests	Other interests			
LIAO Qian	20,390	–	22,769	118,739	161,898	0.01%
LEONG Yue Wing	494,672	–	–	–	494,672	0.03%

廣東瑞捷光電股份有限公司 Guangdong Regency Optics-Electron Corp. ("Regency")

Name of Director	Number of ordinary shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of the number of issued shares of Regency (Note 6)
	Personal Interests	Family Interests	Other Interests			
REN Xuenong	799,000	–	–	–	799,000	2.10%
YU Guanghui	1,600,000	–	–	–	1,600,000	4.21%
SONG Yonghong	–	800,000	–	–	800,000	2.11%

Notes:

- Such percentage was calculated based on the total number of shares or underlying shares of the relevant associated corporation in which the relevant director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the relevant associated corporation of the Company as at 30 June 2017 based on the information available to the Company.

Save as disclosed above, as at 30 June 2017, none of the directors and chief executive and their associates had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

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

As at 30 June 2017, the interests and short positions of the person (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long and short positions in shares of the Company

Shareholder	Capacity	Number of shares held or underlying shares Long Position (L)	Approximate percentage of the number of issued shares of the Company (Note 2)
TCL Corporation	Interest of controlled corporation	125,501,170 (L) <i>(Note 1)</i>	49.58%
Run Fu	Beneficial owner	14,489,268 (L)	5.72%

Notes:

- For the purpose of SFO, TCL Corporation was deemed to be interested in the 125,501,170 Shares through its controlled corporation, TCL Industries (its direct wholly-owned subsidiary).
- Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued Shares of the Company as at 30 June 2017, being 253,117,455 Shares

Save as disclosed above, as at 30 June 2017, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

The total number of shares of the Company that could be issued upon exercise of (i) all outstanding share options and (ii) all share options that could be granted under the then available scheme mandate limit as at 30 June 2017 was 15,706,377 shares and 16,760,140 shares respectively, which represented about 6.21% and 6.62% of the number of issued shares of the Company as at 30 June 2017 respectively.

OTHER INFORMATION

The following share options were outstanding under the share option scheme adopted by the Company on 17 April 2014 during the period from 1 January 2017 to 30 June 2017:

Name or category of participant	Number of share options					At 30 June 2017	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Share price immediately before the date of grant of share options* HK\$	Weighted average share closing price immediately before the exercise date** HK\$
	At 1 January 2017	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period						
Director											
Executive directors											
YU Guanghui	561,456	-	-	-	-	561,456	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	
	817,390	-	-	-	-	817,390	30/12/2016	4.050	Note 3	3.95	
	1,378,846	-	-	-	-	1,378,846					
SONG Yonghong	430,450	-	(380,000)	-	-	50,450	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	7.05
	626,665	-	-	-	-	626,665	30/12/2016	4.050	Note 3	3.95	
	1,057,115	-	(380,000)	-	-	677,115					
REN Xuenong	224,582	-	-	-	-	224,582	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	
	326,956	-	-	-	-	326,956	30/12/2016	4.050	Note 3	3.95	
	551,538	-	-	-	-	551,538					
Non-executive director											
LIAO Qian ^(Note 5)	347,649	-	-	-	-	347,649	30/12/2016	4.050	Note 3	3.95	
Independent non-executive directors											
LEONG Yue Wing	334,200	-	(334,200)	-	-	-	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	6.91
	300,000	-	-	-	-	300,000	30/12/2016	4.050	Note 3	3.95	
	634,200	-	(334,200)	-	-	300,000					
POON Chiu Kwok	334,200	-	(334,000)	-	-	200	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	6.66
	300,000	-	-	-	-	300,000	30/12/2016	4.050	Note 3	3.95	
	634,200	-	(334,000)	-	-	300,200					
LI Qi	334,200	-	-	-	-	334,200	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	
	300,000	-	-	-	-	300,000	30/12/2016	4.050	Note 3	3.95	
	634,200	-	-	-	-	634,200					
Sub-total	5,237,748	-	(1,048,200)	-	-	4,189,548					
Other employees and those who have contributed or may contribute to the Group											
	10,162,298	-	(2,715,640)	-	(814,070)	6,632,588	30/09/2014	6.020 ^(Note 1)	Note 2	6.45	6.75
	5,231,858	-	(190,989)	-	(156,628)	4,884,241	30/12/2016	4.050	Note 3	3.95	5.94
Sub-total	15,394,156	-	(2,906,629)	-	(970,698)	11,516,829					
Total	20,631,904	-	(3,954,829)	-	(970,698)	15,706,377					

