Annual Report 2013

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

CONTENTS

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(HK$ Million)	**2013**	2012
Turnover	**4,554**	3,673
Gross profit	**492**	433
Gross profit margin (%)	**10.8%**	11.8%
Profit attributable to owners of the parent	**107**	95
Basic EPS (HK cents)	**80.02**	71.38
Full year dividend per share		
– Paid interim dividend per share (HK cents)	**-**	377.0*
– Proposed final dividend per share (HK cents)	**23.8**	–

* During the prior year, the Company's subsidiaries paid interim dividends to the then shareholders.

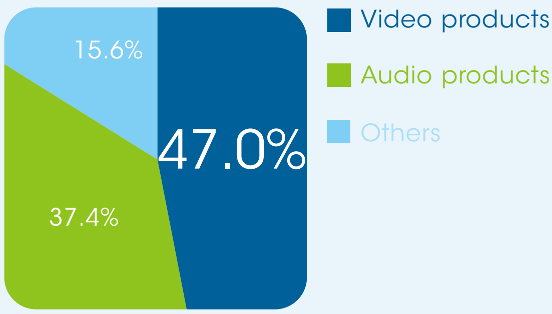
FINANCIAL POSITION

(HK$ Million)	**2013**	2012
Property, plant and equipment	**393**	146
Cash and cash equivalents	**410**	997
Total assets	**2,624**	3,563
Total liabilities	**2,075**	3,173
Interest-bearing bank borrowings	**-**	106
Net assets	**549**	390

OPERATION INDICATORS

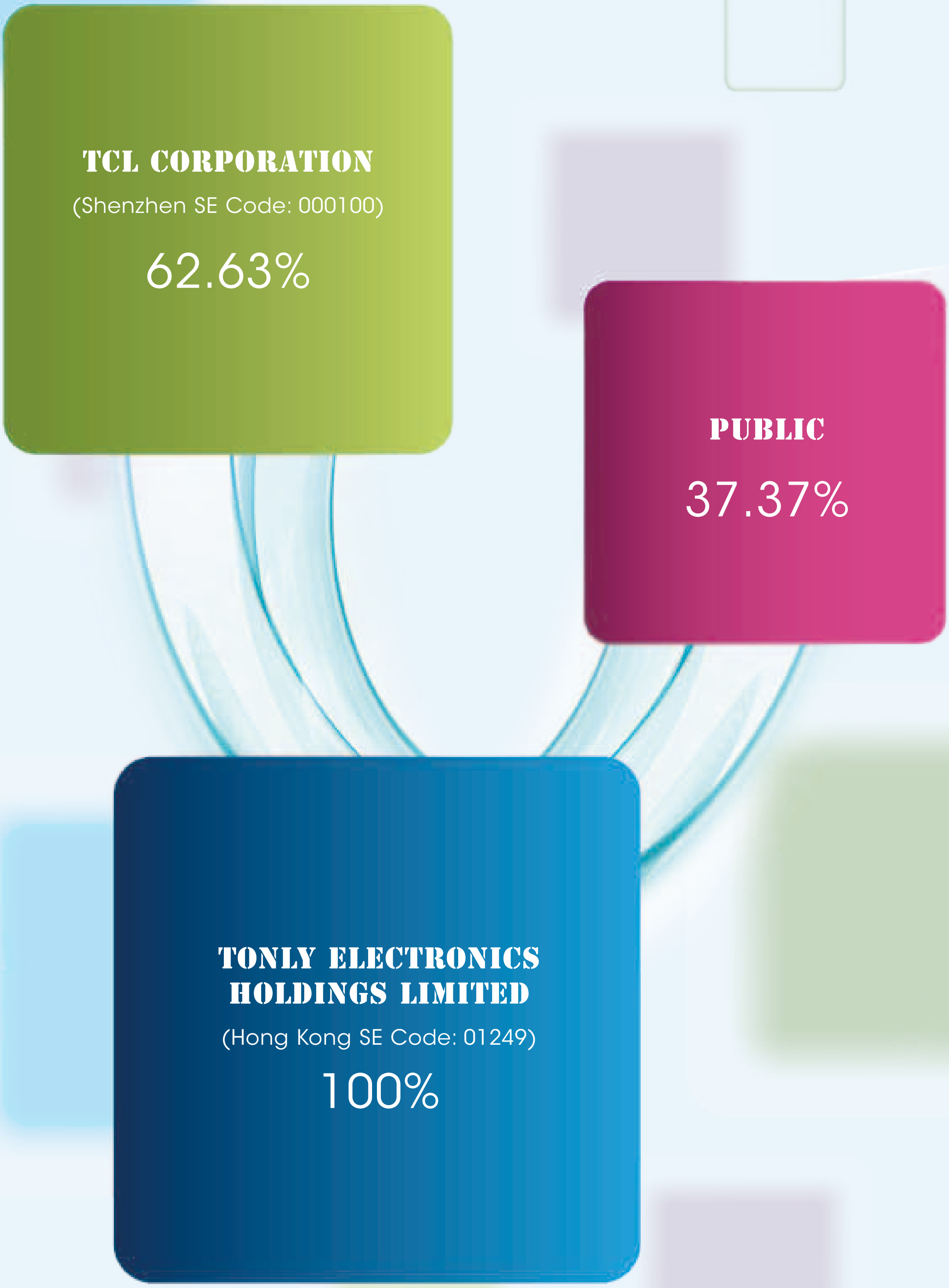
	2013	2012
Return on equity (%)	**30%**	21%
Inventory turnover (days)	**36**	34
Trade receivables turnover (days)	**68**	64
Trade payables turnover (days)	**79**	86
Current ratio	**1.0**	1.1
Gearing ratio (%)	**-**	–

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

"THE GROUP ESTABLISHED A SOLID CUSTOMER BASE WITH ITS ACCUMULATED AND RICH EXPERIENCE IN TECHNOLOGICAL DEVELOPMENT, PRODUCTION, QUALITY CONTROL AND SUPPLY CHAIN MANAGEMENT IN THE AV INDUSTRY. IT ENABLED THE GROUP TO GRADUALLY ACHIEVE ITS STRATEGIC BUSINESS TRANSFORMATION."

CHAIRMAN'S STATEMENT

Tonly Electronics Holdings Limited ("Tonly" or the "Company", which, together with its subsidiaries, is referred to as the "Group") had significant development in 2013, when it was spun off from TCL Multimedia Technology Holdings Limited (stock code: 01070) for a separate listing on the main board of The Stock Exchange of Hong Kong Limited on 15 August 2013. The listing marked a milestone in the Company's future development. Tonly is the world's leading vertically-integrated manufacturing services provider in the audio-visual ("AV") product industry, and is principally engaged in research and development ("R&D"), manufacturing and sale of premium AV products for internationally renowned brands and other customers on an original design manufacturing ("ODM") basis. The success of its listing also reflected the market's recognition of the Group's leadership in the AV product industry, and would serve as a solid foundation for its future development.

In recent years, new technologies and new types of products emerged amid the rapid development of consumer electronics, information technology and the Internet. In particular, the transformation of the AV product market has been gaining momentum with the advent of smart TVs, wireless networks and mobile communications. As a result, there has been a growing demand for new types of audio products, which serve as accessories of Internet-enabled devices and smartphones, and enable wireless connection. In contrast, the demand for video disc players has been shrinking amid the rapid development of the Internet and media boxes. In response to the changes in the industry, the Group has been gradually shifting its business focus from conventional video disc players to a diverse product portfolio, which includes media boxes, audio products and other internet-enabled devices with wireless connection function.

CHAIRMAN'S STATEMENT

In the year under review, the Group achieved steady growth in business and made good progress in its strategic transformation. For the year ended 31 December 2013, it recorded turnover of approximately HK$4,554.3 million, up by 24.0%. Profit attributable to the owners of the parent company rose by 12.1% to HK$106.7 million. According to a research report by Techno Systems Research Co., Ltd. ("TSR"), the Group was the largest video product manufacturer and the forth largest manufacturer of home theatre system in the world in terms of production volume in 2013.

Although the demand for conventional video disc players was decreasing, the Group expanded its market share to mitigate the impact of the shrinking video disc player market by accommodating the needs of clients which are of strategic importance, and by utilizing its advantages in cost and supply chain. It also changed the positioning of its video product business by developing media boxes, which had higher market potential. Moreover, the Group has been executing unwaveringly its strategy of product innovation and has developed new types of competitive audio products to satisfy customers' requirements. It is also consistently raising the efficiency of research and development and improving the supply chain management, with an aim of providing a higher value-added ODM solution for the customers. We believe that the audio products and media boxes business will account for a higher proportion of the Group's turnover in the future. In addition, the Group's ABS-s business achieved good results during the year under review, and its products still have huge market potential. The business will give a fresh impetus to the Group's business growth.

CHAIRMAN'S STATEMENT

During the year under review, the Group established a solid customer base with its accumulated and rich experience in technological development, production, quality control and supply chain management in the AV industry. It enabled the Group to gradually achieve its strategic business transformation. We have also sharpened our understanding of AV products and the market for them, and have kept abreast of the latest market developments through long-term cooperation with internationally renowned brands. Meanwhile, the customers' stringent requirements have also inspired us to further enhance our technologies and production capability. This has thus strengthened our competitive advantages.

The Group's production capacity increased as its production facilities for AV products with a designed annual production capacity of 17 million units in Huizhou, Guangdong Province, China successfully started operation in July 2013. The plant adopts flexible and automated production and will thus raise the production efficiency and satisfy the growing demand for audio products.

Looking ahead, Tonly will continue with its business transformation to adapt to the industry's developments, optimize the scale of its businesses, and raise its operational efficiency. This will improve the Group's competitiveness in the rapidly changing industry. Meanwhile, the Group will step up efforts to diversify both the customer base and product portfolio, enhance product quality and innovate in products. It will also pursue business growth through development with quality, and will use its vertical integration as an advantage to grow with its customers, suppliers and other business partners. All these measures aim at developing the Group into a leading AV product maker in the world's ODM market.

On behalf of the board of directors, I would like to express our gratitude to the Group's shareholders, customers and business partners for their support. Furthermore, I would also like to thank the management and staff for their dedication and contribution to the Group's development. The listing is just the starting point for the Group, and we believe that Tonly will be able to bring the best returns to its shareholders, customers, business partners, staff and society with its consistent and healthy development.

Chairman
Yuan Bing

21 February 2014, Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

Capital market and consumer market were regaining confidence in 2013 amid the gradual recovery of the global economy. Many countries attempted to stimulate their economy with quantitative easing fiscal policies in response. Meanwhile, China's economic growth decelerated compared with last year, and the country's businesses saw their income and profit potentials being squeezed by its appreciating currency and rising labour cost. Against this backdrop, the Group took an optimistic yet prudent approach to the challenges on the markets.

According to a market research report by Euromonitor, it is expected that global sales of video disc player products will fall about 6.7% in 2014 and further to about 6.2% in 2015. On the contrary, home theater, soundbars and other audio products will be an increase of approximately 6.9% in 2014. It is expected a further rise to about 6.0% in 2015. In light of the market research data and the management's understanding of the industry, it is expected that DVD players, Blu-ray disc players and other traditional video player products will gradually slow down. However, smart TVs, wireless networks and intelligent mobile communications and consumer demand driven by the pursuit of high quality audio products, home theatre, sound bar and other audio products will continue to raise steadily, audio-visual ("AV") products market is entering a transition phase. In order to respond to the changes in market demand, the Group will actively implement strategic transformation, and gradually shift the focus to streaming media players, audio products and live satellite diversified product portfolio from conventional disc player.

