TONLY

TONLY ELECTRONICS HOLDINGS LIMITED
通 力 電 子 控 股 有 限 公 司

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

Annual Report 2014

CONTENTS

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(HK$ Million)	2014	2013
Turnover	**5,421**	4,554
Gross profit	**666**	492
Gross profit margin (%)	**12.3%**	10.8%
Profit attributable to owners of the parent	**150**	107
Basic EPS (HK cents)	**88.25**	76.44
Full year dividend per share		
– Proposed final dividend per share (HK cents)	**25.0**	23.8

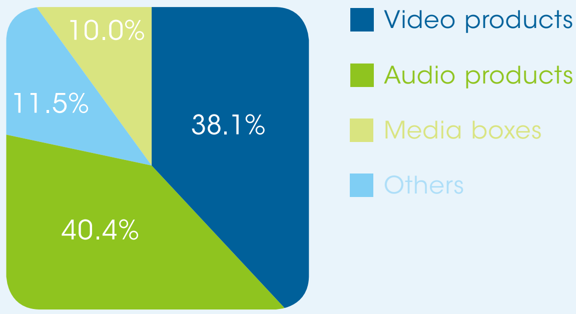
FINANCIAL POSITION

(HK$ Million)	2014	2013
Property, plant and equipment	**466**	393
Cash and cash equivalents	**938**	410
Total assets	**3,139**	2,624
Total liabilities	**2,044**	2,075
Net assets	**1,095**	549

OPERATION INDICATORS

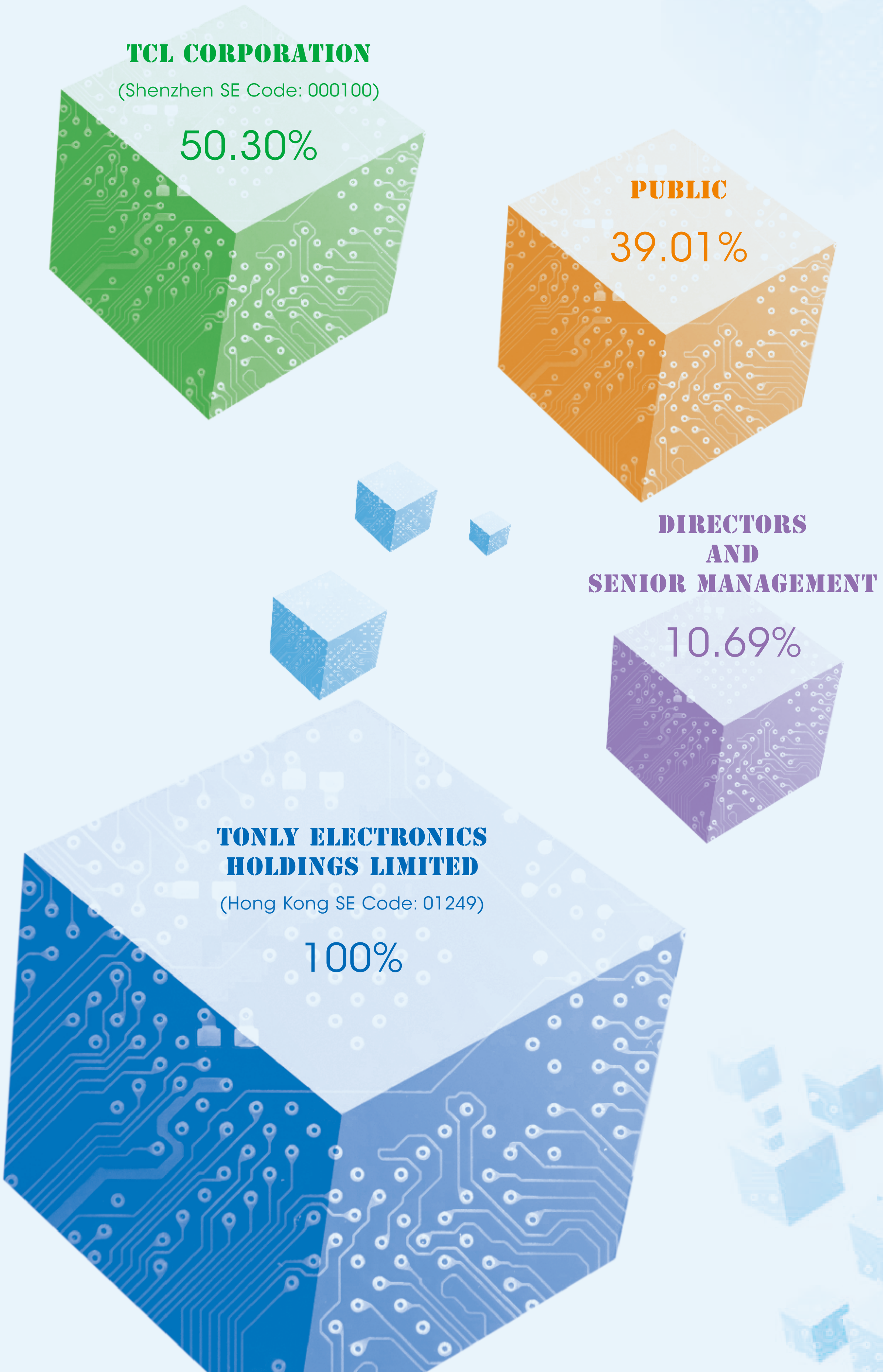
	2014	2013
Inventory turnover (days)	**34**	36
Trade receivables turnover (days)	**62**	68
Trade payables turnover (days)	**79**	79
Current ratio	**1.3**	1.0

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



TURNOVER BREAKDOWN
BY PRODUCT

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT

Yuan Bing
Chairman

"WE ARE COMMITTED TO PRODUCT TRANSFORMATION AND UPGRADING, FOCUSING ON THE DEVELOPMENT OF INNOVATIVE PRODUCTS, SUCH AS NEW AUDIO PRODUCTS AND STREAMING MEDIA PLAYERS IN ADDITION TO OUR EXISTING CORE AV PRODUCTS, TO ENHANCE OUR PRODUCT COMPETITIVENESS AND DIVERSITY SO AS TO MEET CUSTOMERS' DEMAND FOR INNOVATIVE MEDIA PRODUCTS."

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board of directors ("Board") and all employees of the Group, I hereby express my sincere appreciation to our Shareholders, customers and partners for their support and trust in the past year. I am pleased to present the Group's development and business outlook in 2014.

During the year under review, the Group continued to achieve steady growth in business and made good progress in its strategic transformation. For the year ended 31 December 2014, it recorded turnover of approximately HK$5,421.0 million, representing a healthy growth of 19.0%. Profit attributable to the owners of the parent company rose by 40.5% to HK$149.9 million. The Directors recommend the distribution of a final dividend of HK25 cents per share for 2014, to share the success of the Group with all Shareholders.

In 2014, the global economy showed tardiness in its pace of recovery. Notable decline in global commodity market brought about from political instabilites in Europe and Middle East countries along with the fluctuating major currencies, in particular, the surging US dollar and undulated RMB amid challenging macro-economy and global consumer market. Although the Chinese government loosened their monetary policies, cyclical structural adjustment lead to inevitable slacken export growth and industrial reform. Under the economic slump in China, companies have to consistently endeavour their competitiveness to prevent themselves from sifted out and replaced by their competitors.

CHAIRMAN'S STATEMENT

Tonly, the world's largest manufacturer of video products and home theaters occupying a leading position, is principally engaged in research and development ("R&D"), manufacturing and sale of premium audio-visual ("AV") products for internationally renowned brands and other customers on an original design manufacturing ("ODM") basis. In the past year, through the cooperation with the management and employees, Tonly achieved breakthrough developments in the following areas:

Continuing to enhance industrial capacity: Production efficiency has been restored gradually since relocation of the plant in 2013 and further enhanced rapidly in 2014. Currently, it has restored to a reasonable level in the industry. Full operation of the new plant meets the long-term needs of customers, which plays a key role in enhancing and consolidating the long-term competitiveness of Tonly.

Improvement of capability of industrial transformation: Under the market conditions of the strong surviving and the weak dying, and with fierce competition, the management recognized that we could not fall into a groove and stagnate. In view of this, we are committed to product transformation and enhancement, focusing on the development of innovative products, such as new audio products and streaming media players, in addition to our existing core AV products, to enhance our product competitiveness and diversity so as to meet customers' demand for innovative media products.

CHAIRMAN'S STATEMENT

Further consolidation of customer relationships:

As an ODM company, the development of Tonly owes to the support of international customers. Over the years, we have established reliable and trustable cooperation relationships with international brand customers, establishing a solid foundation for the future development of Tonly. In 2014, in addition to further consolidating and reinforcing our relationships with existing customers, we also develop partnerships with a number of new customers in order to maintain a healthy business growth of the Group.

Promoting capital operation to grasp market opportunities:

In the second half of last year, Tonly carried out capital restructing plan to expand share capital and reinforce financial strength of the Group by way of rights issue, and to finance future potential acquisitions and new possible plan of plant construction. We will actively leverage on the listing platform to enhance the Group's awareness in the capital market.