OTHER INFORMATION

Notes:

- 1 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.
- 2 50% of the share options granted on 30 September 2014 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.
- 3 For share options granted to the employees of the Group, 50% of the share options granted on 30 December 2016 are exercisable commencing from 31 May 2017 to 31 December 2019, and the remaining 50% are exercisable commencing from 31 May 2018 to 31 December 2019.

For share options granted to the employees of TCL Corporation and/or its subsidiaries excluding the employees of the Group, approximately one-third of such share options are exercisable commencing from 31 December 2016, a further approximately one-third are exercisable commencing from 31 December 2017 and the remaining approximately one-third are exercisable commencing from 31 December 2018 up to 31 December 2022.

- 4 Mr. LIAO Qian was appointed as the Chairman with effect from 1 January 2017.

* This is the share closing price immediately before the date of grant of the share options.

** This represents the weighted average closing price of the shares of the Company immediately before the date on which the relevant share options were exercised by the relevant director, associate of director or other employees and those who may have contributed or may contribute to the Group (as the case may be) during the period from 1 January 2017 to 30 June 2017.

OTHER INFORMATION

RESTRICTED SHARE AWARD SCHEME

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

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

Name or category of participant	Number of awarded shares				At 30 June 2017	Date of grant	Vesting date	Fair value per share on date of grant HK\$
	At 1 January 2017	Granted during the period	Vested during the period	Cancelled/lapsed/deducted during the period				
Executive directors								
YU Guanghui	416,181	–	(416,181)	–	–	29/04/2016	31/05/2017	3.60
	–	234,791	(234,791)	–	–	28/04/2017	31/05/2017	4.97
	–	234,790	–	–	234,790	28/04/2017	31/05/2018	4.97
	416,181	469,581	(650,972)	–	234,790			
SONG Yonghong	319,072	–	(319,072)	–	–	29/04/2016	31/05/2017	3.60
	–	180,006	(180,006)	–	–	28/04/2017	31/05/2017	4.97
	–	180,006	–	–	180,006	28/04/2017	31/05/2018	4.97
	319,072	360,012	(499,078)	–	180,006			
REN Xuenong	166,472	–	(166,472)	–	–	29/04/2016	31/05/2017	3.60
	–	93,916	(93,916)	–	–	28/04/2017	31/05/2017	4.97
	–	93,916	–	–	93,916	28/04/2017	31/05/2018	4.97
	166,472	187,832	(260,388)	–	93,916			
Non-executive director								
LIAO Qian	4,305	–	–	–	4,305	29/09/2016	31/12/2017	3.96
	4,306	–	–	–	4,306	29/09/2016	31/12/2018	3.96
	8,611	–	–	–	8,611			
Sub-total	910,336	1,017,425	(1,410,438)	–	517,323			
Other employees and those who have contributed or may contribute to the Group in aggregate	348,063	–	–	–	348,063	21/05/2015	16/05/2018	5.49
	725,082	–	(696,114)	(28,968)	–	29/04/2016	31/05/2017	3.60
	593,625	–	–	–	593,625	29/04/2016	31/05/2018	3.60
	230,306	–	–	–	230,306	29/09/2016	31/12/2017	3.96
	230,298	–	–	–	230,298	29/09/2016	31/12/2018	3.96
	–	635,153	(624,359)	(10,794)	–	28/04/2017	31/05/2017	4.97
	–	386,132	–	–	386,132	28/04/2017	29/12/2017	4.97
	–	635,135	–	–	635,135	28/04/2017	31/05/2018	4.97
Sub-total	2,127,374	1,656,420	(1,320,473)	(39,762)	2,423,559			
Total	3,037,710	2,673,845	(2,730,911)	(39,762)	2,940,882			

As at 30 June 2017, 8,902,481 further Restricted Shares might be granted to the eligible participants of the Scheme, which represented about 3.5% of the number of issued shares of the Company as at 30 June 2017.