BUSINESS REVIEW

The Group is one of the world's leading vertically-integrated manufacturing services provider in the AV product industry, and is principally engaged in research and development ("R&D"), manufacturing and sale of premium AV products for internationally renowned brands on an original design manufacturing ("ODM") basis. According to a research report by Techno System Research Co., Ltd, the Group was the largest video product manufacturer and the fourth largest manufacturer of home theatre system ("HTS") in the world in terms of production volume in 2013. The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 15 August 2013 (the "Listing Date").

MANAGEMENT DISCUSSION & ANALYSIS

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK$4,554.3 million, up by 24.0% year-on-year. To adapt to the changes in the market, the Group proactively implemented a transformation strategy by shifting its focus from traditional video disc player product business to audio product business. Investment in new products in the third quarter of 2013 was high with higher labour cost paid and additional floor space needed, which takes time to adjust. Meanwhile, the relocation of production equipment to the new production plant during the peak production season needs certain time for adjustment, affecting its productivity. Gross profit grew by 13.7% to HK$492.2 million while gross profit margin dropped to 10.8% from 11.8%.

Operating profit rose by 40.6% year-on-year to approximately HK$160.7 million. Net profit grew by 40.9% to approximately HK$134.1 million. Net profit margin was 2.9%. Basic earnings per share were HK80.02 cents for 2013. The Board of Directors proposed a final dividend of HK23.8 cents per share.

Product Sales

The Group's products are classified as: (i) video products which include video disc players (DVD players and BD players) and media boxes; (ii) audio products which include HTS, Micro & Mini speakers ("Micro & Mini"), wireless speakers, soundbars and dockings and (iii) other products which are mainly Advanced Broadcasting Satellite ("ABS-s") products, components and research and development income.

During the year under review, revenue from the Group's video product business decreased by 10.6% to HK$2,139.6 million; revenue from its audio product business grew by 95.2% to HK$1,703.2 million; revenue from its business of other products increased by 75.0% to HK$711.4 million. The revenues from the three business segments of video products, audio products and other products accounted for 47.0%, 37.4% and 15.6% respectively of the Group's turnover.

MANAGEMENT DISCUSSION & ANALYSIS

The Group's revenue breakdown by products:

	2013 **(HK$'000)**	2012 (HK$'000)	**Change**
Video products			
– Video disc player[1]	**2,126,384**	2,380,417	**-10.7%**
– Media boxes	**13,255**	13,415	**-1.2%**
Subtotal	**2,139,639**	2,393,832	**-10.6%**
Audio products			
– Traditional audio products[2]	**1,132,500**	690,771	**+63.9%**
– New audio products[3]	**570,743**	181,848	**+213.9%**
Subtotal	**1,703,243**	872,619	**+95.2%**
Other products			
– ABS-s products	**516,474**	366,431	**+40.9%**
– Components	**144,425**	20,189	**+615.4%**
– Research and development income	**50,494**	19,992	**+152.6%**
Subtotal	**711,393**	406,612	**+75.0%**
Total	**4,554,275**	3,673,063	**+24.0%**

(1) Mainly DVD players and BD players

(2) Mainly HTS and Micro & Mini

(3) Mainly wireless speakers, soundbars and dockings

Video Product Business

The Group's video disc player manufacturing business was affected by the shrinking demand for conventional video disc players, with its revenue down by 10.7% to HK$2,126.4 million in 2013. Nevertheless, as a leading and competitive video disc player manufacturer in both China and the world, the Group coped with the changes in the industry by accommodating to the important clients' marketing and product strategies, and by giving its advantages in technology, production and supply chain full play. It also mitigated the impact of the shrinking video disc player market by expanding its market share. Meanwhile, it saw opportunities in the popularization and development of high definition television and three-dimensional technology which led to steady development of the BD player market. The Group will continue to enhance its software development capability, improve its product designs, raise the efficiency of its R&D, and shift the business segment's focus to the media boxes. All these measures will enrich and broaden the video product range, and will prolong the products' life cycle, thus enhancing their competitiveness.

MANAGEMENT DISCUSSION & ANALYSIS

Audio Product Business

As the advancement of Internet and wireless technologies and the development of smart TVs and smart mobile devices brought revolutionary changes and huge business opportunities, the Group capitalized on the trend by actively developing new types of audio products. In 2013, it developed 48 product series which comprised 284 products, in conjunction with new types of audio products. thus achieving satisfactory audio product sales during the year. In particular, sales of conventional audio products such as HTS and Micro & Mini continued to grow rapidly. Meanwhile, breakthroughs were achieved in development and sales of new types of audio products which included wireless speakers, soundbars and dockings. The business segment's revenue rose by 95.2% year-on-year to HK$ 1,703.2 million, compared with HK$872.6 million in 2012. In particular, sales of new types of audio products surged by 213.9% to HK$570.7 million. With further transition to audio products segment, the Group expected this segment account for the proportion of the overall business of the Group to rise further.

Other Businesses

The Group is one of the few qualified and government-designated manufacturers and suppliers of the country's satellite receivers. It has obtained a licence since 2009 to produce ABS-s products which are capable of covering 18 provinces and autonomous regions. During the year, the Group won tenders for the project of "Bringing Villages Under Satellite Coverage" and 6 projects of "Bringing Households Under Satellite Coverage", thus becoming a leading ABS-s supplier in the country. Sales of the Group's ABS-s rose by 40.9% to HK$516.5 million. The Group believes that ABS-s has huge market potential.

By acquiring a controlling equity stake in Guangdong Regency Optics-Electron Corp. at the end of 2012, the Group achieved vertical integration in production of moulding parts and plastic components. The move enabled the Group to satisfy its internal needs in production and to sell surplus plastic components to the external parties to generate additional income. Furthermore, the Group also developed high quality drivers and speakers in-house to enhance its vertical integration and hence its audio products' competitiveness.

MANAGEMENT DISCUSSION & ANALYSIS

Production and Supply Chain Management

The Group has been proactively implementing vertical integration of its production. It adopts flexible production methods, actively develops and applies automated production, extends the coverage of its supply chain to overseas markets and has established a quality assurance system according to international standards to ensure its product quality, production efficiency and effective cost control. The Group's production facilities for AV products are mainly located in Huizhou, Guangdong Province, the People's Republic of China ("PRC"). The production facilities are in compliance with a quality assurance system that matches international standards and have been accredited under five systems of international management standards and quality management.

The Group began constructing a new factory in 2011 in Huizhou in order to meet its needs in future business development and to further improve its production efficiency. The plant, which has a designed annual production capacity of 17 million units in a single shift, commenced production in July 2013. Its designed annual production capacity can be increased to 20 million units with partial introduction of double shifts. The Group's needs for the factory's layout and area exceeded what were estimated in the original design because of the shift of its business focus to audio products. Therefore, the factory's production capacity and efficiency did not reach targets since commencement of production because of the need to redesign the layout, insufficient floor space and the adaptation of many new products in the third quarter of 2013. The Group will plan to set up new production facilities when appropriate. The situation has been improving since the fourth quarter of 2013. Nevertheless, further improvement is still needed.

Research and Development ("R&D") and product innovation

The Group attaches great importance to product innovation and thus invests substantially in R&D. As of 31 December 2013, the Group's R&D team comprised more than 600 staff, who worked in R&D bases in Huizhou, Shenzhen and Xi'an. They are mainly engaged in developing customized products, adaptation of new products, and development of fundamental technologies. Meanwhile, the Group formed a core electro-acoustic design team which comprised a number of well experienced foreign experts. It will hire more such experienced experts for the team to

MANAGEMENT DISCUSSION & ANALYSIS

support its business development and product transformation. During the year, R&D expenses were approximately 3.5% of the Group's turnover, which was higher than industry average in order to enhance its capacity for product development and its overall competitiveness. In 2013, the Group completed 51 fundamental research projects, and developed 110 product series which comprised 421 products.

In order to meet customers' requirements in the rapidly changing consumer electronics market, the Group plans to innovate in new products, which are mainly Internet-enabled or for wireless data transmission, based on the latest market trend. It will do so by obtaining insights into consumers' preferences and enhancing technological pre-research. The move will enable the Group to provide higher efficiency of R&D.

Future Plans and Outlook

Looking ahead to 2014, developed countries are likely to achieve economic recovery while the developing economies can expect to see their growth stop deceleration and stabilize. With the anticipated improvement of the global economy and the full implementation of economic reform and urbanization at home, China can expect its domestic consumption and economic growth to stabilize. In response to the economic environment and changing industrial trends, the Group will transform and upgrade its businesses enterprisingly. Specifically, it will enhance its capabilities of product design and R&D of core technologies, and will use its advantages in R&D, production, quality control and supply chain management to launch new products that meet the markets' wants and needs. It will also maintain solid relationships with its clients, expand the scope of its cooperation with them, further expand product portfolio and attract new clients.

The popularization of smart TVs, smartphones and tablets is gaining momentum. To capture opportunities in the trend, the Group has been shifting its business focus to the audio products, multi-media players products and other diversified product portfolio. Furthermore, the Group will build up its capacity for innovation in electro-acoustic technologies with an aim of increasing its core competitiveness in the market for new types of audio products. Meanwhile, the Group will closely follow the smart TVs, Internet-enabled multimedia and network technologies rapid development trend, combined with the application of automated production facilities to achieve diversification of production targets. This will help it maintain its competitiveness. Moreover, it will use its overseas supply chain to mitigate the pressure of China's rising costs and enhance its capacity for fulfilling orders. The Group will focus on the R&D of new products, new technologies, new production techniques and new materials with emphasis on efficiency. It will also enhance its technology and capabilities of designing intelligent ancillary products. In particular, it will put more efforts into strengthening its capacity for developing drivers and speakers and will step up research in electro-acoustic system.

On the other hand, a solid customer base will remain the centre stage of the Group. The Group has strong commitment to the building of three capabilities (global operational capability, industry capability and technical capability). In terms of global operational capability, the Group will develop new customers while providing clients with worldwide competitive products and services, and carry out the layout of the global supply chain. In terms of technical capabilities,

MANAGEMENT DISCUSSION & ANALYSIS

it will enhance the electro-acoustic related technical capabilities, structure and basic technical capabilities of new types of audio products, as well as Bluetooth and WIFI based wireless technology capabilities. In terms of the industrial capacity, strengthening the vertical integration of related devices, through industrial automation, to enhance the ability of the industrial base in order to establish the Group's leading position in the global market of AV products. All these measures aim at maximizing value for all the customers and shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 31 December 2013, nor other material acquisitions and disposals of subsidiaries during the year ended 31 December 2013.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 December 2013 amounted to HK$410,460,000 of which 2.63% was maintained in Hong Kong dollars, 68.14% in US dollars, 29.20% in Renminbi and 0.03% in Euro.

There was no material change in available credit facilities when compared with the year ended 31 December 2012 and there was no asset held under finance lease as at 31 December 2013.

As at 31 December 2013, the Group's gearing ratio was 0% since the Group had cash and bank balances of HK$410,460,000 and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2013.

Capital Commitments and Contingent Liabilities

As at 31 December 2013, the Group had capital commitments of approximately HK$95,518,000 (31 December 2012: HK$91,936,000) and Nil (31 December 2012: HK$169,844,000) which were contracted but not provided for and authorized but not contracted for, respectively. As at 31 December 2012, the Group has provided a joint guarantee for a term loan facility of US$120,000,000 (equivalent to HK$930,192,000) in favor of a subsidiary of the TCL Corporation, which was utilised to the extent of HK$555,529,000. Such guarantee was released before Listing Date.

Pending Litigation

The Group was not involved in any material litigation for the year ended 31 December 2013.