Looking forward to 2015, the global macro economic environment will remain complicated, of which financial market will be more volatile, inflicting a negative impact on the development of industrial enterprises; and technology acceleration in consumer electronics market will lead to more challenges toward the innovations and upgrades of products and services. However, the management believes that, by virtue of the competitive advantages in industrial technology, product development, innovative research and market development accumulated by the Group over the years, together with the leadership of its professional management team, Tonly will remain cautiously optimistic about its future and strive to enhance sustainable growth under various difficulties.

Finally, I would like to take this opportunity to express our gratitude to all Shareholders, customers and business partners for their strong support, and also thank the management and staff of the Group for their dedication and contribution to the Group's development. The Group looks forward to better performance in 2015, creating the best values and returns for all Shareholders.

Chairman
Yuan Bing

27 February 2015, Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

The global economy had been on the slow road to recovery in 2014. On one hand, the United States experienced gradual improvement in its employment outlook, and is anticipating an interest rate hike cycle. On the other hand, the economy in Europe remains unstable with heavy reliance being placed on quantitative easing monetary policy to stimulate the sluggish economy. Meanwhile, China experienced a slowdown in the growth owing to the structural adjustment of its economy, and the effect of the interest rate cut as announced by the People's Bank of China in the fourth quarter of 2014 on the economy is yet to emerge. Overall, although global economy show tardiness in its pace of recovery, the Group remained cautiously optimistic and continued to cope with the changes in market and operating environment with its pragmatic approach.

The Group believes that the irresistible trend in wireless technology and smart home related technology and the consistent growth in corresponding audio products and media boxes would expedite the transformation and upgrade of the audio-visual equipment industry. The Group has actively implemented its strategy of "transformation and entrepreneurship" to embrace changes in the market, thus successfully shifted the focus of its business from conventional video disc players to a diversified product portfolio comprising media boxes and new audio products.

BUSINESS REVIEW

The Group is a leading vertically integrated manufacturer of audio-visual products in the world, mainly developing, producing and selling premium audio-visual products on behalf of internationally renowned brands on the original-design-manufacturing ("ODM") basis. According to the market research report by Techno System Research, for 2014, the Group was the world's largest video product manufacturer and the fourth largest home theater system ("HTS") manufacturer by production volume. In 2014, the Group enhanced production efficiency significantly and restored it to a normal level of the industry through expanding and optimizing the client portfolio, assimilating experiences learned from projects and addressing the structural and systemic problems in business

MANAGEMENT DISCUSSION & ANALYSIS

management. Both sales revenue and operating profit grew considerably. For the year ended 31 December 2014, the Group recorded a turnover of approximately HK$ 5,421.0 million, representing an increase of 19.0% year-on-year. Gross profit increased by 35.4% year-on-year to approximately HK$666.4 million, while gross profit margin increased from 10.8% of 2013 to 12.3%. Operating profit rose by 19.9% year-on-year to approximately HK$192.6 million. Profit attributable to the shareholders of the Company grew by 40.5% year-on-year to approximately HK$149.9 million. Net profit margin was 3.0%.

Product Sales

The Group's products are classified into four categories: (i) video disc players which include digital versatile disc ("DVD") players and blu-ray disc ("BD") players, (ii) audio products which include home theatre system ("HTS") (without wireless technology), Micro & Mini speakers ("Micro & Mini"), wireless speakers and HTS with soundbars (with wireless technology), (iii) media boxes and (iv) other businesses which are mainly Advanced Broadcasting System-Satellite ("ABS-s") products, components, research and development income. During the year under review, revenue from the Group's video disc player business decreased by 2.8% year-on-year to approximately HK$2,067.3 million; revenue from the audio product business grew by 28.5% year-on-year to approximately HK$2,188.1 million; revenue from its media box business rose by 3,911.0% year-on-year to approximately HK$625.1 million; and revenue from its other businesses decreased by 23.8% year-on-year to approximately HK$540.5 million. The revenues from the businesses of video disc players, audio products, media boxes and other businesses accounted for 38.1%, 40.4%, 11.5% and 10.0% respectively of the Group's turnover.

MANAGEMENT DISCUSSION & ANALYSIS

The Group's revenue breakdown by product:

	2014 (HK$'000)	2013 (HK$'000)	**Change**
Video disc players (1)	**2,067,255**	2,126,384	**-2.8%**
Audio products			
– Traditional audio products (2)	**1,184,503**	1,132,500	**+4.6%**
– New types of audio products (3)	**1,003,606**	570,743	**+75.8%**
Subtotal	**2,188,109**	1,703,243	**+28.5%**
Media boxes (4)	**625,113**	15,585	**+3,911.0%**
Other businesses			
– ABS-s products	**297,873**	514,398	**-42.1%**
– Components	**183,001**	144,171	**+26.9%**
– Research & Development income	**59,656**	50,494	**+18.1%**
Subtotal	**540,530**	709,063	**-23.8%**
Total	**5,421,007**	4,554,275	**+19.0%**

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

The Video Disc Player Business

Despite the shrinking demand of conventional DVD player market caused by swift advancement of technology, the Group seized its opportunity through gradual withdrawal of its competitors, stayed put and endeavors to accommodate closely with important clients' marketing and product strategies while leveraged in full its edges in technology, production, supply chain and customer relations, to expand its market share and maintain its leading position in the industry. Hence, the annual decline in the Group's video disc player sales was far below than that of the industry. In 2014, revenue from video disc player declined by 2.8% year-on-year to approximately HK$2,067.3 million.

MANAGEMENT DISCUSSION & ANALYSIS

The Audio Product Business

The popularization of smart home concept, and the maturing Internet and wireless technologies generate growing demand for new types of audio products that serve as peripherals of smartphones and television sets. To capitalize on the trend, the Group has always been actively stepping up research on wireless technology, power dissipation technique, new technologies and new materials. It has also been consolidating its strategic partnerships with existing customers. In the meantime, the Group actively researched into electroacoustics and independently developed its proprietary speaker transducers and speakers to further its vertical integration, thereby enhancing the overall competitiveness of its audio products. During the year under review, the audio product business achieved satisfactory sales performance with revenue up by 28.5% year-on-year to approximately HK$2,188.1 million from approximately HK$1,703.2 million of 2013. In particular, sales of new types of audio products rose by 75.8% year-on-year to approximately HK$ 1,003.6 million.

The Media Box Business

To capitalize on the development of smart homes and Internet technologies, the Group teamed up with domestic and foreign Internet and telecommunication giants to jointly develop the media box business with the aim of enriching and expanding its product portfolio. During the year under review, the Group was qualified as a supplier of a renowned telecommunication equipment firm to produce media box products, and successfully established cooperation relationship with domestic internet companies. Revenue from the business segment grew by 3,911.0% year-on-year to approximately HK$625.1 million for the year 2014. The Group will enhance the competitiveness of its products by strengthening its software development capabilities and improving product design. Meanwhile, it will expand the customer base for this business segment. The Group sees a bright prospect in the development of this business segment and expects that the media box business will become an important component of its businesses.

Other Business

During 2014, some of the local governments postponed their tenders for ABS-s, leading to a 42.1% year-on-year decline in sales of the Group's ABS-s products to approximately HK$297.9 million. The Group expects that the PRC central government's gradual deregulation of the retail market for advanced broadcasting satellite products will boost the growth of the business segment.

MANAGEMENT DISCUSSION & ANALYSIS

Meanwhile, most of the Group's clients are leading international consumer electronics brands and have stringent requirements for product quality and specifications. The Group fully leverages its competitive advantages in product research and development, and proactively provides diversified research and development services for its clients. This does not only help generate more income, but also supports ongoing investment in research and development which help maintain the Group's competitiveness. Having satisfied its internal needs for plastic components in production, the Group also sold the surplus to external parties to generate additional income.

Production and Supply Chain Management

Coping with the labour shortage, the Group is gradually enhancing its staffing system, including decreasing the proportion of temporary staff in the work force and stabilizing the turnover of skilled workers, adopting more automated equipment and automated product testing process. These measures have significantly raised the per capita production efficiency and mitigated the impact of rising labour cost. To fulfill the small orders for each of the various types of innovative products, the Group gradually adopts cellular manufacturing mode to reduce the non-operating hours of the plant to increase efficiency. Meanwhile, the equipment maintenance and management system was improved according to the industrial best practices, so that the actual production capacity of Huizhou production base is raised to the designed level. The Group relocated its factory to a new site in July 2013 during peak season. This affected the production efficiency until early 2014. With the persistent efforts of the management and staff members, the Group was able to restore the production efficiency to a normal level of the industry.

In addition, the Group took advantage of its global supply chain, strengthened the operational capability of its overseas supply chain with the aim of providing more competitive products for customers. In particular, HTS and DVD production lines were established in its factory in Indonesia which procured some of the raw materials locally and acquired new customers, thus boosting the shipments substantially during the year under review.

MANAGEMENT DISCUSSION & ANALYSIS

Research and Development (R&D) and Product Innovation

The rapid technological development has spurred the upgrade of audio and video products. The Group attaches great importance to product innovation and design, and persists in investing substantially in research and development. During the year under review, R&D expenses were approximately HK$216.0 million, representing 4.0% of the Group's total revenue. The ratio was high by the industry's standards. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an. Its R&D team comprised more than 600 staff who mainly develop and introduce products to the market according to the clients' specific requirements, and carry out visionary research on fundamental technologies of the products. On top of optimizing the hardware for R&D, the Group has continuously introduced experienced electroacoustic professionals to the R&D team with the aim of enhancing core R&D capability in electroacoustics and strengthening its competitiveness during product transformation.