OTHER INFORMATION

CHANGE OF PARTICULARS OF THE DIRECTORS

As at 9 August 2017, being the latest practicable date for ascertaining certain information in this interim report, certain particulars of the directors had been changed in the following respects since the published date of annual report 2016 of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Effective Date	Changes
31 March 2017	Mr. LIAO Qian, the non-executive Director and Chairman of the Company, was appointed as a non-executive Director of Fantasia Holdings Group Co., Limited (a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange, Stock Code: 1777)
8 May 2017	Mr. POON Chiu Kwok, an independent non-executive Director of the Company, became a Fellow of CPA Australia (FCPA (Aust.))
15 June 2017	Mr. POON Chiu Kwok, an independent non-executive Director of the Company, was appointed as an independent non-executive director of HONGHUA GROUP LIMITED (a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange, Stock Code: 196)
29 June 2017	Mr. POON Chiu Kwok, an independent non-executive Director of the Company, was appointed as an independent non-executive director of YANZHOU COAL MINING COMPANY LIMITED (a joint stock limited company incorporated in the People's Republic of China with limited liability whose shares are listed on the Stock Exchange, Stock Code: 1171)

PURCHASES, SALES OR REDEMPTION OF SHARES

Pursuant to the rules of the Award Scheme adopted by the Company on 28 August 2014, the Trustee, pursuant to the Company's instructions, purchased from the market a total of 640,000 shares being the awarded shares during the period under review. The total amount paid to acquire such shares was approximately HK\$2,607,000.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the six months ended 30 June 2017, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from the Code Provisions A.6.7 and F.1.1.

Code Provision A.6.7

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

Due to other pre-arranged business commitments which must be attended to by them, Mr. LI Qi, being independent non-executive director, was not present at the annual general meeting of the Company held on 23 May 2017.

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

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

Code Provision F.1.1

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. Mr. TSUI Kwok Ho ("Mr. TSUI"), the company secretary of the Company until his resignation which took effect on 25 April 2017, and Ms. CHOY Fung Yee ("Ms. CHOY"), the current company secretary of the Company appointed with effect from 25 April 2017, are not employees of the Company. Mr. TSUI was a solicitor of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors. Mr. TSUI had been appointed as the company secretary of the Company since 19 August 2016 until his resignation. Ms. CHOY is a partner of the Company's legal advisor, Cheung Tong & Rosa Solicitors.

OTHER INFORMATION

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

Environmental, Social and Governance Reporting

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

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received a confirmation (the "Confirmation") from TCL Corporation and T.C.L. Industries (H.K.) Limited (the "Covenantors") signed by them on 21 July 2017 confirming that for the period from 1 January 2017 to 30 June 2017 and up to the date of signing the Confirmation by the relevant Covenantors, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 (the "Deed of Non-Competition") and, in particular, they and their respective Associates have not, directly or indirectly, carried on or been engaged or interested in the research and development, manufacturing and sales relating to AV Products (excluding TV sets), which is from time to time carried on or engaged or interested in by the Group.

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

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee consists of three independent non-executive Directors, namely, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, and is chaired by Mr. POON Chiu Kwok who possesses appropriate accounting and related financial management expertise. The primary duties of the audit committee are to assist the Board to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company and to perform other duties and responsibilities as assigned by the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Group has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Specific enquires have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the six months ended 30 June 2017.

On behalf of the Board

LIAO Qian
Chairman

Hong Kong, 26 July 2017

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