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 a total of 5,493 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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

① **YUAN Bing**
Chairman and Non-Executive Director

② **YU Guanghui**
Executive Director and Chief Executive Officer

③ **REN Xuenong**
Executive Director and Chief Financial Officer

④ **LEONG Yue Wing**
Non-executive Director

⑤ **POON Chiu Kwok**
Independent Non-executive Director

⑥ **YOUNG Shiao Ming**
Independent Non-executive Director

⑦ **SONG Yonghong**
Executive Director and Chief Operating Officer

⑧ **LI Qi**
Independent Non-executive Director

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. YU GUANGHUI

Aged 46, 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 47, is an executive Director and Chief Operating Officer of our Company. He is currently a director of TCL Technoly Electronics, TCL Audio Video, Shenzhen Tongli and Xi'an TCL Software. 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 43, 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 and of Tongli OEM Sales Limited. 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

Aged 43, is the Chairman and a Non-executive Director of our Company. He is also the chairman of the board of directors of T.C.L. Industries Holdings (H.K.) Limited and the vice president of TCL Corporation. Mr. Yuan currently holds certain positions in the subsidiaries of TCL Corporation, namely, the president and director of Xinjiang TCL Equity Investment Co., Ltd and the legal representative and chairman of the board of directors of Beijing Sinopharm Hundric Medline Info. Tech. Co., Ltd.. Mr. Yuan also holds certain positions in a number of entities in which TCL Corporation Group had invested in. He is the vice chairman of the board of directors of Guangzhou TCL Medical Equipment Co., Ltd, the legal representative of Urumqi TCL Chuangdong Equity Investment Management Co., Ltd, the legal representative and the chairman of the board of directors of Huizhou TCL Kaichuang Enterprise Management Co., Ltd, an executive partner (authorized representative) of Huizhou Kaichuang Venture Capital Partners (Limited Partnership), the legal representative of Nanjing Chuangdong Equity Investment Fund Mandagement Co., Ltd., an executive partner (authorized representative) of Nanjing Zijin Chuangdong Investment Partnership (Limited Partnership), the legal representative and

DIRECTORS AND SENIOR MANAGEMENT

chairman of the board of directors of Shanxi TCL-Huirong Venture Capital Management Co., Ltd., the chairman of the board of directors of Shanxi TCL-Huirong Creative Investment Co., Ltd., the legal representative and chairman of the board of directors of Wuxi TCL Investment & Consultant Co., Ltd, an executive partner (authorized representative) and chairman of the board of directors of TCL-WX Creative Capital Partnership (Limited Partnership), the legal representative and the chairman of the board of directors of TCL-WX Creative Capital Ltd., a director of CRTVU-Online Educational Technology Co., Ltd., a director of Highly Information Industry Co. Ltd, a director of TCL New Technology (Huizhou) 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 and the legal representative of FocalTech Systems Limited and a director of Pharmaxyn Laboratories Ltd.

Mr. Yuan joined TCL Corporation in May 1999. From May 1999 to August 2000, Mr. Yuan was a supervisor of the Financial Department of TCL Corporation. 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 was the vice chief and then the chief at the Strategic Development Department of TCL Corporation 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 Corporation. 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 Corporation. He was the adjunct head of department of the Investment Management Department of the Financial Management Centre of TCL Corporation from July 2006 to September 2007. From October 2006 to July 2011, he was the member of the executive committee of TCL Corporation Group. He was the vice-president of TCL Corporation from July 2007 to January 2011. He was the senior vice-president of TCL Corporation from February 2011 to July 2011. Mr. Yuan has over 22 years of experience in the consumer electronics products industry.

DIRECTORS AND SENIOR MANAGEMENT

MR. LEONG YUE WING

Aged 61, is a non-executive Director 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 – 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 52, is an independent non-executive Director of our Company. Mr. POON has over 24 years of experience in regulatory affairs, investment banking, and listed companies management. Mr. POON worked in the Listing Division of the Stock Exchange on regulatory matters. He also served as an executive director and managing director of several investment banks. Mr. POON obtained several academic degrees, including a bachelor's degree in arts, majoring in business studies, and a master's degree in arts, majoring in international accounting, a bachelor's degree in laws and a postgraduate diploma in laws. Mr. POON is currently a member and associate instructor of Hong Kong Securities and Investment Institute, a Fellow member of both Institute of Chartered Secretaries and Administrators, and Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel. He has extensive experience of acting as the independent non-executive director of the listed companies.

DIRECTORS AND SENIOR MANAGEMENT

MR. LI QI

Aged 53, is an independent non-executive Director of our Company. Mr. Li is an associated professor in the Department of Applied Economics and the assistant to the Dean at Guanghua School of Management of Peking University, as well as the president of Guanghua School of Management, Shenzhen 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 63, is an independent non-executive Director 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. Since December 2007, Mr. Young has been serving as an independent director of Pactera Technology International Limited which is listed on the U.S. NASDAQ Stock Market (stock code: PACT). 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 48, is a vice president and chief marketing officer of the Company, also served as general manager of AV business center and video business center. 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 programmer.

MR. HUANG WEI

Aged 39, 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 53, 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 an independent non-executive director of Perfect Shape (PRC) Holdings Limited (stock code: 01830). 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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. POON Chiu Kwok
Mr. LI Qi
Mr. YOUNG Shiao Ming

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
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, 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

iPR Ogilvy Limited
Units 2008-12,
20/F., The Center,
99 Queen's Road,
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 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

For the period from the Listing Date to 31 December 2013, the Company has complied with the Code Provisions with the following exceptions:

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals.

As the shares of the Company were listed on 15 August 2013 (the "Listing Date"), the Board and the Board committees, including the audit committee, nomination committee and remuneration committee, only convened and held 1 regular board meeting and 2 audit committee meetings during the period from the Listing Date to 31 December 2013.

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. YUAN Bing and Mr. LEONG Yue Wing, both of whom being non-executive director of the Company, and Mr. LI Qi and Mr. YOUNG Shiao Ming, both of whom being independent non-executive director, were not present at the extraordinary general meeting of the Company held on 13 December 2013 whereat resolutions relating to the revision of annual caps of the master sale and purchase agreement and the renewal of the master financial services agreement were considered and passed by the Shareholders. However, Mr. REN Xuenong, an executive director and the chief financial officer of the Company, was present at the extraordinary general meeting and was elected as the chairman of that meeting pursuant to the Articles of Association to ensure an effective communication with the shareholders at that meeting.

CORPORATE GOVERNANCE REPORT

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 adviser, 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 as the contact person with Ms. PANG. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Ms. PANG through the contact person assigned. Given the long-term relationship between Ms. PANG and the Group, Ms. PANG 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.

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.

During the period from the Listing Date to 31 December 2013, the Board held 1 regular meeting and 2 additional meetings.

The attendance records of each director at the Board meetings and general meetings in the period from the Listing Date to 31 December 2013 are set out below:

DIRECTORS

	Regular Board Meetings	Additional Board Meetings	General Meetings
Executive Directors			
Mr. YU Guanghui	1/1	2/2	0/1
Mr. SONG Yonghong	0/1	1/2	0/1
Mr. REN Xuenong	1/1	2/2	1/1
Non-Executive Directors			
Mr. YUAN Bing (Chairman)	1/1	2/2	0/1
Mr. LEONG Yue Wing	1/1	2/2	0/1
Independent Non-Executive Directors			
Mr. POON Chiu Kwok	1/1	2/2	1/1
Mr. LI Qi	0/1	1/2	0/1
Mr. YOUNG Shiao Ming	1/1	2/2	0/1

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 period from the Listing Date to 31 December 2013. 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 Group.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board of the Company currently comprises the following directors:

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

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

Independent Non-executive Directors
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. YOUNG Shiao Ming

Details of the biographies of the Directors are given under the section "Director and Senior Management" of this annual report on pages 16.

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, in particular between the Chairman and the Chief Executive Officer.

The independent non-executive Directors play an important role on the Board. Accounting for at least 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. For the period from the Listing Date to 31 December 2013, the Board at all times met the Listing Rules requirements of (i) having at least three independent non-executive Directors; (ii) having independent non-executive Directors representing one-third of the Board; and (iii) that at least one of them possessed appropriate professional qualifications on accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

APPOINTMENTS, RE-ELECTION AND REMOVAL

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his 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 article 16.18 of the Company's Article of Association, at each annual general meeting, not less than 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.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The terms of appointment for the non-executive directors of the Company are as follows:

Name of non-executive director	Term of Appointment
Mr. YUAN Bing	three years from 12 July 2013
Mr. LEONG Yue Wing	three years from 12 July 2013
Mr. POON Chiu Kwok	two years from 12 July 2013
Mr. LI Qi	two years from 12 July 2013
Mr. YOUNG Shiao Ming	two years from 12 July 2013

NOMINATION OF DIRECTORS

On 12 July 2013, the Board has established a nomination committee (the "Nomination Committee") pursuant to the requirements of the Code, 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.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES OF DIRECTORS

The Company officers work closely with the newly appointed Directors both immediately before and after his appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director 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 been forwarded to each director for his information and ready 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 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 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 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 all directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

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 the Listing Date to 31 December 2013:

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	✓	✓
Independent Non-executive Directors		
Mr. POON Chiu Kwok	✓	✓
Mr. LI Qi	✓	✓
Mr. YOUNG Shiao Ming	✓	✓

SECURITIES TRANSACTIONS GUIDELINES

The Board has adopted a code of conduct regarding directors' securities transaction on the same terms as 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 period from the Listing Date to 31 December 2013, 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 2013 are set out on pages 56 to 58 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

BOARD COMMITTEES

Nomination Committee

On 12 July 2013, the Board has established the Nomination Committee pursuant to the requirements of the Code, 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). The Committee currently comprises 1 executive Director, 1 non-executive Director and 3 independent non-executive Directors, namely:

Executive Director
Mr. YU Guanghui

Non-Executive Director
Mr. YUAN Bing (Chairman)

Independent Non-Executive Directors
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. YOUNG Shiao Ming

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.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the INEDs;
- 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; and
- monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Non-executive Directors.

CORPORATE GOVERNANCE REPORT

From the Listing Date to 31 December 2013, 1 Nomination Committee meeting was held. The attendance records of each member of the Nomination Committee at the said Committee meeting are set out below:

Members of Nomination Committee	Attendance/Number of Meeting(s) held during the tenure of membership
Executive Director	
Mr. YU Guanghui	1/1
Non-Executive Director	
Mr. YUAN Bing (Chairman)	1/1
Independent Non-Executive Directors	
Mr. POON Chiu Kwok	1/1
Mr. LI Qi	0/1
Mr. YOUNG Shiao Ming	1/1

During the meeting(s), the Nomination Committee conducted the followings:

- the review of policy for nomination of directors;
- the review of the board diversity policy; and
- the review of the current composition of the Board

Potential new directors are identified and considered for appointment by the Nomination Committee. The Nomination Committee would make recommendation to the Board as to the appointment of such director. A director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all directors are subject to re-election by shareholders every three years.

The Company has adopted a board diversity policy ("Board Diversity Policy") on 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 objective 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 Nomination Committee 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, whether considered in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

Remuneration Committee

Remuneration of Directors

The Remuneration Committee was established in 12 July 2013 pursuant to Rule 3.25 of the Listing Rules. It consults the Board chairman and/or chief executive about their remuneration proposals for other executive directors. 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 is governed by its terms of reference adopted in the Board meeting 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.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee is chaired by the independent non-executive directors. It now consists of 5 members, the majority of whom are INEDs, namely:

Executive Director
Mr. YU Guanghui

Non-Executive Director
Mr. YUAN Bing

Independent Non-Executive Directors
Mr. POON Chiu Kwok
Mr. LI Qi
Mr. YOUNG Shiao Ming (Chairman)

During the period from the Listing Date to 31 December 2013, 1 Remuneration Committee meeting was held.