As at 31 December 2014, the Group owns 103 patents, and its applications for 73 patents were being processed. Moreover, the Group receives numerous awards for its technological innovation, industrial designs and utility model patents. This bears testimony to the Group's R&D and innovation capabilities.

Future Plans and Outlook

Looking ahead, it is expected that global economic recovery in 2015 will be modest, and all the major currencies except the US Dollar will depreciate substantially. In addition, labour costs will continue to rise. All these factors will affect businesses' revenue and profitability. To cope with the situation, the Group will continue to focus on product innovation, strengthen its core competitiveness such as industrial and technological innovation as well as operational capabilities. It will also launch more new products which meet market demand and cater for consumer tastes. Meanwhile, we will persistently optimize and expand the product portfolio, consolidate its cooperation with clients of strategic importance, and expand customer base so as to give a new impetus to its growth.

The popularization of the Internet and wireless technology gives rise to smart homes, and creates bright prospects for the development of the new type of audio and media box products. For the business of new types of audio products, the Group will continue to invest in R&D, strengthen its innovation capability in electroacoustics and the related technologies, and enhance the product quality and designs. For the media box business, the Group will continue to strengthen its cooperation with both domestic and overseas internet and telecommunication companies to foster business development. It also closely follows the trends in the industry's technological development and adopts automated production facilities for its diverse products in order to maintain its competitiveness. Meanwhile, the Group will attempt to enter into other new business, expand its existing business and enlarge its income source through both organic expansion or acquisitions. In this respect, the Group has identified certain potential targets for acquisition and will continuously seek for suitable opportunities for expansion.

MANAGEMENT DISCUSSION & ANALYSIS

For the production and supply chain management, the Group is committed to enhancing production efficiency and expanding production capacity, and is searching for a suitable site for its new factory to be constructed in order to meet the needs of its future development. Moreover, the Group will also leverage its overseas supply chain to mitigate the pressure of rising costs in the PRC and enhance its capacity for delivering orders. In addition, the Group will strengthen its integrated production capabilities, and shift to the development of high-end products so as to improve its profitability in the future and reinforce its leading position in the global market for audio-visual products, and thus maximize value for the customers and shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 25 February 2014, the Company entered into a sale and purchase agreement between Run Fu Holdings Limited ("Run Fu") and Star Force Investment Limited ("Star Force"), pursuant to which, (i) Run Fu and Star Force agreed to sell and the Company agreed to purchase 20% of the entire issued share capital of Tonly Electronics Limited ("Sale Shares"); and (ii) the Company agreed to allot and issue a total of 32,662,477 shares to Run Fu and Star Force as consideration for the purchase of the Sale Shares. The transaction was completed on 15 May 2014.

Save as disclosed above, as at 31 December 2014, the Group did not hold significant investments, and no other major review of the acquisition and disposal of subsidiaries during the period.

Liquidity and Financial Resources

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

The cash and cash equivalents of the Group as at 31 December 2014 amounted to approximately HK$938,303,000 of which 10.88% was maintained in Hong Kong dollars, 48.38% in US dollars, 40.73% in Renminbi and 0.01% in Euro.

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

MANAGEMENT DISCUSSION & ANALYSIS

As at 31 December 2014, the Group's gearing ratio was 0% since the Group had cash and cash equivalents of approximately HK$938,303,000 and without interest-bearing bank borrowings.

On 29 September 2014, the Company announced to raise not less than approximately HK$423,245,000, before deduction of related expenses, by way of rights issue of not less than 82,989,355 rights shares at the subscription price of HK$5.10 per rights share on the basis of one rights share for every two existing shares held on the record date of 29 October 2014 (the "Rights Issue"). The Rights Issue has been completed on 21 November 2014 and the Company raised approximately HK$421,252,000 after the deducting of related expenses.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2014.

Capital Commitments and Contingent Liabilities

As at 31 December 2014, the Group had capital commitments of approximately HK$34,027,000 (31 December 2013: HK$95,518,000) and Nil (31 December 2013: Nil) which were contracted but not provided for and authorized but not contracted for, respectively. The Group did not have any material contingent liabilities as at 31 December 2014.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2014.

Foreign Exchange Exposure

Due to its international presence and operation, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

The Group had approximately 3,700 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, with reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of shareholders, share options for subscribing a total of 14,454,150 shares, after the adjustment for the completion of Rights Issue, were granted to employees under the Company's share option schemes on 30 September 2014.

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 47, 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 48, is an executive Director and Chief Operating Officer of our Company. He is currently a director of TCL Technoly Electronics (Huizhou) Co. Ltd., Huizhou TCL Audio Video Electronics Co. Ltd., Shenzhen Tongli Science and Technology Development Co. Ltd. and Xi'an TCL Software Development Co. Ltd.. Mr. SONG joined TCL Corporation Group in 2003. Since 2010, he has been the Deputy Managing Director and General Manager of Product Centre of AV Division of our Group. From 2003 to 2009, he had been the Deputy General Manager of AV Division of TCL Multimedia Technology Holdings Limited ("TCL Multimedia"). From 2009 to 2010, Mr. SONG had held the position of General Manager of Global Product Centre of TCL Multimedia and Senior Vice President of TCL Multimedia. Prior to joining TCL Corporation, Mr. SONG had held the positions of Deputy General Manager of Dongguan Jinzheng Digital Technology Co., Ltd. Mr. SONG has substantial experience in management and business development in the field of electronic products. Mr. SONG graduated from the Faculty of Physics of Shaanxi Normal University with a Bachelor's degree in Science in 1990 and obtained an IEMBA degree from the Hong Kong University of Science and Technology in 2012.

DIRECTORS AND SENIOR MANAGEMENT

MR. REN XUENONG

Aged 44, is an executive Director and Chief Financial Officer of our Company. Since July 2004, Mr. REN has been the Financial Controller and the Head of the Finance Department of AV Division of our Group. He is currently a director of all subsidiaries of our Group established in the PRC. Mr. REN is a practising accountant in the PRC and has rich financial and accounting experience in the field of electronic products. From 1996 to 2001, Mr. REN had been the Deputy Manager of the Finance Department of TCL King Electrical Appliances (Huizhou) Co., Ltd.. Mr. REN graduated from Hunan College of Finance and Economics with a certificate of accountancy and audit in 1991.

NON-EXECUTIVE DIRECTOR

MR. YUAN BING

Aged 45, 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., the legal representative and the chairman of the board of directors of Guangzhou TCL Medical Equipment Co., Ltd, the legal representative and the chairman of the board of directors of 北京唯邁醫療設備有限公司, the legal representative and the chairman of the board of directors of TCL-WX Creative Capital Ltd., a director of Highly Information Industry Co. Ltd, and a director of TCL New Technology (Huizhou) Co., Ltd. Mr. Yuan also holds certain positions in a number of entities in which TCL Corporation Group had invested in. He is 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

DIRECTORS AND SENIOR MANAGEMENT

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 chairman of the board of directors of Shanxi TCL-Huirong Venture Capital Management Co., Ltd., a director of Shanxi TCL-Huirong Creative Investment Co., Ltd., the legal representative and chairman of the board of directors of Wuxi TCL Investment & Consultant Co., Ltd, an executive partner (authorized representative) and chairman of the board of directors of TCLWX Creative Capital Partnership (Limited Partnership), a director of 宜興江南天源投資諮詢有限公司, a director of CRTVU-Online Educational Technology Co., Ltd., a director of Petro AP Company Limited, a director of Petro AP (Hong Kong) Company Limited, a director of Shanxi United Magnesium Industry Co., Ltd. and a director of Pharmaxyn Laboratories Ltd. Mr. Yuen is also the legal representative and an executive director of 深圳市九天矩陣投資管理有限公司, and a supervisor of 惠州市東旭智岳股權投資管理有限公司. 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. 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 23 years of experience in the consumer electronics products industry.

DIRECTORS AND SENIOR MANAGEMENT

MR. LEONG YUE WING

Aged 62, 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 of Philips Consumer Electronics. Mr. LEONG has extensive management experience in the production and sales of AV and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets. Mr. LEONG obtained a Bachelor's degree in Mechanical Engineering in 1976 and a MBA from the University of Singapore (currently the National University of Singapore) in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. POON CHIU KWOK

Aged 53, is an independent non-executive Director of our Company. Mr. Poon possesses years of appropriate accounting and related financial management expertise. He now serves as an executive director, vice president and company secretary of Huabao International Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 336), an independent non-executive director of Yuanda China Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2789), Changan Minsheng APLL Logistics Co., Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1292) and Sunac China Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1918). He served as an independent non-executive director of China Tianrui Group Cement Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1252) from December 2011 to December 2012, Guangzhou Shipyard International Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 317) and the Shanghai Stock Exchange (stock code: 600685) from May 2011 to May 2014, and Ningbo Port Company Limited,

DIRECTORS AND SENIOR MANAGEMENT

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

MR. LI QI

Aged 54, 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 64, 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. 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 49, 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 served as a director of 深圳市前海浩方科技有限公司 in June 2014. He has been a deputy general manager and general manager of sales center of Tonly Electronics since October 2006. Mr. WANG joined the TCL Corporation in 1997. From December 1998 to May 2001, he served as the Manager of the Marketing Department and the Product Planning Department of TCL Electrical Appliance Sales Company. From May 2001 to September 2002, he had been the General Manager of the Monitor Division of TCL Multimedia. From September 2002 to May 2004, Mr. WANG had held the office of General Manager of the AV Division of TCL Multimedia. From May 2004 to November 2005, he had been a Director of Human Resources and a Director of Operation of Component Strategic Business Unit of TCL Corporation. From November 2005 to October 2006, he had been General Manager of the Flat Panel Business Group of TTE Corporation. Mr. WANG has strong ability in the management process from product planning to sales and marketing, as well as advertising and promotion, particularly in TV and AV industry. Mr. WANG graduated from the School of Management of Xi'an Jiaotong University with a Bachelor's degree in Management Engineering in 1988 and obtained a Master degree in International Industrial Trading from Xi'an Jiaotong University in 1994 and an EMBA degree from the University of Texas at Arlington in 2006. Mr. WANG is now taking CEIBS (China Europe International Business School) Global EMBA programmer.