The attendance records of each member of the Remuneration Committee at the said Committee meetings are set out below:

Members of Remuneration Committee	Attendance/Number of Meeting(s) held during the tenure of membership
Executive Director	
Mr. YU Guanghui	1/1
Non-Executive Director	
Mr. YUAN Bing	1/1
Independent Non-Executive Directors	
Mr. POON Chiu Kwok	1/1
Mr. LI Qi	0/1
Mr. YOUNG Shiao Ming (Chairman)	1/1

The work performed by the Remuneration Committee during 2013 included the followings:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- assessment of the performance of executive directors;
- approval of the terms of executive directors' service contracts;
- determination of the remuneration packages of the individual directors, chief financial officer and certain senior management;
- discussion and approval of the share option scheme; and
- formulation of new framework for determining the remuneration package in the coming year.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and calibre, the Company provides a competitive remuneration package to its executive directors and senior management. This comprises base monthly salary, guaranteed cash benefits and allowances, special allowances and variable pay. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives which have pre-determined criteria and standards. 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 remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and gives incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

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

CORPORATE GOVERNANCE REPORT

Audit Committee

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 currently comprises 3 members, namely Mr. Poon Chiu Kwok, Mr. Li Qi and Mr. Young Shiao Ming. Mr. Poon Chiu Kwok is the chairman of the Audit Committee. No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he ceased to be a partner of the firm or have any financial interest in the firm (whichever the later).

The Audit 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.

During the year 2013, the Audit Committee met 2 times and the attendance of each member at the Audit Committee meetings is as follows:

Members of Audit Committee	Attendance/Number of Meeting(s) held during the tenure of membership
Mr. POON Chiu Kwok (Chairman)	2/2
Mr. LI Qi	0/2
Mr. YOUNG Shiao Ming	2/2

The Audit Committee meetings are normally attended by the Company's financial controller. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during 2013 included consideration of the following matters:

- the completeness and accuracy of the 2013 interim and 2013 quarterly financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- 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, the scope and timetable of the audit for year 2013; and

- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors.

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.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Messrs. Ernst & Young be re-appointed as the Company's external auditor for 2014.

ACCOUNTABILITY AND AUDIT

As at 31 December 2013, the Group had net assets of approximately HK$549 million, the Group recorded a profit attributable to equity holders of the parent of approximately HK$107 million for the year ended 31 December 2013.

FINANCIAL REPORTING

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, price-sensitive announcements 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 page 63.

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 65 to 143 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.

CORPORATE GOVERNANCE REPORT

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 "Managerial Discussion and Analysis" set out in pages 8 to 15 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.

INTERNAL CONTROLS

The Board is responsible for ensuring that an effective 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 internal controls. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the 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 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 reviews the findings presented by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the 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.

CORPORATE GOVERNANCE REPORT

The Company's internal audit department independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Company's business. The head of the Company's internal audit department reports to the Audit Committee, and submits regular reports for his 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.

For the year of 2013, no critical internal control issues have been identified.

Connected Transactions: The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules. The connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the Directors' Report.

AUDITOR'S REMUNERATION

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

Audit services	HK$1,500,000
Non-audit services (which include listing fee, taxation compliance and agreed upon procedures)	HK$2,506,667

CORPORATE GOVERNANCE REPORT

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 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.

Since Ms. PANG was appointed on 12 July 2013, she has to take no less than 15 hours of relevant professional training during the year 2013. She has fulfilled 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.

The Group also holds press conferences and analyst briefings after the quarterly, interim and annual results announcement, with directors and senior management present to answer questions from the media and investors to maintain an effective mutual communication

In addition to frequent meetings, telephone conferences and plant tours, the Group's investor relations team, led by senior management, actively participated in investor meetings and non-deal road shows in Hong Kong, Shanghai, Beijing, Taiwan and Singapore to disseminate its latest business development to investors in the past year.

Key Investor Events in 2013

Date	Events
12 August 2013	Non-deal roadshow in Taipei
13 August 2013	Credit Suisse's Asia Tech Conference (Taipei)
25 October 2013	Non-deal roadshow in Hong Kong
30-31 October 2013	Non-deal roadshow in Beijing
14-15 November 2013	Non-deal roadshow in Shanghai
24 November 2013	Non-deal roadshow in Hong Kong

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.

SHAREHOLDERS' RIGHTS

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.

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 7455. 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.

The memorandum of association and articles of association of the Company were adopted on 12 July 2013 before the Listing Date. There has been no change to the Company's constitutional documents during the period from the Listing Date to 31 December 2013.

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 year 2013, in light of the business development strategy, "transformation, breakthrough and second venture", the Company implemented a series of human resources management initiatives, and made unremitting efforts for the efficient selection, the training of new technical personnel, the establishment of project-oriented incentives and creation of simple and harmonious atmosphere of the organization, achievement of the optimal allocation of human resources.

1. BASIC INFORMATION ON HUMAN RESOURCES

As of 31 December 2013, the Group had a total of 5,493 employees, the distribution of which is set out as follows:

Mainland China	5,481
Hong Kong, China	12

As the business grows, compared to the corresponding period last year, the Company showed significant sales growth, and the staff size was also significantly expanded. In this situation, the work of human resources in terms of the staffing is to pay more attention to science and optimization, and the work of human resources in terms of the talent training is to adopt a "continuous learning and growth" approach. We strived to improve staff expertise, while actively creating a "learning organization" corporate atmosphere.

2. KEY EFFORT ON HUMAN RESOURCES

In the year 2013, the Group actively expanded the core business to larger audio and video areas. Especially, we shipped a large number of new AUDIO product, which laid a solid foundation for intensive continually cooperation with customers. In line with the Company's development strategy and business model changes, the work of human resources in terms of the organizational efficiency, capacity building in key positions in transition, assessment and motivation, organizational climate and employee growth is to take a series of positive and effective response.

With the development of new technologies and new products in the consumer electronics industry and the theme of the work, "transformation, breakthrough and second venture", the Company is committed to become the world's industrial leading audio and video products ODM supplier with the industrial competitiveness through independent innovation, research and development, the vertical integration of the supply chain and the strategic layout abroad. By combing the organizational structure and core processes, organizational effectiveness was improved. The organization is relatively stable, and core processes were continuously optimized. Meanwhile, we established the "product line" and " business line" end to end incentive model to promote quick delivery of products to customers and make sure that customer is satisfied.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

The Company has established a system focused on both material and non-material incentive, and established a customer-oriented system and encouraged all staff to focus on the project, and the project performance and teamwork. Meanwhile, the Company is committed to creating a "happy work and healthy life" work atmosphere, through a series of activities such as team integration, staff proposal, skill contest, team development and interest associations in support of business development, while enhancing employee engagement degree and a sense of belonging.

The Company was committed to the development and training of personnel, in the past year, in line with the Group's demand for professionals, the Company continually hunt for the industry's professionals and carried out a "hawk series echelon talent training program," while focusing on creating the "flying squad training program" designed to foster grass-roots professional management personnel and establish the system's basic management personnel training mechanism. The investment in training of knowledge in key business areas also was increased. We provided support for the rapidly growing business, while enabling employees grow with the Company.

The Company strived to improve the human resources policies and systems, promoted building of the standardization of Electronic Human Resources (E-HR) and Office Automation (OA) systems and others IT systems, and standardized business processes and improve efficiency and quality of personnel services.

SOCIAL RESPONSIBILITY:

In the previous year, 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 protecting the rights of employees and external personnel, creating documentation of the social responsibility management system, 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, carried out by the "plan, do, check, review" dynamic cycle. In the year under review, there is a total of more than 30 times of reviews from customers, and all are passed.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

1. 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.

2. SCHOOL-ENTERPRISE COOPERATION

– In recent years, the Group has visited a number of campuses and reserved a group of talents who possess certain qualities that the Company looks for. 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, have preliminary understanding on the background business knowledge required in their work and complete fundamental mental change from a student to an employee, together with "Eagles, Talents, Tercels", 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 accelerated colleges and school-enterprise cooperation projects. In 2013, the Company opened "Tonly Class" in Huanggang Polytechnic College, Guangxi Talent Polytechnic College, Hengyang Polytechnic College and Huizhou City Technical School respectively, the Company took a 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.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

3. 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 17 March 2013, in order to practice the social responsibility of forest conservation, expansion of forest resources and improving the ecological environment, hundreds of employees of the Group launched a massive voluntary tree-planting activities with the theme of "Green Earth, starting with me" in Safflower Lake Scenic Area. The tree-planting activities received strong support from Safflower Lake Scenic Area CMC and were 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 2013.

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. The listing of the Shares was achieved by the distribution in specie of such number of Shares to the qualifying shareholders of TCL Multimedia Technology Holdings Limited ("TCL Multimedia") in the proportion of every 10 shares in TCL Multimedia for 1 Share.

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 16 to the financial statements. There was no significant change in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 65 to 143.

The Board has recommended a final dividend, for the year ended 31 December 2013, of HK23.8 cents in cash per share.

Subject to approval at the forthcoming annual general meeting, the said final dividend will be payable on or about 13 May 2014, Tuesday to shareholders whose names appear on the register of members of the Company on 29 April 2014, Tuesday.

The register of members of the Company will be closed on 17 April 2014, Thursday, 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 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), by no later than 4:30 p.m. on 16 April 2014, Wednesday.

REPORT OF THE DIRECTORS

The register of members of the Company will be closed from 25 April 2014, Friday, to 29 April 2014, Tuesday (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 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), by no later than 4:30 p.m. on 24 April 2014, Thursday.

FOUR YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 144. 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 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 29 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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company had an aggregate of HK$33,600,000 retained profits which can be utilised for payment of dividend.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$500,000.

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	39%
– the five largest customers combined	78%

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 for the period from 15 August 2013 to 31 December 2013 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

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

In accordance with article 16.18 of the Company's articles of association, Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong will retire by rotation. All of them will hold office until the conclusion of the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

Each of the 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.

REPORT OF THE DIRECTORS

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 27 to 46 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.

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 16 to 24 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 2013, 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:

REPORT OF THE DIRECTORS

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
Ren Xuenong	48,000	–	–	48,000	0.04
Leong Yue Wing	49,467	–	–	49,467	0.04

(B) Interests in Associated Corporation of the Company – Long Positions TCL Corporation *(Note 1)*

Name of Director	Nature of Interest	Interests in shares held	Appropriate percentage of issued share capital of the relevant associated corporation
Yuan Bing	Beneficial owner	171,480	0.00
Yu Guanghui	Beneficial owner	615,600	0.01

(C) Interests in Associated Corporation of the Company – Long Positions TCL Multimedia *(Note 2)*

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

REPORT OF THE DIRECTORS

(D) Interests in Associated Corporation of the Company – Long Positions

TCL Communication *(Note 3)*

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

(E) Interests in Associated Corporation of the Company – Long Positions

Tonly Electronics Limited *(Note 4)*

Name of Director	Nature of Interest	Interests in shares held	Appropriate percentage of issued share capital of the relevant associated corporation
YU Guanghui	Interest in controlled corporation *(Note 5)*	11,426,400	10.08%
SONG Yonghong	Interest in controlled corporation *(Note 6)*	11,426,400	10.08%

Notes:

1. TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.
2. TCL Multimedia is a subsidiary of TCL Corporation.
3. TCL Communication is a subsidiary of TCL Corporation.
4. Tonly Electronics Limited is a 80% owned subsidiary of Tonly International Limited which in turn is a wholly owned subsidiary of the Company.

REPORT OF THE DIRECTORS

5. As at 31 December 2013, Run Fu held 11,426,400 shares in Tonly Electronics Limited and Mr. YU Guanghui was deemed to be interested in such shares in Tonly Electronics Limited since he and his wife own the effective interest of Huizhou Yinhuiyu Investment Partnership Enterprise (Limited Partnership) as to approximately 99% and 1% respectively and Huizhou Yinhuiyu Investment Partnership Enterprise (Limited Partnership) in turn held 44.44% of the total issued share capital of Run Fu.