MR. HUANG WEI

Aged 40, 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 54, 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
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

PRINCIPAL OFFICE

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

REGISTERED OFFICE

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

INVESTOR AND MEDIA RELATIONS

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

CORPORATE GOVERNANCE REPORT

INTRODUCTION

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

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

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2014, the Company has complied with the Code Provisions with the following exceptions:

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

Due to respective pre-arranged business commitments which must be attended to by certain directors, Mr. Leong Yue Wing, being non-executive director of the Company and Mr. LI Qi and Mr. YOUNG Shiao Ming, both being independent non-executive directors of the Company, were not present at the annual general meeting and the extraordinary general meeting of the Company held on 17 April 2014. However, Mr. YUAN Bing, being the Chairman and non-executive director of the Company, Mr. REN Xuenong, being the executive director and Chief Financial Officer of the Company and Mr. POON Chiu Kwok, being independent non-executive director of the Company, were present in the said general meetings to ensure an effective communication with the shareholders.

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 advisor, Cheung Tong & Rosa Solicitors. Ms. PANG has been appointed as the company secretary of the Company since July 2013. The Company has also assigned Mr. REN Xuenong, an executive director of the Company, as the contact person with Ms. PANG. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. PANG through the contact person assigned. Given the long-term relationship between Ms. PANG and the Group, she is very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. PANG as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received two confirmations (the "Confirmations") from TCL Corporation and T.C.L. Industries Holdings (H.K.) Limited (the "Covenantors") signed by them on 6 March 2015 respectively confirming that for the period from 1 January 2014 to 31 December 2014 and up to the date of signing the Confirmation by the relevant Covenantor, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 (the "Deed of Non-Competition") and, in particular, they and their respective Associates have not, directly or indirectly, carry on or be engaged or interested in the research and development, manufacturing and sales relating to AV Products (excluding TV sets), which is from time to time carried on or engaged or interested in by the Group.

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

DIRECTORS

THE BOARD

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

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

BOARD COMPOSITION

There are currently 8 directors, all with professional backgrounds and/or extensive expertise for the direction and oversight of the Group's strategic priorities. The Board of the Company currently comprises the following directors:

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

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

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

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

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

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this annual report on pages 16 to 24.

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

CORPORATE GOVERNANCE REPORT

The independent non-executive directors play an important role on the Board. Accounting for more than one-third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. Throughout the year of 2014, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of independent non-executive directors has represented at least one-third of the Board.

ATTENDANCE RECORD OF DIRECTORS IN 2014

During the year of 2014, the Board held 4 regular meetings at about quarterly intervals and 9 additional meetings. As regards general meeting, the Company held the annual general meeting on 17 April 2014 and one extraordinary general meeting on the same day to consider the matters regarding the connected transaction in relation to the acquisition of the remaining 20% equity interests in Tonly Electronics Limited ("Tonly Electronics Acquisition"). Attendance of individual directors at the Board meetings and general meetings in 2014 is as follows:

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Executive Directors			
Mr. YU Guanghui	4/4	8/9	0/2
Mr. SONG Yonghong	3/4	7/9	0/2
Mr. REN Xuenong	4/4	9/9	2/2
Non-Executive Directors			
Mr. YUAN Bing (Chairman)	4/4	8/9	2/2
Mr. LEONG Yue Wing	4/4	8/9	0/2
Independent Non-executive Directors			
Mr. POON Chiu Kwok	4/4	9/9	2/2
Mr. LI Qi	4/4	8/9	0/2
Mr. Young Shiao Ming	4/4	9/9	0/2

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

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

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The position of the Chairman is held by Mr. YUAN Bing while the position of Chief Executive Officer is held by Mr. YU Guanghui during the year ended 31 December 2014. This ensures a clear distinction between the Chairman's duty to manage the Board and the Chief Executive Officer's duty to oversee the overall internal operation of the Company.

CORPORATE GOVERNANCE REPORT

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

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

At the annual general meeting held on 17 April 2014, Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong retired from office by rotation and were re-elected as directors thereat.

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

The Company confirms that year of service of all Independent Non-excutive Directors are less than 9 years.

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

Name of Non-executive Director	Terms of Appointment
Mr. YUAN Bing *(Chairman)*	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") 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/her appointment to acquaint the newly appointed directors with the duties and responsibilities as a director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed director. The package also includes information relating to the operations and business of the Group. The directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Company Registry of Hong Kong and The Hong Kong Institute of Directors have been forwarded to each director for his/her 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/she is charged with. The contribution made by the directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all directors, including executive, independent non-executive and other non-executive directors and ensures the better understanding of the views of shareholders by 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.

CORPORATE GOVERNANCE REPORT

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2014 to 31 December 2014:

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 terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all directors and they have confirmed that throughout the year ended 31 December 2014, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Company as at 31 December 2014 are set out on pages 56 to 57 of this annual report.

CORPORATE GOVERNANCE 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 people with relevant expertise. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

In 2014, the Board had three Board Committees, namely the Remuneration Committee, the Audit Committee and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs. An independent board committee was also formed for the purpose of examining the Tonly Electronics Acquisition.

Attendance of the relevant members of the Board Committees at the meetings of the committees in 2014 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Independent Board Committee Meetings
Executive Directors				
Mr. YU Guanghui	N/A	3/3	1/1	N/A
Mr. SONG Yonghong	N/A	N/A	N/A	N/A
Mr. REN Xuenong	N/A	N/A	N/A	N/A
Non-Executive Directors				
Mr. YUAN Bing *(Chairman)*	N/A	3/3	1/1	N/A
Mr. LEONG Yue Wing	N/A	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. POON Chiu Kwok	4/4	3/3	1/1	1/1
Mr. LI Qi	2/4	2/3	N/A	0/1
Mr. YOUNG Shiao Ming	4/4	3/3	N/A	1/1

Nomination Committee

The Nomination Committee was established on 12 July 2013. A majority of the members are Independent Non-executive Directors. This Committee is chaired by Mr. YUAN Bing, a Non-executive Director, with Mr. YU Guanghui, an executive director, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. YOUNG Shiao Ming, being Independent Non-executive Directors, as members. The Committee held one meeting during year 2014.

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:

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

The work performed by the Committee during 2014 included:

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

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

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive director).

2. Consider the role and capabilities required for the particular vacancy.

3. Identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Make recommendations to the Board on the appointment or re-appointment of directors.

CORPORATE GOVERNANCE REPORT

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

1. Common Criteria for All Directors

   (a) Character and integrity

   (b) The willingness to assume broad fiduciary responsibility

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

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

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

   (f) Breadth of knowledge about issues affecting the company

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

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

   (i) Fit with the company's culture

2. Criteria Applicable to NEDs/INEDs

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

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

   (c) Outstanding professional and personal reputation

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

Board Diversity Policy

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

The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against 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 Board will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

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

Remuneration Committee

The Remuneration Committee is chaired by Mr. YOUNG Shiao Ming, an independent non-executive director. It now consists of 4 members, including Mr. YU Guanghui, Mr. YUAN Bing, Mr. POON Chiu Kwok and Mr. LI Qi, the majority of whom are independent non-executive directors.

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

CORPORATE GOVERNANCE REPORT

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

During 2014, the Remuneration Committee accomplished the following:

- assessing the performance of executive directors; and

- discussing and approving the grant of share options to the directors.

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

Emolument Policy and Long-Term Incentive Plan

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

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

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

- directors' fee; and

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

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

Audit Committee

The Audit Committee currently comprises 3 members, namely Mr. POON Chiu Kwok, Mr. LI Qi and Mr. YOUNG Shiao Ming. Mr. POON Chiu Kwok is the chairman of the Audit Committee.

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

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

CORPORATE GOVERNANCE REPORT

The work performed by the Audit Committee during 2014 included consideration of the following matters:

- the completeness and accuracy of the 2014 annual, interim and quarterly financial statements;
- the Company's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Company;
- review of the effectiveness of the system of internal control of the Group;
- the internal control reports submitted by the internal control department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors which the Board agreed and accepted

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

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

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

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

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" on pages 64 to 65.

CORPORATE GOVERNANCE REPORT

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 66 to 151 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "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.

CORPORATE GOVERNANCE REPORT

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the 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.

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 its review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the system of internal control of the Group.

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

For the year of 2014, no critical internal control issues have been identified.

AUDITORS' REMUNERATION

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

Statutory audit services	HK$1,680,000
Non-audit services (which include taxation compliance, agreed upon procedures and other professional services)	HK$2,033,000
Continuing connected transactions	HK$120,000

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 the Finance Director of the Company, Mr. REN Xuenong. The Company Secretary is responsible to the Board and reports to the Board Chairman from time to time. All directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

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 2014. She has fulfiled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

In addition to frequent meetings with investors, the Group arranged non-deal road shows in Beijing and Singapore in which analysts and fund managers attended with favorable response during the year under review.

Key Investor Events in 2014

Date	Events
18-22 March 2014	Non-deal roadshow in Beijing
1-4 July 2014	Non-deal roadshow in Singapore

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

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

CORPORATE GOVERNANCE REPORT

The external auditor of the Company, Messes. Ernst & Young also attended the Annual General Meeting held on 17 April 2014 to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence. The independent financial adviser, Shenyin Wanguo Capital (H.K.) Limited, also attended the extraordinary general meeting held on 17 April 2014 where the acquisition of the remaining 20% equity interests in Tonly Electronics Limited was considered and approved, to answer shareholders' enquiries thereat.

VOTING BY POLL

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

SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

CORPORATE GOVERNANCE REPORT

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

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

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.

CONSTITUTIONAL DOCUMENTS

In 2014, no amendment had been made to the memorandum and articles of association of the Company.

CONCLUSION

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

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

HUMAN RESOURCES:

In 2014, adhering the spirit of the business development strategy, "transformation and entrepreneurship", the Company enforced a series of human resources management works and made unremitting efforts in selecting and training new technical personnel. By the establishment of project-oriented incentives and creation of "learn and growth" atmosphere within the organization, the Company have achieved the optimal allocation of human resources.

1. BASIC INFORMATION ON HUMAN RESOURCES

As at 31 December 2014, the Group had a total of 3,794 employees, the distribution of which is set out as follows:

Mainland China	3,782
Hong Kong, China	12

Attributable to enhanced corporate operational efficiency and adoption of automation technologies, the Company still achieved a growth in sales in comparable to last year under the circumstances of business expansion and reduction of staff size. Emphasis was laid on scientific knowledge and optimization in the process of staff allocation. The Company has adopted a "continuous learning and growth" approach to increase employee's efficiencies as well as individual and team professional capabilities.

2. KEY EFFORT ON HUMAN RESOURCES

In 2014, Tonly actively expanded the core business to diversified territories of audio and video products. In particular, we launched a series of internet intelligence products such as wireless and bluetooth speakers which laid a solid foundation for the Company's sustainable development. To keep in line with the development strategy and changes in business models, the Company has taken a series of positive and effective measures to elevate staff efficiency and professional capacity, encourage work inspiration, fabricate harmonious organization atmosphere and enhance growth of employees.

Facing the advancement of technologies and emerging innovative products in the consumer electronics industry while upholding the spirit of "transformation and entrepreneurship", the Company committed to become the world's industrial leading audio and video products ODM supplier through its industrial competitiveness of independent research and development as well as technological innovation and the vertical integration of the supply chain and the strategic layout abroad. By combing the organizational structure and core processes, organizational effectiveness was improved. The core processes were continuously optimized as well. Meanwhile, we established the "product line" and " business line" end to end incentive model to promote prompt delivery of products and ensure customer's satisfactions.

HUMAN RESOURCES & SOCIAL RESPONSIBILITY

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

The Company has put increasing resources in the developments and trainings of personnel in the past year. To coordinate the Company's demand for professionals, the Company continually seek for the industry's professionals and carried out a "Elite Eagle Training Programme" to focus on the development of the capabilities of technical professionals and reinforce exchange of knowledge with renowned enterprises as Texas Instruments and WPI. The investment in knowledge training in key business areas has largely increased. Employees and the Company has therefore synchronized their growth when supporting rapid operation development.

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

SOCIAL RESPONSIBILITIES:

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

Social responsibility management system is an important part of the Company's overall business management system. The Company is committed to protect the rights of employees and external personnel, creating documentation of the social responsibility management system, paying efforts to prevent and reduce harm to the process of production of social responsibility. The Company's social responsibility management system adheres to the Company's standards and wag carried out by the "plan, do, check, review" dynamic cycle. In the year under review, the Company has passed a total of more than 10 customers' reviews.

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

– In order to make sure that manufacturing employment and technical personnel needs are met for the development, the Company has gradually accelerated colleges and school-enterprise cooperation projects. In 2014, the Company opened "Tonly Class" in Huanggang Polytechnic College, Guangxi Talent Polytechnic College, Yunfu City Technician School, Hengyang Polytechnic College and Huicheng Technical School in Huizhou City respectively, the Company took full participation in teaching management and assessment, and provided the necessary instructional support to schools, and also provided the academically excellent students special training and scholarships support.

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 15 March 2014, in order to practice the social responsibility of forest conservation, expansion of forest resources and improving the ecological environment, hundreds of employees of Tonly launched a massive voluntary tree-planting activity with the theme of "Green Earth, starting with me" in Safflower Lake Scenic Area. The treeplanting activity 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 2014.

CORPORATE INFORMATION

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 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 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 66 to 151.

The Board has recommended a final dividend, for the year ended 31 December 2014, of HK25 cents in cash per share.

Subject to approval at the forthcoming annual general meeting, the said final dividend will be payable on or about 13 May 2015, Wednesday to shareholders whose names appear on the register of members of the Company on 29 April 2015, Wednesday.

The register of members of the Company will be closed on 17 April 2015, Friday, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the Shares may be registered on that date. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 16 April 2015.

The register of members of the Company will be closed from 27 April 2015, Monday, to 29 April 2015, Wednesday (both dates inclusive), for the purposes of determining the entitlements of the shareholders to the proposed final dividend upon the passing of relevant resolution. No transfer of the Shares may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 24 April 2015, Friday.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 152. 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 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Pursuant to the rules of the restricted share award scheme adopted by the Company on 28 August 2014, the Company instructed the trustee for the scheme to purchase from the market a total of 656,000 shares being the restricted shares during the year. The total amount paid to acquire such shares was approximately HK$3,794,000.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately HK$498,952,000.

CHARITABLE CONTRIBUTIONS

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

REPORT OF THE DIRECTORS

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	25%
– the five largest customers combined	75%

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.

DIRECTORS

The directors of the Company during the year ended 31 December 2014 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. POON Chiu Kwok, Mr. LI Qi and Mr. YOUNG Shiao Ming will retire by rotation. 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.

REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

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

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 27 to 47 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

Save as the agreement for sale and purchase of 21,160,000 shares in Tonly Electronics Limited entered into among the Company, Run Fu Holdings Limited and Star Force Investment Limited on 25 February 2014, in which Mr. YU Guanghui, Mr. SONG Yonghong and Mr. REN Xuenong had a material interest, 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 2014, 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 Interest	Family Interest	Other Interest	Number of shares held under equity derivatives	Total	Approximate percentage of issued share capital of the Company
YU Guanghui	–	–	26,458,607 *(Note 1)*	561,456	27,020,063	10.85
SONG Yonghong	–	–	26,458,607 *(Note 2)*	430,450	26,889,057	10.80
REN Xuenong	72,000	–	–	224,582	296,582	0.12
YUAN Bing	–	–	–	557,000	557,000	0.22
LEONG Yue Wing	74,200	–	–	334,200	408,400	0.16
POON Chiu Kwok	–	–	–	334,200	334,200	0.13
YOUNG Shiao Ming	–	–	–	334,200	334,200	0.13
LI Qi	–	–	–	334,200	334,200	0.13

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

TCL Corporation *(Note 3)*

Name of Director	Number of ordinary shares held Personal Interest	Family Interest	Other Interest	Number of shares held under equity derivatives	Total	Approximate percentage of issued share capital of the relevant associated corporation
YUAN Bing	–	–	–	85,740	85,740	0.0009
YU Guanghui	–	–	–	307,800	307,800	0.003

REPORT OF THE DIRECTORS

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

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

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

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

Notes:

1. As at 31 December 2014, Run Fu Holdings Limited ("Run Fu") was owned as to 44.44% by Huizhou Yinhuiyu Investment Partnership Enterprise (Limited Partnership) ("Yinhuiyu") in which Mr. YU Guanghui and his wife respectively held 99% and 1% effective interest. Accordingly, Run Fu is a controlled corporation of Mr. YU Guanghui and hence Mr. YU was deemed to be interested in 10.63% interest in the Company held by Run Fu.

2. As at 31 December 2014, Run Fu was owned as to 55.56% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) ("Guangsheng") in which Mr. SONG Yonghong held 46.50% effective interest. Accordingly, Run Fu is a controlled corporation of Mr. SONG Yonghong and hence Mr. SONG was deemed to be interested in 10.63% interest in the Company held by Run Fu.