6. As at 31 December 2013, Run Fu Holdings Limited ("Run Fu") held 11,426,400 shares in Tonly Electronics Limited and Mr. SONG Yonghong was deemed to be interested in such shares in Tonly Electronics Limited since he owned 46.50% of the effective interest of Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) and Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in turn held 55.56% of the total issued share capital of Run Fu.

Save as disclosed above, as at 31 December 2013, 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 2013, 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	82,741,447 *(Note 1)*	62.06 *(Note 2)*

Notes:

1. For the purpose of SFO, TCL Corporation was deemed to be interested in the 82,741,447 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 133,316,234 Shares in issue.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2013, 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.

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 period from 15 August 2013 to 31 December 2013 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.

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 entered into the following connected transaction (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2013:

On 15 July 2013, TCL Corporation and T.C.L. Industries Holdings (H.K.) Limited entered into the deed of non-competition ("Deed of Non-Competition") in favour of the Company, pursuant to which they undertook that they shall not and shall procure that their respective associates not to, directly or indirectly, carry on or be engaged or interested in the research and development, manufactory and sales relating to audio-visual products (exclusive TV sets) (except for holding interest in the Company).

REPORT OF THE DIRECTORS

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2013:

(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$3,215,000 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$5,884,000 was paid by the Group to TCL Corporation Group as rent.

(c) Pursuant to the Master Overseas Materials Sourcing Agreement dated 12 July 2013 entered into between the Company and TCL Corporation, the Group purchased overseas materials form TCL Group amounting to HK$99,937,000 and (ii) sold overseas materials amounting to HK$97,383,000 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$9,899,000 and (ii) sourced components and parts from TCL Corporation Group amounting to HK$16,885,000 during the year.

(e) Pursuant to the Master Financial Services Agreement dated 12 July 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$182,000 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$518,587,000.

    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.

Since the Master Financial Services Agreement expired on 31 December 2013, the Company, Finance Company and TCL Corporation entered into the Master Financial Services (Renewal) Agreement on 21 October 2013 to renew the agreement.

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.38 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 27 to 46 in this annual report.

REPORT OF THE DIRECTORS

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 period from 15 August 2013 to 31 December 2013.

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.

ON BEHALF OF THE BOARD

YUAN BING
Chairman

Hong Kong
21 February 2014

INDEPENDENT AUDITORS' REPORT

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 (together, the "Group") set out on pages 65 to 143, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 policies 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 state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance 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
21 February 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
TURNOVER	5	**4,554,275**	3,673,063
Cost of sales		**(4,062,080)**	(3,240,122)
Gross profit		**492,195**	432,941
Other income and gains, net	5	**117,620**	90,818
Selling and distribution costs		**(141,553)**	(141,929)
Administrative expenses		**(147,169)**	(125,418)
Research and development costs	7	**(160,014)**	(142,151)
Other operating expenses, net	7	**(384)**	–
		160,695	114,261
Finance costs	6	**(9,211)**	(3,514)
Share of profits of an associate		**7**	2
PROFIT BEFORE TAX	7	**151,491**	110,749
Income tax expense	10	**(17,433)**	(15,587)
PROFIT FOR THE YEAR		**134,058**	95,162
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**11,642**	493
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**11,642**	493
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**145,700**	95,655

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Profit attributable to:			
Owners of the parent	11	106,679	95,162
Non-controlling interests		27,379	–
		134,058	95,162
Total comprehensive income attributable to:			
Owners of the parent		115,358	95,655
Non-controlling interests		30,342	–
		145,700	95,655
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	HK80.02 cents	HK71.38 cents

Details of the dividends for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	393,215	146,176
Prepaid land lease payments	15	39,727	16,105
Investment in an associate	17	406	387
Deferred tax assets	28	72,826	68,164
Total non-current assets		506,174	230,832
CURRENT ASSETS			
Inventories	18	459,758	344,649
Trade receivables	19	875,274	825,218
Bills receivable		21,955	21,239
Prepayments, deposits and other receivables	20	198,888	290,082
Other investment	21	135,991	–
Tax recoverable		2,104	967
Derivative financial instruments	22	14,077	35,651
Pledged deposits	23	–	817,684
Cash and cash equivalents	23	410,460	997,289
Total current assets		2,118,507	3,332,779
CURRENT LIABILITIES			
Trade payables	24	958,806	798,917
Bills payable		220,236	766,041
Other payables and accruals	25	619,181	1,228,819
Interest-bearing bank borrowings	26	–	106,197
Tax payable		84,156	93,942
Derivative financial instruments	22	7,952	11,877
Provisions	27	180,947	164,199
Total current liabilities		2,071,278	3,169,992
NET CURRENT ASSETS		47,229	162,787

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**553,403**	393,619
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**4,176**	3,265
Net assets		**549,227**	390,354
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**133,316**	–
Reserves	30	**291,385**	292,084
		424,701	292,084
Non-controlling interests		**124,526**	98,270
Total equity		**549,227**	390,354

YUAN Bing
Director

YU Guanghui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the parent								
GROUP	Notes	Issued capital HK$'000	Reserve funds HK$'000 (Note 30 (a)(i))	Capital reserve HK$'000 (Note 30 (a)(ii))	Merger reserve HK$'000 (Note 30 (a)(iii))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		-	36,555	-	36,500	57,377	495,386	625,818	-	625,818
Profit for the year		-	-	-	-	-	95,162	95,162	-	95,162
Other comprehensive income for the year: Exchange differences on translation of foreign operations		-	-	-	-	493	-	493	-	493
Total comprehensive income for the year		-	-	-	-	493	95,162	95,655	-	95,655
Deemed partial disposal of equity interests in a subsidiary		-	-	(6,008)	-	(11,574)	-	(17,582)	73,021	55,439
Acquisition of a subsidiary	31	-	-	-	-	-	-	-	25,249	25,249
Capital contribution from TCL Multimedia		-	-	-	90,757	-	-	90,757	-	90,757
Dividends declared/paid to the then shareholders	12	-	-	-	-	-	(502,564)	(502,564)	-	(502,564)
Transfer from retained profits		-	17,991	-	-	-	(17,991)	-	-	-
At 31 December 2012 and 1 January 2013		-	54,546*	(6,008)*	127,257*	46,296*	69,993*	292,084	98,270	390,354
Profit for the year		-	-	-	-	-	106,679	106,679	27,379	134,058
Other comprehensive income for the year: Exchange differences on translation of foreign operations		-	-	-	-	8,679	-	8,679	2,963	11,642
Total comprehensive income for the year		-	-	-	-	8,679	106,679	115,358	30,342	145,700
Deemed contribution from TCL Multimedia	36	-	-	17,259	-	-	-	17,259	4,314	21,573
Deemed distribution to TCL Multimedia	29	133,316	-	-	(133,316)	-	-	-	-	-
Dividend declared to non-controlling shareholders		-	-	-	-	-	-	-	(8,400)	(8,400)
Transfer from retained profits		-	3,967	-	-	-	(3,967)	-	-	-
At 31 December 2013		133,316	58,513*	11,251*	(6,059)*	54,975*	172,705*	424,701	124,526	549,227

* These reserve accounts comprise the consolidated reserves of HK$291,385,000 (2012: HK$292,084,000) in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		151,491	110,749
Adjustments for:			
Finance costs	6	9,211	3,514
Share of profits of an associate		(7)	(2)
Interest income	5	(26,578)	(28,710)
Gain on bargain purchase of a subsidiary	5	–	(878)
Loss/(gain) on disposal of items of property, plant and equipment	7	384	(257)
Unrealised fair value gains on derivative financial instruments, net – transactions not qualifying as hedges	5	(5,162)	(20,435)
Depreciation	7	21,480	12,163
Amortisation of prepaid land lease payments	7	534	338
		151,353	76,482
Increase in inventories		(102,082)	(53,200)
Increase in trade receivables		(31,180)	(349,846)
Decrease in prepayments, deposits and other receivables		112,448	483,194
Increase in bills receivable		(7,642)	–
Increase in trade payables		127,847	55,561
Increase/(decrease) in bills payable		(5,002)	26,534
Increase/(decrease) in other payables and accruals		(78,174)	68,828
Increase in provisions		11,530	20,909
Cash generated from operations		179,098	328,462
Interest paid		(9,211)	(3,514)
Hong Kong profits tax paid		(4,802)	(419)
Overseas taxes paid		(10,984)	(26,575)
Net cash flows from operating activities		154,101	297,954

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**26,578**	28,710
Purchases of items of property, plant and equipment		**(261,954)**	(102,753)
Prepayment of land lease payments		**(23,652)**	–
Decrease in bills receivable		**7,591**	412,847
Purchase of other investment		**(135,991)**	–
Increase/(decrease) in bills payable		**(564,770)**	371,397
Proceeds from disposal of items of property, plant and equipment		**1,182**	3,330
Acquisition of a subsidiary	31	**–**	(13,863)
Decrease/(increase) in pledged deposits		**843,280**	(501,456)
Net cash flows from/(used in) investing activities		**(107,736)**	198,212
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**–**	106,197
Repayment of bank loans		**(106,224)**	(123,892)
Decrease in other payables and accruals		**(40,764)**	–
Capital contribution from TCL Multimedia		**–**	90,757
Capital contribution from non-controlling shareholders		**–**	55,439
Repayment to companies controlled by TCL Corporation		**(166,183)**	–
Dividends paid		**(323,395)**	(119,998)
Net cash flows from/(used in) financing activities		**(636,566)**	8,503
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(590,201)**	504,669
Cash and cash equivalents at beginning of year		**997,289**	492,841
Effect of foreign exchange rate changes, net		**3,372**	(221)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**410,460**	997,289
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**410,460**	997,289

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000
NON-CURRENT ASSET		
Investments in subsidiaries	16	133,316
Total non-current asset		133,316
CURRENT ASSET		
Due from a subsidiary	16	33,600
Total current asset		33,600
Net asset		166,916
EQUITY		
Issued capital	29	133,316
Reserves	30(b)	33,600
Total equity		166,916

YUAN Bing
Director

YU Guanghui
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION AND GROUP REORGANISATION

Tonly Electronics Holdings Limited (the "Company") was incorporated on 8 February 2013 in the Cayman Islands as an exempted company with limited liability. 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.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 August 2013 (the "Listing Date").

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.

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Stock Exchange (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 10 July 2013. Details of the Reorganisation are set out in the section headed "Reorganisation" in the listing document of the Company dated 17 July 2013 (the "Listing Document").

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited, 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").

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group. Since the companies now comprising the Group were under the common control of the controlling shareholder both before and after the Reorganisation, these financial statements have been prepared using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 December 2013 and 2012 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2013 and 2012 have been prepared to present the assets and liabilities of all companies now comprising the Group using the existing book values from the controlling shareholder's perspective.

Equity interests in companies now comprising the Group held by parties other than the controlling shareholder and changes therein prior to the Reorganisation are presented as non-controlling interests in equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 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. All HKFRSs effective for accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements for the years ended 31 December 2013 and 2012.

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. They 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 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the principles of merger accounting.

The merger method of accounting involves incorporating the financial statements items of the combined entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party. The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statements of profit or loss and other comprehensive income include the results of each of the combing entities or business from the earliest date presented or since the date when the combining entities or business first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The acquisition of subsidiaries other than those under common control has been accounted for using the acquisition method.