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

4. TCL Multimedia is a subsidiary of TCL Corporation.

5. TCL Communication is a subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2014, 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2014, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(i) Long positions in shares of the Company:

Name of Shareholder	Nature of Interest	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	125,234,170 *(Note 1)*	50.30 *(Note 2)*
Run Fu Holdings Limited ("Run Fu")	Beneficial owner	26,458,607	10.63
Star Force Investment Limited ("Star Force")	Beneficial owner	22,333,590	8.97
Deutsche Bank Aktiengesellschaft	Beneficial owner/ Security interest in shares	12,465,166	5.01

Notes:

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

2. Such percentage was calculated based on the issued share capital of the Company as at the Latest Practicable Date, being 248,968,066 Shares in issue.

Save as disclosed above, as at 31 December 2014, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year ended 31 December 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

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

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

REPORT OF THE DIRECTORS

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

Note:

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

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

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

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.73 of the Listing Rules) during the year ended 31 December 2014:

REPORT OF THE DIRECTORS

On 25 February 2014, the Company, Run Fu and Star Force entered into the sale and purchase agreement, pursuant to which (i) Run Fu and Star Force agreed to sell and the Company agreed to purchase the 20% of the total issued share capital of Tonly Electronics Limited (the "Sale Shares") and (ii) the Company would in return allot and issue the 32,662,477 consideration shares to Run Fu and Star Force as consideration for purchase of the Sale Shares. The transaction was completed on 15 May 2014.

The Group entered into the following continuing connected transaction (other than connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2014:

On 27 August 2014, TCL Corporation and the Company entered into the supplemental agreement (the "Supplemental Agreement") to the master lease (tenant) agreement entered into between the Company as tenant and TCL Corporation as landlord on 12 July 2013 (the "Master Lease (Tenant) Agreement"), pursuant to which TCL Corporation and its subsidiaries shall lease to the Group certain premises in addition to those specified in the Master Lease (Tenant) Agreement. During the year under review, HK$7,436,000 was paid by the Group to TCL Corporation Group as rental, repair and maintenance fee under the Master Lease (Tenant) Agreement as supplemented by the Supplemental Agreement.

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2014:

(a) Pursuant to the Technology Support Services and Trade Name Licence Agreement dated 12 July 2013 entered into between the Company and TCL Corporation, TCL Corporation has granted to the Group, a non-exclusive, non-licensable and non-transferable licence to use (i) the general technology support services provided by TCL Corporation Group; and (ii) to use "TCL" trade name and other trade names from time to time used by TCL Group. During the year under review, HK$7,908,000 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$7,436,000 was paid by the Group to TCL Corporation Group as rental, repair and maintenance fee under the Master Lease (Tenant) Agreement as supplemented by the Supplemental Agreement.

(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$140,256,000 and (ii) sold overseas materials amounting to HK$136,276,000 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$63,262,000 and (ii) sourced components and parts from TCL Corporation Group amounting to HK$51,503,000 during the year.

REPORT OF THE DIRECTORS

(e) Pursuant to the Master Financial Services Agreement dated 21 October 2013 entered into among the Company, TCL Finance Company Limited ("Finance Company", a non-wholly owned subsidiary of TCL Corporation) and TCL Corporation, the Group paid HK$372,000 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$394,285,000.

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.

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

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

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

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

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

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

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 27 to 47 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 year ended 31 December 2014.

CHANGE IN INFORMATION OF DIRECTORS

Mr. POON Chiu Kwok ceased to be an independent non-executive director of Ningbo Port Company Limited, the shares of which are listed on the Shanghai Stock Exchange (stock code: 601018), on 26 May 2014, and an independent non-executive director of Guangzhou Shipyard International Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 00317) and Shanghai Stock Exchange (stock code: 600685), on 8 May 2014.

Mr. YOUNG Shiao Ming ceased to be an independent director of Pactera Technology International Limited, the shares of which are listed on NASDAQ, on 30 April 2014.

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.

COMPLIANCE ADVISER

The term of appointment of the compliance adviser of the Company, Messis Capital Limited, appointed on 1 March 2014 in replacement of SinoPac Securities (Asia) Limited, has ended on 27 February 2015, being the date of despatch of the Company's financial results for the first full financial year commencing after the date of listing of the Company's shares on the Stock Exchange on 15 August 2013.

ON BEHALF OF THE BOARD

YUAN BING
Chairman

Hong Kong
27 February 2015

INDEPENDENT AUDITORS' REPORT

EY 安永

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

We have audited the consolidated financial statements of Tonly Electronics Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 66 to 151, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 2014, 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
27 February 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
TURNOVER	5	**5,421,007**	4,554,275
Cost of sales		**(4,754,614)**	(4,062,080)
Gross profit		**666,393**	492,195
Other income and gains, net	5	**83,548**	117,620
Selling and distribution costs		**(189,088)**	(141,553)
Administrative expenses		**(180,826)**	(147,169)
Research and development costs	7	**(174,710)**	(160,014)
Other operating expenses, net	7	**(12,687)**	(384)
		192,630	160,695
Finance costs	6	**(6,686)**	(9,211)
Share of profits of an associate		**1**	7
PROFIT BEFORE TAX	7	**185,945**	151,491
Income tax expense	10	**(24,560)**	(17,433)
PROFIT FOR THE YEAR		**161,385**	134,058
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(1,915)**	11,642
Cash flow hedge:			
Effective portion of changes in fair value of the hedging instruments arising during the year		**(4,839)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(6,754)**	11,642
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**154,631**	145,700

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Profit attributable to:			
Owners of the parent	11	**149,894**	106,679
Non-controlling interests		**11,491**	27,379
		161,385	134,058
Total comprehensive income attributable to:			
Owners of the parent		**144,042**	115,358
Non-controlling interests		**10,589**	30,342
		154,631	145,700
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
			(Restated)
Basic and diluted		**HK88.25 CENTS**	HK76.44 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	465,608	393,215
Prepaid land lease payments	15	38,960	39,727
Investment in an associate	17	–	406
Deferred tax assets	27	80,247	72,826
Total non-current assets		584,815	506,174
CURRENT ASSETS			
Inventories	18	432,187	459,758
Trade receivables	19	978,182	875,274
Bills receivable		15,168	21,955
Prepayments, deposits and other receivables	20	187,443	198,888
Other investment	21	–	135,991
Tax recoverable		2,381	2,104
Derivative financial instruments	22	840	14,077
Cash and cash equivalents	23	938,303	410,460
Total current assets		2,554,504	2,118,507
CURRENT LIABILITIES			
Trade payables	24	1,087,559	958,806
Bills payable		19,903	220,236
Other payables and accruals	25	631,768	619,181
Tax payable		97,558	84,156
Derivative financial instruments	22	8,011	7,952
Provisions	26	196,539	180,947
Total current liabilities		2,041,338	2,071,278
NET CURRENT ASSETS		513,166	47,229

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,097,981**	553,403
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**2,655**	4,176
Net assets		**1,095,326**	549,227
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**248,968**	133,316
Reserves	29	**818,499**	291,385
		1,067,467	424,701
Non-controlling interests		**27,859**	124,526
Total equity		**1,095,326**	549,227

YUAN Bing
Director

YU Guanghui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

		Attributable to owners of the parent												
GROUP	Notes	Issued capital HK$'000	Share premium account HK$'000 (Note 28)	Share option reserve HK$'000 (Note 29 (a)(i))	Reserve funds HK$'000 (Note 29 (a)(ii))	Capital reserve HK$'000 (Note 29 (a)(iii))	Merger reserve HK$'000 (Note 29 (a)(iv))	Hedging reserve HK$'000 (Note 29 (a)(v))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Share held for the Award Scheme HK$'000 (Note 28)	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 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	33	-	-	-	-	17,259	-	-	-	-	-	17,259	4,314	21,573
Deemed distribution to TCL Multimedia	28	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 and 1 January 2014		133,316	-*	-*	58,513*	11,251*	(6,059)*	-*	54,975*	172,705*	-*	424,701	124,526	549,227
Profit for the year		-	-	-	-	-	-	-	-	149,894	-	149,894	11,491	161,385
Other comprehensive income for the year:														
Cash flow hedge		-	-	-	-	-	-	(4,839)	-	-	-	(4,839)	-	(4,839)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(1,013)	-	-	(1,013)	(902)	(1,915)
Total comprehensive income for the year		-	-	-	-	-	-	(4,839)	(1,013)	149,894	-	144,042	10,589	154,631
Rights Issue	28	82,989	340,256	-	-	-	-	-	-	-	-	423,245	-	423,245
Share issue expenses	28	-	(1,993)	-	-	-	-	-	-	-	-	(1,993)	-	(1,993)
Acquisition of non-controlling interests	33(a)	32,663	160,046	-	-	(85,453)	-	-	-	-	-	107,256	(107,256)	-
Equity-settled share option arrangements		-	-	5,739	-	-	-	-	-	-	-	5,739	-	5,739
Purchase of shares for the Award Scheme	28	-	-	-	-	-	-	-	-	-	(3,794)	(3,794)	-	(3,794)
Final 2013 dividend declared		-	-	-	-	-	-	-	-	(31,729)	-	(31,729)	-	(31,729)
Transfer from retained profits		-	-	-	3,937	-	-	-	-	(3,937)	-	-	-	-
At 31 December 2014		248,968	498,309*	5,739*	62,450*	(74,202)*	(6,059)*	(4,839)*	53,962*	286,933*	(3,794)*	1,067,467	27,859	1,095,326

* These reserve accounts comprise the consolidated reserves of HK$818,499,000 (2013: HK$291,385,000) in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		185,945	151,491
Adjustments for:			
Finance costs	6	6,686	9,211
Share of profits of an associate		(1)	(7)
Interest income	5	(41,772)	(57,702)
Loss on liquidation of a subsidiary	7	8	–
Loss on disposal of an associate	7	25	–
Loss on disposal of items of property, plant and equipment	7	290	384
Unrealised fair value loss/(gain) on derivative financial instruments, net – transactions not qualifying as hedges	7	2,333	(5,162)
Depreciation	7	40,975	21,480
Amortisation of prepaid land lease payments	7	634	534
Impairment of trade receivables	19	12,364	–
Equity-settled share option expense	28	5,739	–
		213,226	120,229
Decrease/(increase) in inventories		26,029	(102,082)
Increase in trade receivables		(116,773)	(31,180)
Decrease in prepayments, deposits and other receivables		10,982	112,448
Decrease/(increase) in bills receivable		6,747	(7,642)
Increase in trade payables		131,133	127,847
Decrease in bills payable		(199,635)	(5,002)
Increase/(decrease) in other payables and accruals		22,257	(78,174)
Increase in provisions		16,114	11,530
Cash generated from operations		110,080	147,974
Interest paid		(6,686)	(9,211)
Hong Kong profits tax paid		(5,982)	(4,802)
Overseas taxes paid		(14,410)	(10,984)
Net cash flows from operating activities		83,002	122,977

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Net cash flows from operating activities		83,002	122,977
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		41,772	57,702
Purchases of items of property, plant and equipment		(117,119)	(261,954)
Prepayment of land lease payments		–	(23,652)
Decrease in bills receivable		–	7,591
Disposal/(purchase) of other investment		135,991	(135,991)
Decrease in bills payable		–	(564,770)
Proceeds from disposal of items of property, plant and equipment		2,554	1,181
Decrease in pledged deposits		–	843,280
Net cash flows from/(used in) investing activities		63,198	(76,613)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares	28	423,245	–
Purchase of shares for the Award Scheme	28	(3,794)	–
Share issue expenses	28	(1,476)	–
New bank loan		38,757	–
Repayment of bank loan		(38,757)	(106,224)
Decrease in other payables and accruals		–	(40,764)
Repayment to companies controlled by TCL Corporation		–	(166,183)
Dividends paid		(31,729)	(323,395)
Dividend paid to non-controlling shareholders		(8,400)	–
Net cash flows from/(used in) financing activities		377,846	(636,566)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		524,046	(590,202)
Cash and cash equivalents at beginning of year		410,460	997,289
Effect of foreign exchange rate changes, net		3,797	3,373
CASH AND CASH EQUIVALENTS AT END OF YEAR		938,303	410,460
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	938,303	410,460

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	137,830	133,316
Total non-current assets		137,830	133,316
CURRENT ASSETS			
Due from subsidiaries	16	605,904	33,600
Other receivables	20	6,206	–
Cash and cash equivalents	23	485	–
Total current asset		612,595	33,600
CURRENT LIABILITIES			
Other payables and accruals	25	560	–
Total current liabilities		560	–
NET CURRENT ASSETS		612,035	33,600
TOTAL ASSETS LESS CURRENT LIABILITIES		749,865	166,916
EQUITY			
Issued capital	28	248,968	133,316
Reserves	29(b)	500,897	33,600
Total equity		749,865	166,916

YUAN Bing
Director

YU Guanghui
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

2.1 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and a new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendments to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition* [1]
Amendments to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination* [1]
Amendments to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendments to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) 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 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 amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) 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 have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments have had no impact on the financial position or performance of the Group.

(d) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(e) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(f) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

(g) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(h) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

Amendments to HKAS1	*Disclosure Initiative* [2]
HKFRS 9	*Financial Instruments* [4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception* [2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations* [2]
HKFRS 14	*Regulatory Deferral Accounts* [5]
HKFRS 15	*Revenue from Contracts with Customers* [3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants* [2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions* [1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements* [2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs [1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs [1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs [2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (CONTINUED)

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

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (CONTINUED)

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

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (CONTINUED)

The *Annual Improvements* to *HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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 *Non-current Assets Held for Sales and Discontinued Operations* are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT 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.

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 of the acquiree.

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 operation disposed of and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT (CONTINUED)

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

NOTES TO FINANCIAL STATEMENTS
31 December 2014

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

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Subsequent measurement (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 included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

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 income 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 gains or losses. 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 income 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.

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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Subsequent measurement (Continued)

Available-for-sale investment (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 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. "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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

Initial recognition and measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Initial recognition and subsequent measurement (Continued)

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

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

- hedges of a net investment in a foreign operation.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Initial recognition and subsequent measurement (Continued)

Cash flow hedges

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

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

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

Current versus non-current classification

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TREASURY SHARES

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

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 cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

PROVISIONS

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

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

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

NOTES TO FINANCIAL STATEMENTS
31 December 2014

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 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.

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 each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OTHER EMPLOYEE BENEFITS

Pension schemes

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

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

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 directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other 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 2014

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 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 banks on its trade receivables. As at 31 December 2014, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with certain trade receivables factored to banks under these arrangements. Accordingly, the relevant trade receivables with an aggregate carrying amount of HK$541,399,000 (2013: HK$659,821,000) are fully derecognised. Further details are given in note 19 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

(iii) Provision against obsolete and slow-moving inventories (Continued)

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.

(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 26 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 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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	
	2014	2013
	HK$'000	HK$'000
Japan	**2,024,727**	1,396,850
Europe	**1,365,252**	1,691,052
PRC	**1,080,439**	859,639
Korea	**543,433**	230,141
United States	**305,131**	360,073
India	**98,166**	10,199
Others	**3,859**	6,321
	5,421,007	4,554,275

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:

	GROUP	
	2014	2013
	HK$'000	HK$'000
Customer A	**1,338,205**	1,741,366
Customer B	**1,085,941**	842,130
Customer C	**543,433**	N/A*

* Less than 10% of revenue

5. TURNOVER, OTHER INCOME AND GAINS, NET

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

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

	Note	GROUP 2014 HK$'000	2013 HK$'000
Revenue			
Sales of goods		5,361,350	4,503,781
Rendering of services		59,657	50,494
		5,421,007	4,554,275
Other income			
Interest income		41,772	57,702
Sales of raw materials and scrap materials		8,372	2,639
Realised gains on settlement of derivative financial instruments		–	22,907
Unrealised fair value gain on derivative financial instruments, net – transactions not qualifying as hedges	22	–	5,162
Government grants*		2,658	7,688
Value-added tax refund		21,713	17,221
Others		8,229	3,167
		82,744	116,486
Gains, net			
Foreign exchange difference, net		804	1,134
		804	1,134
		83,548	117,620

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

6. FINANCE COSTS

	Group 2014 HK$'000	Group 2013 HK$'000
Interest on bank loans	448	1,701
Interest on factored trade receivables	6,238	7,510
	6,686	9,211

7. PROFIT BEFORE TAX

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

	Notes	Group 2014 HK$'000	Group 2013 HK$'000
Cost of inventories sold*		4,718,314	4,023,409
Cost of services rendered*		41,265	35,264
Write-down/(reversal) of inventories to net realisable value*		(4,965)	3,407
Depreciation	14	40,975	21,480
Research and development costs – current year expenditure		174,710	160,014
Realised loss/(gain) on settlement of derivative financial instruments		791	(22,907)
Unrealised fair value loss/(gain) on derivative financial instruments, net – transactions not qualifying as hedges	22	2,333	(5,162)
Amortisation of prepaid land lease payments	15	634	534
Minimum lease payments under operating leases in respect of land and buildings		28,573	25,247
Auditors' remuneration		1,680	1,500
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		456,860	369,947
Equity-settled share option benefits		5,739	–
Defined contribution expense		18,118	15,839
		480,717	385,786
Product warranty provision:			
Additional provision	26	83,826	36,593
Reversal of unutilised provision	26	(40,164)	(3,840)
		43,662	32,753

7. PROFIT BEFORE TAX (CONTINUED)

	Notes	GROUP 2014 HK$'000	2013 HK$'000
Foreign exchange differences, net		(804)	(1,134)
Loss on disposal of items of property, plant and equipment**		290	384
Loss on liquidation of a subsidiary**	33(b)	8	–
Loss on disposal of an associate**	17	25	–
Impairment of trade receivables**	19	12,364	–

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

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

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	GROUP 2014 HK$'000	2013 HK$'000
Fees	540	201
Other emoluments:		
Salaries, allowances and benefits in kind	3,503	1,976
Discretionary performance-related bonuses	1,434	2,689
Equity-settled share option benefits	1,227	–
Pension scheme contributions	428	355
	6,592	5,020
	7,132	5,221

NOTES TO FINANCIAL STATEMENTS

31 December 2014

8. DIRECTORS' REMUNERATION (CONTINUED)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Fees HK$'000	Equity-settled share option benefits HK$'000	Total remuneration HK$'000
2014			
Mr. Poon Chiu Kwok	**180**	**132**	**312**
Mr. Li Qi	**180**	**132**	**312**
Mr. Young Shiao Ming	**180**	**132**	**312**
	540	**396**	**936**

	Fees HK$'000	Equity-settled share option benefits HK$'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

There were no other emoluments payable to the independent non-executive directors during the year. (2013: Nil)

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

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

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

NOTES TO FINANCIAL STATEMENTS
31 December 2014

8. DIRECTORS' REMUNERATION (CONTINUED)

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

	Salaries, allowances and benefits in kind HK$'000	Discretionary performance-related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
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
	1,976	2,689	–	355	5,020

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2013: two), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2013: three) non-director, highest paid employees for the year are as follows:

	Group 2014 HK$'000	Group 2013 HK$'000
Salaries, allowances and benefits in kind	**1,956**	3,233
Discretionary performance-related bonuses	**466**	1,008
Equity-settled share option benefits	**120**	–
Pension scheme contributions	**178**	173
	2,720	4,414

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

	2014	2013
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	2	3

During the year, share options were granted to a non-director highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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.