2.2 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

Profit or loss and each component of other comprehensive income are attributable 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 and liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 9	*Financial Instruments* [3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39* [3]
HKFRS 10, HKFRS 12 and HKFRS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKFRS 27 (2011) – *Investment Entities* [1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* [2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* [1]
HK(IFRIC) – Int 21	*Levies* [1]
Annual improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014 [2]
Annual improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014 [2]

[1] Effective for annual periods beginning on or after 1 January 2014

[2] Effective for annual periods beginning on or after 1 July 2014

[3] No mandatory effective date yet determined but is available for adoption

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

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

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

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS IN AN ASSOCIATE

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 investment in an associate is 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.

The Group's share of the post-acquisition results and other comprehensive income of an associate 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 associate are eliminated to the extent of the Group's investment in the associate except where unrealised losses provide evidence of an impairment of the asset transferred.

If an investment in an associate becomes an investment in a joint venture, 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.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS AND GOODWILL

Business combinations other than those under common control as explained in the accounting policy for "Basis of consolidation" above 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.

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 by 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 that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

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.

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 disposed operation 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.

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.

NOTES TO FINANCIAL STATEMENTS

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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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

An assessment is made at the end of 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); and

(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).

NOTES TO FINANCIAL STATEMENTS

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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 is stated at cost less any impairment losses, and is 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 derivative financial instruments), loans and receivables or available-for-sale financial investments, 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 bank balances, trade and bills receivables, other receivables, other investment and derivative financial instruments (the accounting policy of which is further explained in the accounting policy "Derivative Financial Instruments").

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

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 recognised 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.

Available-for-sale investment

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other revenue and gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other revenue and gains in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Available-for-sale investment (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end 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.

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 and is accrued 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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 and loans and borrowings, 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, derivative financial instruments (the accounting policy of which is further explained in the accounting policy "Derivative Financial Instruments") and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification 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.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These 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.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

The fair values measured are based on the valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 for the current and prior periods 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 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 reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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 an associate, 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 an associate, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

The carrying amount of deferred tax assets is reviewed at the end of 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 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 reporting period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to profit or loss as they become payable in accordance with the rules of the pension schemes.

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.

BORROWING COSTS

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation 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 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).

The functional currencies of certain overseas subsidiaries and an associate are currencies other than the Hong Kong dollar. As at the end of reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of reporting period and their profit or loss and other comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

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 its banks on its trade receivables. As at 31 December 2013, 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 aggregate carrying amounts of HK$659,821,000 (2012: HK$451,574,000) are fully derecognised. Further details are given in note 19 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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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 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) 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.

(ii) 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.

(iii) 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 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

(iv) 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 on the provision are set out in note 27 to the financial statements.

(v) 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 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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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:

	Group	
	2013	2012
	HK$'000	HK$'000
Japan	**1,396,850**	1,471,211
Europe	**1,691,052**	1,172,175
PRC	**859,639**	380,185
United States	**360,073**	358,325
Korea	**230,141**	285,869
Others	**16,520**	5,298
	4,554,275	3,673,063

The non-current assets of the Group (excluding deferred tax assets) 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:

	2013	2012
	HK$'000	HK$'000
Customer A	**1,741,366**	1,172,175
Customer B	**842,130**	462,948

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 follow:

	Notes	GROUP 2013 HK$'000	2012 HK$'000
Revenue			
Sales of goods		4,503,781	3,653,071
Rendering of services		50,494	19,992
		4,554,275	3,673,063
Other income			
Interest income		26,578	28,710
Sales of raw materials and scrap materials		2,639	3,549
Realised gains on settlement of derivative financial instruments		22,907	30,676
Unrealised fair value gains on derivative financial instruments, net – transactions not qualifying as hedges	22	5,162	20,435
Government grants*		7,688	2,431
Value-added tax refund		17,221	–
Others		3,167	3,882
		85,362	89,683
Gains, net			
Gain on disposal of items of property, plant and equipment		–	257
Gain on bargain purchase of a subsidiary	31	–	878
Foreign exchange difference, net		32,258	–
		32,258	1,135
		117,620	90,818

* Certain government grants have been received to subsidise the Group's export business, future business development and manufacture of high-definition Blu-ray players from the relevant government authorities in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

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6. FINANCE COSTS

	Group 2013 HK$'000	Group 2012 HK$'000
Interest on bank loans	1,701	–
Interest on factored trade receivables	7,510	3,514
	9,211	3,514

7. PROFIT BEFORE TAX

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

	Notes	Group 2013 HK$'000	Group 2012 HK$'000
Cost of inventories sold*		4,023,409	3,211,497
Cost of services rendered*		35,264	14,502
Write-down of inventories to net realisable value*		3,407	14,123
Depreciation	14	21,480	12,163
Research and development costs			
– current year expenditure		160,014	142,151
Amortisation of prepaid land lease payments	15	534	338
Minimum lease payments under operating leases in respect of land and buildings		25,247	18,123
Auditors' remuneration		1,500	1,021
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		369,947	249,983
Defined contribution expense		15,839	14,070
		385,786	264,053
Product warranty provision:			
Additional provision	27	36,593	37,218
Reversal of unutilised provision	27	(3,840)	(4,753)
		32,753	32,465
Foreign exchange differences, net		(32,258)	17,855
Loss/(gain) on disposal of items of property, plant and equipment**		384	(257)

7. PROFIT BEFORE TAX (CONTINUED)

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

** The loss on disposal of items of property, plant and equipment is included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Fees	201	–
Other emoluments:		
Salaries, allowances and benefits in kind	1,976	2,148
Discretionary performance-related bonuses	2,689	–
Pension scheme contributions	355	95
	5,020	2,243
	5,221	2,243

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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$'000	Discretionary bonuses HK$'000	Total remuneration HK$'000
2013			
Mr. Poon Chiu Kwok	67	–	67
Mr. Li Qi	67	–	67
Mr. Young Shiao Ming	67	–	67
	201	–	201

Mr. Poon Chiu Kwok, Mr. Li Qi and Mr. Young Shiao Ming were appointed as independent non-executive directors of the Company with effect from 12 July 2013. There were no other emoluments payable to the independent non-executive directors during the year.

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	Pension scheme contributions HK$'000	Total remuneration HK$'000
2013				
Executive directors:				
Mr. YU Guanghui	975	1,293	150	2,418
Mr. SONG Yonghong	467	853	111	1,431
Mr. REN Xuenong	400	543	94	1,037
	1,842	2,689	355	4,886
Non-executive directors:				
Mr. Bo Lianming*	–	–	–	–
Mr. Yuan Bing	67	–	–	67
Mr. Leong Yue Wing	67	–	–	67
	134	–	–	134
2012				
Executive directors:				
Mr. YU Guanghui	1,343	–	70	1,413
Mr. SONG Yonghong	739	–	25	764
Mr. REN Xuenong	66	–	–	66
	2,148	–	95	2,243

* Appointed on 25 March 2013 and resigned on 11 April 2013.

Mr. Yuan Bing and Mr. Leong Yue Wing were appointed as non-executive directors of the Company with effect from 11 April 2013 and 12 July 2013, respectively. There were no other emoluments payable to the non-executive directors during the year.

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 two directors (2012: two), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2012: three) non-director, highest paid employees for the year are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,233**	2,748
Discretionary performance-related bonuses	**1,008**	25
Pension scheme contributions	**173**	26
	4,414	2,799

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

	2013	2012
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	3	3

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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.

	2013 HK$'000	2012 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	3,196	18,303
Overprovision in prior years	(58)	(4,565)
Current – Elsewhere		
Charge for the year	15,876	22,829
Overprovision in prior years	–	(7,881)
Deferred (note 28)	(1,581)	(13,099)
Total tax charge for the year	17,433	15,587

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 can enjoy a preferential Corporate Income Tax rate of 15%.

NOTES TO FINANCIAL STATEMENTS
31 December 2013

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 rate is as follows:

	2013 HK$'000	2012 HK$'000
Profit before tax	151,491	110,749
Tax at the statutory/applicable tax rates of different countries/jurisdictions	36,413	32,124
Lower tax rates for specific provinces or enacted by local authorities	(18,925)	(11,835)
Adjustments in respect of current tax of previous periods	(58)	(12,446)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	1,317	2,859
Effect on opening deferred tax of decrease in rate	–	7,447
Profits and losses attributable to an associate	–	(1)
Income not subject to tax	(3,758)	(9,753)
Expenses not deductible for tax	3,478	3,594
Tax losses not recognised	–	3,598
Tax losses utilised from previous periods	(1,034)	–
Tax charge at the Group's effective tax rate	17,433	15,587

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 does not include any profit or loss (2012: Nil) which has been dealt with in the financial statements of the Company (note 30(b)).

A reconciliation of the above amount to the Company's profit for the year is as follows:

	Note	2013 HK$'000
Amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the statements of the Company		–
Dividend income from a subsidiary recognised during the year in the Company's statement of profit or loss and other comprehensive income	30(b)	33,600
The Company's profit for the year		33,600

12. DIVIDENDS

	2013 HK$'000	2012 HK$'000
Interim dividend		
– Nil (2012: HK 377.0 cents) per ordinary share	–	502,564
Proposed final dividend		
– HK 23.8 cents (2012: nil) per ordinary share	31,729	–
	31,729	502,564

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

During the prior year, the Company's subsidiaries paid interim dividends of HK$502,564,000 to the then shareholders.

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

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the profit attributable to ordinary equity holders of the parent of HK$106,679,000 (2012: HK$95,162,000) and the weighted average number of ordinary shares of 133,316,234 (2012: 133,316,234) in issue during the year, as if the Reorganisation had been effective since 1 January 2012.

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the years ended 31 December 2013 and 2012 includes 133,109,811 and 206,423 ordinary shares of the Company issued on 10 July 2013 and 7 August 2013 in connection with the listing of the ordinary shares of the Company on the Stock Exchange, as if the shares had been in issue throughout the years ended 31 December 2013 and 2012.

The Group had no potentially dilutive ordinary shares in issue during those years.

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14. PROPERTY, PLANT AND EQUIPMENT

GROUP

	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 2013							
At 31 December 2012 and at 1 January 2013:							
Cost	-	5,272	74,197	31,938	4,811	94,150	210,368
Accumulated depreciation	-	(2,395)	(39,418)	(20,251)	(2,128)	-	(64,192)
Net carrying amount	-	2,877	34,779	11,687	2,683	94,150	146,176
At 1 January 2013, net of accumulated depreciation	-	2,877	34,779	11,687	2,683	94,150	146,176
Additions	-	788	85,637	13,509	670	161,350	261,954
Disposal	-	-	(627)	(629)	(3)	(306)	(1,565)
Transfer	214,474	-	7,211	-	-	(221,685)	-
Depreciation provided during the year	-	(1,794)	(13,377)	(5,419)	(890)	-	(21,480)
Exchange realignment	-	76	2,272	479	71	5,232	8,130
At 31 December 2013, net of accumulated depreciation	214,474	1,947	115,895	19,627	2,531	38,741	393,215
At 31 December 2013:							
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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP (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 2012							
At 1 January 2012:							
Cost	–	4,298	56,809	27,784	3,593	141	92,625
Accumulated depreciation	–	(3,869)	(30,541)	(17,200)	(1,716)	–	(53,326)
Net carrying amount	–	429	26,268	10,584	1,877	141	39,299
At 1 January 2012, net of accumulated depreciation	–	429	26,268	10,584	1,877	141	39,299
Additions	–	50	2,833	6,306	1,568	91,996	102,753
Disposals	–	–	(233)	(601)	(18)	–	(852)
Depreciation provided during the year	–	(141)	(6,667)	(4,607)	(748)	–	(12,163)
Acquisition of a subsidiary (note 31)	–	2,539	12,592	–	–	1,672	16,803
Exchange realignment	–	–	(14)	5	4	341	336
At 31 December 2012, net of accumulated depreciation	–	2,877	34,779	11,687	2,683	94,150	146,176
At 31 December 2012:							
Cost	–	5,272	74,197	31,938	4,811	94,150	210,368
Accumulated depreciation	–	(2,395)	(39,418)	(20,251)	(2,128)	–	(64,192)
Net carrying amount	–	2,877	34,779	11,687	2,683	94,150	146,176

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group 2013 HK$'000	Group 2012 HK$'000
Carrying amount at 1 January	16,443	16,780
Additions	23,652	–
Amortised during the year	(534)	(338)
Exchange realignment	858	1
Carrying amount at 31 December	40,419	16,443
Current portion included in other receivables (note 20)	(692)	(338)
Non-current portion	39,727	16,105

The Group's leasehold land is situated in the PRC and is held under the following lease terms:

	2013 HK$'000	2012 HK$'000
Medium term lease	16,638	–
Long term lease	23,781	16,443
	40,419	16,443

16. INVESTMENTS IN SUBSIDIARIES

	Company 2013 HK$'000
Unlisted shares, at cost	133,316
Due from a subsidiary classified as current assets	33,600

The amount due from a subsidiary is unsecured, interest-free, and repayable within one year. The carrying amount of the amount due from a subsidiary approximates to its fair value.

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Group's subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tonly International Limited	British Virgin Islands/ Hong Kong 15 February 2013	US$100 Ordinary	100	–	Investment holding
Tonly Electronics Limited	British Virgin Islands/ Hong Kong 28 September 2012	HK$105,800,000 Ordinary	–	80	Investment holding
TCL Technology (HK) Company Limited	Hong Kong 11 November 2008	HK$50,000,000 Ordinary	–	80	Trading of audio-visual products and components
TCL OEM Sales Limited	Hong Kong 22 October 1999	HK$2 Ordinary	–	80	Trading of audio-visual products and components
Tongli OEM Sales Limited	United States 23 February 2011	US$1,000 Ordinary	–	80	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC 26 January 2000	RMB76,000,000	–	80	Manufacture and sale of audio-visual products and components

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16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Company name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Huizhou TCL Audio Video Electronics Co., Ltd. *	PRC 26 October 2005	RMB25,000,000	-	80	Manufacture and sale of audio-visual products and components
Xi'an TCL Software Development Co., Ltd. *	PRC 10 May 2012	US$2,000,000	-	80	Software development
Shenzhen Tongli Science and Technology Development Co., Ltd.	PRC 8 February 2012	RMB10,000,000	-	80	Software development
Guangdong Regency Optics-Electron Corp.@ ("Regency Optics-Electron Corp.")	PRC 2 July 2010	RMB50,000,000	-	48	Manufacture and sale of audio-visual components

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

@ Acquired by a non-wholly-owned business of the Company in 2012 (note 31) and, accordingly, accounted for as a subsidiary by virtue of the Company's control over it.

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The following table lists the information relating to Tonly Electronics Limited and Regency Optics-Electron Corp., the subsidiaries of the Group which have material non-controlling interests. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2013	2012
Percentage of equity interests held by non-controlling interests:		
Tonly Electronics Limited	20%	20%
Regency Optics-Electron Corp.	40%	40%

	2013 HK$'000	2012 HK$'000
Profit for the year allocated to non-controlling interests:		
Tonly Electronics Limited	26,670	–
Regency Optics-Electron Corp.	709	–
Dividend declared to non-controlling interests of Tonly Electronics Limited	8,400	–
Accumulated balances of non-controlling interests at the reporting dates:		
Tonly Electronics Limited	97,775	73,021
Regency Optics-Electron Corp.	26,751	25,249

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16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised consolidated financial information of Tonly Electronics Limited and post-acquisition financial information of Regency Optics-Electron Corp.. The amounts disclosed are before any inter-company eliminations:

	Tonly Electronics Limited HK$'000	Regency Optics-Electron Corp. HK$'000
2013		
Turnover	4,554,275	203,721
Total expenses	458,331	23,272
Profit for the year	134,058	3,131
Total comprehensive income for the year	145,700	3,131
Current assets	2,118,507	85,175
Non-current assets	506,174	58,187
Current liabilities	2,104,878	76,340
Non-current liabilities	4,176	–
Net cash flows from operating activities	154,101	18,270
Net cash flows (used in) investing activities	(107,736)	(48,419)
Net cash flows from/(used in) financing activities	(636,566)	21,509
Net (decrease) in cash and cash equivalents	(590,201)	(8,640)

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

	Tonly Electronics Limited HK$'000	Regency Optics-Electron Corp. HK$'000
2012		
Turnover	3,673,063	N/A*
Total expenses	413,012	N/A*
Profit for the year	95,162	N/A*
Total comprehensive income for the year	95,655	N/A*
Current assets	3,332,779	113,701
Non-current assets	230,832	17,196
Current liabilities	3,169,992	68,990
Non-current liabilities	3,265	–
Net cash flows from operating activities	297,954	N/A*
Net cash flows from investing activities	198,212	N/A*
Net cash flows from financing activities	8,503	N/A*
Net increase in cash and cash equivalents	504,669	N/A*

* Since the completion of the capital injection, Regency Optics-Electron Corp. had neither contributed to the Group's turnover, total expenses, profit, total comprehensive income nor consolidated cash flows for the year ended 31 December 2012.

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17. INVESTMENT IN AN ASSOCIATE

	Group 2013 HK$'000	2012 HK$'000
Share of net assets	**406**	387

Particulars of the associate are as follows:

Name	Particulars of registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Optical Consulting Co., Ltd.*	RMB900,000	PRC	26.7	Consulting services on high definition technology

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The Group's shareholding in the associate is held through an indirectly non-wholly-owned subsidiary of the Company.

The percentage of the Group's voting power held in relation to the associate is 20% as at 31 December 2013 (2012: 20%), and the Group's profit sharing is 26.7% as at 31 December 2013 (2012: 26.7%).

The above associate has been accounted for using the equity method in these financial statements and its financial year end is coterminous with that of the Group.

18. INVENTORIES

	Group 2013 HK$'000	2012 HK$'000
Raw material	**145,562**	101,231
Work in progress	**92,880**	58,516
Finished goods	**221,316**	184,902
	459,758	344,649

19. TRADE RECEIVABLES

	Group 2013 HK$'000	2012 HK$'000
Due from third parties	**802,568**	726,299
Due from companies controlled by TCL Corporation (note)	**72,706**	98,919
	875,274	825,218

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.

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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.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	832,503	798,978
Less than 90 days past due	35,810	24,026
90 to 180 days past due	5,479	76
Over 180 days past due	1,482	2,138
	875,274	825,218

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 2013, trade receivables factored to banks aggregated to HK$659,821,000 (2012: HK$451,574,000), 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

	GROUP	
	2013	2012
	HK$'000	HK$'000
Prepayments and deposits	**27,021**	66,855
Other receivables	**170,117**	126,189
Prepaid land lease payments (note 15)	**692**	338
Due from companies controlled by TCL Corporation (note)	**1,058**	96,700
	198,888	290,082

Note: The amounts were unsecured, repayable within one year and interest-free, except for an aggregate amount of HK$65,535,000 as at 31 December 2012, which bore interest ranging from 0.39% to 1.33% per annum, being the savings rates offered by the People's Bank of China. Further details of the interest income attributable to the amounts due from the companies controlled by TCL Corporation are set out in note 35 to the financial statements.

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. OTHER INVESTMENT

	GROUP	
	2013	2012
	HK$'000	HK$'000
Structured deposit, at cost	**135,991**	–

The Group's other investment represents investment in a structured deposit placed in a bank in the PRC. In the opinion of the directors, the fair value of this structured deposit cannot be reliably measured because (a) this principal structured does not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for this structured deposit; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, this structured deposit is stated at cost less any impairment losses.

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22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2013	2012
	HK$'000	HK$'000
Assets		
Forward currency contracts	14,077	27,862
Interest rate swaps	–	7,789
	14,077	35,651
Liabilities		
Forward currency contracts	6,782	10,319
Interest rate swaps	1,170	1,558
	7,952	11,877

The Group has entered into various forward exchange contracts and interest rate swaps to manage its exchange rate exposures and interest rate exposures, respectively. They are not designated for hedging purposes and are measured at fair value through profit or loss. A net unrealised gain of HK$5,162,000 as a result of changes in the fair values of these non-hedging derivative financial contracts was recognised in profit or loss for the year ended 31 December 2013 (2012: HK$20,435,000).

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.

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

23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group	
	2013	2012
	HK$'000	HK$'000
Cash and bank balances	**410,460**	1,814,973
Less: Pledged deposits	**–**	(817,684)
Cash and cash equivalents	**410,460**	997,289

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.

At 31 December 2012, time deposits of the Group of HK$106,486,000 were pledged as securities for the Group's bank loans (note 26). In addition, the remaining balances of the Group's time deposits of HK$711,198,000 were pledged as securities for the Group's bills payable amounting to HK$717,721,000 as at 31 December 2012.

Included in the Group's cash and bank balances were deposits of HK$88,511,000 (2012: HK$614,804,000) 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 0.39% to 1.27% (2012: 0.39% to 1.33%) 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 35 to the financial statements.

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24. TRADE PAYABLES

	GROUP	
	2013	2012
	HK$'000	HK$'000
Due to third parties	899,237	753,051
Due to companies controlled by TCL Corporation	59,569	45,866
	958,806	798,917

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

	GROUP	
	2013	2012
	HK$'000	HK$'000
Current to 90 days	940,531	774,473
91 to 180 days	4,718	23,728
181 to 365 days	12,714	105
Over 365 days	843	611
	958,806	798,917

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

25. OTHER PAYABLES AND ACCRUALS

	GROUP	
	2013	2012
	HK$'000	HK$'000
Other payables (note (a))	127,432	188,110
Accruals	418,063	367,711
Receipts in advance	42,812	93,395
Due to companies controlled by TCL Corporation (note (b))	30,874	579,603
	619,181	1,228,819

25. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) Other payables are non-interest-bearing and are expected to be settled within one year, except for a loan from a company held by a non-controlling shareholder of Regency Optics-Electron Corp. of HK$40,686,000 as at 31 December 2012 which bore interest at 1.98% per month and was fully settled by the Group in January 2013.

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

26. INTEREST-BEARING BANK BORROWINGS

GROUP

	2013			2012		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans - secured	-	-	-	LIBOR+1.10	2013	106,197

Notes:

(a) The carrying amounts of the Group's bank borrowings approximated to their fair values.

(b) As at 31 December 2012, the Group's bank loans were secured by certain of the Group's time deposits amounting to HK$106,486,000 (note 23).

(c) All the bank loans as at 31 December 2012 were denominated in United States dollars.

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27. PROVISIONS

PRODUCT WARRANTIES

	Group 2013 HK$'000	Group 2012 HK$'000
At 1 January	164,199	143,204
Additional provision	36,593	37,218
Amount utilised during the year	(21,223)	(11,556)
Reversal of unutilised amounts	(3,840)	(4,753)
Exchange realignment	5,218	86
At 31 December	180,947	164,199

The warranty provision represents 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.

28. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

GROUP

	Note	**Fair value adjustment arising from acquisition of a subsidiary** HK$'000	**Withholding tax for dividend** HK$'000	**Total** HK$'000
Gross deferred tax liabilities at 1 January 2012		–	14,006	14,006
Deferred tax credited to profit or loss during the year		–	(11,147)	(11,147)
Acquisition of a subsidiary	31	406	–	406
Gross deferred tax liabilities at 31 December 2012 and 1 January 2013		406	2,859	3,265

28. DEFERRED TAX (CONTINUED)

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

DEFERRED TAX LIABILITIES (CONTINUED)

GROUP

	Fair value adjustment arising from acquisition of a subsidiary HK$'000	Withholding tax for dividend HK$'000	Total HK$'000
Gross deferred tax liabilities at 1 January 2013	406	2,859	3,265
Deferred tax charged/(credited) to profit or loss during the year	(406)	1,317	911
Gross deferred tax liabilities at 31 December 2013	–	4,176	4,176

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28. DEFERRED TAX (CONTINUED)

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

DEFERRED TAX ASSETS

GROUP

	Note	Accruals and other provisions HK$'000
At 1 January 2012		68,098
Effect on opening deferred tax of change in rates	10	(7,447)
Deferred tax credited to profit or loss during the year	10	9,805
Exchange realignment		(2,292)
Gross deferred tax assets at 31 December 2012 and 1 January 2013		68,164
Deferred tax credited to profit or loss during the year	10	2,492
Exchange realignment		2,170
Gross deferred tax assets at 31 December 2013		72,826

The Group has tax losses of HK$8,212,000 (2012: HK$18,329,000) 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.

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.

29. SHARE CAPITAL

SHARES

	COMPANY 2013 HK$'000
Authorised:	
500,000,000 shares of HK$1.00 each	**500,000**
Issued and fully paid:	
133,316,234 ordinary share of HK$1.00 each	**133,316**

There was no authorised and issued capital as at 31 December 2012 since the Company has not been incorporated.

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

	Notes	**Number of shares in issue with par value of US$1**	**Number of shares in issue with par value of HK$1**	**Issued capital** US$	**Issued capital** HK$'000
At 8 February 2013 (date of incorporation)	(a)	1	–	1	–
Deemed distribution to TCL Multimedia	(b)	–	133,316,234	–	133,316
Repurchase of share	(c)	(1)	–	(1)	–
At 31 December 2013		–	133,316,234	–	133,316

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29. SHARE CAPITAL (CONTINUED)

Notes:

(a) The Company was incorporated on 8 February 2013 with an initial authorised share capital of US$50,000 divided into 50,000 shares of a par value of US$1 each. On the date of incorporation, 1 ordinary share of US$1 was allotted and issued by the Company to the subscriber who subsequently transferred the said share to TCL Multimedia Technology Holdings Limited ("TCL Multimedia").

(b) On 10 July 2013, a written resolution of the sole shareholder of the Company was passed and pursuant to which (a) the authorised share capital of the Company was increased from US$50,000 to the aggregate of (i) US$50,000 and (ii) HK$500,000,000 by the creation of 500,000,000 ordinary shares of HK$1 each; and (b) the allotment of 133,109,811 ordinary shares of HK$1 each to TCL Multimedia in exchange for 99 shares in Tonly International Limited, a then subsidiary of TCL Multimedia, pursuant to the Reorganisation.

On 7 August 2013, an additional 206,423 ordinary shares of HK$1 each were issued by the Company to TCL Multimedia as a result of the exercise by TCL Multimedia of an adjustment option to require the Company to issue and allot further shares to it.

As a result of the above shares issuance, an aggregate of 133,316,234 ordinary shares were issued to TCL Multimedia.

(c) Following the aforesaid increase in authorised share capital, the one issued share on the date of incorporation of US$1 was repurchased by the Company on 10 July 2013 and subsequent thereto, the initial authorised and unissued share capital of US$50,000 was cancelled by the Company.

30. RESERVES

(A) GROUP

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) 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.

(ii) Capital reserve

The Group's capital reserve represents the difference between the amounts of the consideration and the carrying value of the partial interests in a subsidiary disposed of and the deemed capital contribution from TCL Multimedia.

(iii) 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 and the par value of the Company's shares issued to TCL Multimedia for the acquisition of a subsidiary pursuant to the Reorganisation.

(B) COMPANY

	Retained earnings HK$'000
At 8 February 2013 (date of incorporation)	–
Profit for the year and total comprehensive income for the period	33,600
At 31 December 2013	33,600

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31. BUSINESS COMBINATION

Year ended 31 December 2012

On 10 December 2012, TCL Technoly Electronics (Huizhou) Co., Ltd. an 80% owned subsidiary of the Group, entered into a capital injection agreement with certain independent third parties to invest RMB30,000,000 (equivalent to approximately HK$36,996,000) for a 60% equity interest of the enlarged capital of Regency Optics-Electron Corp. Regency Optics-Electron Corp. is mainly engaged in the manufacture and sale of audio-visual modules and light guide plates. The capital injection was completed on 25 December 2012. The capital injection was for the Group's vertical integration of the supply chain.

The Group has elected to measure the non-controlling interest in Regency Optics-Electron Corp. at the non-controlling interest's proportionate share of Regency Optics-Electron Corp.'s identifiable net assets.

The aggregate fair values of the identifiable assets and liabilities of the Regency Optics-Electron Corp. as at the date of capital injection are as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	14	16,803
Inventories		28,283
Trade receivables		7,545
Bills receivable		13,879
Other receivables		42,876
Cash and bank balances		23,133
Trade payables		(14,061)
Other payables and accruals		(54,929)
Deferred tax liabilities	28	(406)
Total identifiable net assets at fair value		63,123
Non-controlling interests		(25,249)
		37,874
Gain on bargain purchase	5	(878)
Satisfied by cash		36,996

31. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2012 (continued)

An analysis of the cash flows in respect of the capital injection of Regency Optics-Electron Corp. is as follows:

	2012
	HK$'000
Cash consideration	(36,996)
Cash and bank balances acquired	23,133
Net outflow of cash and cash equivalents included in cash flows from investing activities	(13,863)

Since the completion of the capital injection, Regency Optics-Electron Corp. had neither contributed to the Group's turnover nor consolidated profit for the year ended 31 December 2012.

32. CONTINGENT LIABILITIES

As at 31 December 2012, the Group has provided a joint guarantee for a term loan facility of US$120,000,000 (equivalent to HK$930,192,000) in favor of a subsidiary of the TCL Corporation, which was utilised to the extent of HK$555,529,000.

33. 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:

	GROUP	
	2013	2012
	HK$'000	HK$'000
Within one year	**1,748**	1,721
In the second to fifth years, inclusive	**346**	–
	2,094	1,721

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34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of reporting period:

	Group	
	2013	2012
	HK$'000	HK$'000
Contracted, but not provided for	95,518	91,936
Authorised, but not contracted for	–	169,844
	95,518	261,780

35. 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:

		2013	2012
	Notes	HK$'000	HK$'000
The companies controlled by TCL Corporation:			
Sales of raw materials	(i)	174,666	138,866
Sales of finished goods	(ii)	77,669	13,212
Purchases of raw materials	(iii)	189,438	182,860
Rental expense	(iv)	13,984	12,401
Reimbursement of general brand advertising costs	(v)	7,115	8,905
Interest income	(vi)	5,427	4,309
Interest expense and other finance service fee	(vii)	342	29
Management fee expense	(viii)	1,254	5,499
Call centre services fee	(ix)	66	7
Construction service fee expense	(x)	4,638	3,686
Other finance service fee	(xi)	–	2
Subcontracting fee expense	(xii)	36,368	2,010
Reimbursement of license fee of technology support services and trade name	(xiii)	3,215	–

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes:

(i) The sales of raw materials were made at a zero gross margin (2012: zero).

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

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

(iv) The rental, maintenance fees and facilities usage fees were determined with reference to the rates of other similar premises for comparable transactions.

(v) The reimbursement of general brand advertising costs was charged at rate of 0.25% of Group's turnover, which was terminated on the Listing Date.

(vi) The interest was charged at rates ranging from 0.39% to 1.27% (2012: 0.39% to 1.33%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China.

(vii) The interest was charged at rate of 6.00% (2012: 6.00% to 6.31%) per annum, which were determined with reference to the lending rates offered by the People's Bank of China.

(viii) The management fee was calculated based on the actual expense incurred with the provision of the management service.

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

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

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

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

(xiii) The reimbursement of license fee of technology support services and trade name was charged at rate of 0.15% of Group's turnover for the period from the Listing Date to 31 December 2013.

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35. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other transactions with related parties:

(i) As at 31 December 2012, a company controlled by TCL Corporation had transferred bills receivable at aggregate face value of HK$7,360,000 to the Group. The bills receivable were all matured and settled in 2013.

(ii) On 28 June 2013, the Group acquired the land use right of a piece of land located at Huizhou from TCL Communication Technology Holdings Limited, a company controlled by TCL Corporation, at a consideration of HK$23,652,000.

(c) Outstanding balances with related parties

Other than balances with related parties as disclosed in notes 19, 20, 24 and 25 to the financial statements, the Group had no outstanding balances with related parties.

(d) Compensation of key management personnel of the Group

Further details of compensation of key management personnel of the Group are included in notes 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.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

MAJOR NON-CASH TRANSACTIONS

On 31 May 2013, an amount of HK$21,573,000 due to TCL Multimedia was waived by TCL Multimedia, and was accounted for as a deemed capital contribution from TCL Multimedia.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, bills receivable 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 interest rate swaps and 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Management has assessed that the fair values of cash and bank balances, pledged deposits, 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 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.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

INTEREST RATE RISK (CONTINUED)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no material impact on other components of the Group's equity.

	GROUP	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax HK$'000**
2012		
United States dollar	25	(250)
United States dollar	(25)	250

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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK (CONTINUED)

The following table demonstrates the sensitivity at the end of 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**
2013		
If Hong Kong dollar weakens against United States dollar	**5**	**(974)**
If Renminbi weakens against United States dollar	**5**	**11,022**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**974**
If Renminbi strengthens against United States dollar	**(5)**	**(11,022)**
2012		
If Hong Kong dollar weakens against United States dollar	5	19,540
If Renminbi weakens against United States dollar	5	30,025
If Hong Kong dollar strengthens against United States dollar	(5)	(19,540)
If Renminbi strengthens against United States dollar	(5)	(30,025)

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37. 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 are as follows:

	As at 31 December	
	2013	2012
	%	%
Due from the Group's largest external customer	**21.4**	17.7
Due from the Group's five largest external customers	**77.2**	44.5

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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

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:

GROUP

	Within one year or on demand	
	2013	2012
	HK$'000	HK$'000
Interest-bearing bank borrowings	**–**	106,197
Trade payables	**958,806**	798,917
Bills payable	**220,236**	766,041
Other payables (note 25)	**127,432**	188,110
Due to companies controlled by TCL Corporation (note 25)	**30,874**	579,603
	1,337,348	2,438,868
The maximum amount of the guarantee given to banks in connection with banking facilities granted to a company controlled by TCL Corporation (note 32)	**–**	930,192

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2013 and 2012.

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 and pledged deposits. 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:

	Group	
	2013	2012
	HK$'000	HK$'000
Interest-bearing bank borrowings (note 26)	**–**	106,197
Less: Cash and bank balances (note 23)	**(410,460)**	(997,289)
Pledged deposits (note 23)	**–**	(817,684)
Net cash	**(410,460)**	(1,708,776)
Equity attributable to owners of the parent	**424,701**	292,084
Gearing ratio	**–**	–

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 February 2014.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the Group's published financial statements, is set out below.

	Year ended 31 December			
	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS				
TURNOVER	**4,554,275**	3,673,063	4,099,454	3,762,649
PROFIT BEFORE TAX	**151,491**	110,749	124,728	211,041
Income tax expense	**(17,433)**	(15,587)	(28,856)	(42,757)
PROFIT FOR THE YEAR	**134,058**	95,162	95,872	168,284
Attributable to:				
Owners of the parent	**106,679**	95,162	95,872	168,284
Non-controlling interests	**27,379**	–	–	–
	134,058	95,162	95,872	168,284

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,624,681**	3,563,611	2,886,226	2,855,644
Total liabilities	**(2,075,454)**	(3,173,257)	(2,260,408)	(2,347,526)
Non-controlling interests	**(124,526)**	(98,270)	–	–
	424,701	292,084	625,818	508,118

TONLY

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