	2014 HK$'000	2013 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	6,728	3,196
Overprovision in prior years	(13)	(58)
Current – Elsewhere		
Charge for the year	26,982	15,876
Deferred (note 27)	(9,137)	(1,581)
Total tax charge for the year	24,560	17,433

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

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:

	2014 HK$'000	2013 HK$'000
Profit before tax	**185,945**	151,491
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**46,765**	36,413
Lower tax rates for specific provinces or enacted by local authorities	**(28,888)**	(18,925)
Adjustments in respect of current tax of previous periods	**(13)**	(58)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**4,037**	1,317
Income not subject to tax	**(155)**	(3,758)
Expenses not deductible for tax	**2,546**	3,478
Tax losses not recognised	**456**	–
Tax losses utilised from previous periods	**(188)**	(1,034)
Tax charge at the Group's effective tax rate	**24,560**	17,433

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2014 includes a loss of HK$1,228,000 (2013: Nil) which has been dealt with in the financial statements of the Company (note 29(b)).

NOTES TO FINANCIAL STATEMENTS
31 December 2014

12. DIVIDENDS

	2014 HK$'000	2013 HK$'000
Proposed final dividend – HK25.0 cents (2013: HK23.8 cents) per ordinary share	62,242	31,729

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

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

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

	2014 HK$'000	2013 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	149,894	106,679

	Number of shares 2014	 2013
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	169,857,974	139,553,143*

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the Rights Issue completed on 21 November 2014 (note 28) to reflect the bonus element inherent in the Rights Issue.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 2014							
At 31 December 2013 and at 1 January 2014:							
Cost	214,474	4,333	169,126	44,438	5,564	38,741	476,676
Accumulated depreciation	-	(2,386)	(53,231)	(24,811)	(3,033)	-	(83,461)
Net carrying amount	214,474	1,947	115,895	19,627	2,531	38,741	393,215
At 1 January 2014, net of accumulated depreciation	214,474	1,947	115,895	19,627	2,531	38,741	393,215
Additions	-	52,846	26,479	15,251	1,145	21,398	117,119
Reclassification	(45,201)	45,201	-	-	-	-	-
Disposals	-	(2,092)	(554)	(198)	-	-	(2,844)
Transfer	21,552	-	955	-	-	(22,507)	-
Depreciation provided during the year	(8,920)	(9,741)	(13,814)	(7,745)	(755)	-	(40,975)
Exchange realignment	(830)	397	(308)	(31)	(7)	(128)	(907)
At 31 December 2014, net of accumulated depreciation	181,075	88,558	128,653	26,904	2,914	37,504	465,608
At 31 December 2014:							
Cost	190,036	100,604	195,520	58,041	6,697	37,504	588,402
Accumulated depreciation	(8,961)	(12,046)	(66,867)	(31,137)	(3,783)	-	(122,794)
Net carrying amount	181,075	88,558	128,653	26,904	2,914	37,504	465,608

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 2013							
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
Disposals	-	-	(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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

15. PREPAID LAND LEASE PAYMENTS

	GROUP 2014 HK$'000	2013 HK$'000
Carrying amount at 1 January	40,419	16,443
Additions	–	23,652
Amortised during the year	(634)	(534)
Exchange realignment	(131)	858
Carrying amount at 31 December	39,654	40,419
Current portion included in other receivables (note 20)	(694)	(692)
Non-current portion	38,960	39,727

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

	2014 HK$'000	2013 HK$'000
Medium term lease	16,267	16,638
Long term lease	23,387	23,781
	39,654	40,419

16. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	133,316	133,316
Capital contribution in respect of employee share-based compensation	4,514	–
	137,830	133,316
Due from subsidiaries classified as current assets	605,904	33,600

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Group's subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of 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	-	100 (33(a))	Investment holding
TCL Technology (HK) Company Limited	Hong Kong 11 November 2008	HK$50,000,000 Ordinary	-	100	Trading of audio-visual products and components
TCL OEM Sales Limited	Hong Kong 22 October 1999	HK$2 Ordinary	-	100	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC 26 January 2000	RMB76,000,000	-	100	Manufacture and sale of audio-visual products and components
Huizhou TCL Audio Video Electronics Co., Ltd.*	PRC 26 October 2005	RMB25,000,000	-	100	Manufacture and sale of audio-visual products and components

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xi'an TCL Software Development Co., Ltd.*	PRC 10 May 2012	US$2,000,000	-	100	Software development
Shenzhen Tongli Science and Technology Development Co., Ltd.	PRC 8 February 2012	RMB10,000,000	-	100	Software development
Guangdong Regency Optics-Electron Corp. ("Regency Optics-Electron Corp.")	PRC 2 July 2010	RMB50,000,000	-	60	Manufacture and sale of audio-visual components

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

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The following table lists the information relating to Tonly Electronics Limited ("TEL") 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.

	2014	2013
Percentage of equity interests held by non-controlling interests:		
TEL	N/A*	20%
Regency Optics-Electron Corp.	40%	40%

NOTES TO FINANCIAL STATEMENTS
31 December 2014

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

	2014 HK$'000	2013 HK$'000
Profit for the year allocated to non-controlling interests:		
TEL	N/A*	26,670
Regency Optics-Electron Corp.	1,188	709
Dividend declared to non-controlling interests of TEL	N/A*	8,400

	2014 HK$'000	2013 HK$'000
Accumulated balances of non-controlling interests at the reporting dates:		
TEL	N/A*	97,775
Regency Optics-Electron Corp.	27,859	26,751

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

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

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

* TEL became a wholly-owned subsidiary during the year and its summarised consolidated financial information for the current year is not presented accordingly. Further details are set out in note 33(a).

NOTES TO FINANCIAL STATEMENTS
31 December 2014

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

	TEL HK$'000	Regency Optics-Electron Corp. HK$'000
2013		
Revenue	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 (used in)/from financing activities	(636,566)	21,509
Net decrease in cash and cash equivalents	(590,201)	(8,640)

17. INVESTMENT IN AN ASSOCIATE

	Group 2014 HK$'000	Group 2013 HK$'000
Share of net assets	–	406

Particulars of the associate as at 31 December 2013 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 in the prior year was held through an indirectly non-wholly-owned subsidiary of the Company.

During the year, the above associate was disposed to an independent third party for a consideration of HK$355,000 and the Group recognised a loss on disposal of HK$25,000 (note 7).

The percentage of the Group's voting power held in relation to the associate was 20% as at 31 December 2013, and the Group's profit sharing was 26.7% as at 31 December 2013. The associate was accounted for using the equity method in these financial statements up to the date of disposal and its financial year end is coterminous with that of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. INVENTORIES

	GROUP 2014 HK$'000	2013 HK$'000
Raw material	93,074	145,562
Work in progress	79,113	92,880
Finished goods	260,000	221,316
	432,187	459,758

19. TRADE RECEIVABLES

	GROUP 2014 HK$'000	2013 HK$'000
Due from third parties	971,615	802,568
Provision for impairment	(12,411)	–
	959,204	802,568
Due from companies controlled by TCL Corporation (note)	18,978	72,706
	978,182	875,274

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

SALES TO THIRD PARTY CUSTOMERS

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

19. TRADE RECEIVABLES (CONTINUED)

SALES TO RELATED PARTIES

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

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

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

	GROUP	
	2014	2013
	HK$'000	HK$'000
Current to 90 days	728,346	730,745
91 to 180 days	77,890	11,544
181 to 365 days	130,423	92,735
Over 365 days	41,523	40,250
	978,182	875,274

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

	GROUP	
	2014	2013
	HK$'000	HK$'000
At 1 January	–	–
Impairment loss recognised	12,364	–
Exchange realignment	47	–
At 31 December	12,411	–

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

19. TRADE RECEIVABLES (CONTINUED)

SALES TO RELATED PARTIES (CONTINUED)

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

	GROUP	
	2014	2013
	HK$'000	HK$'000
Neither past due nor impaired	**911,825**	832,503
Less than 90 days past due	**47,739**	35,810
90 to 180 days past due	**18,618**	5,479
Over 180 days past due	**–**	1,482
	978,182	875,274

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 2014, trade receivables factored to banks aggregated to HK$541,399,000 (2013: HK$659,821,000), 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		COMPANY	
	2014	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments and deposits	32,483	27,021	–	–
Other receivables	150,546	170,117	6,206	–
Prepaid land lease payments (note 15)	694	692	–	–
Due from companies controlled by TCL Corporation (note)	3,720	1,058	–	–
	187,443	198,888	6,206	–

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

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

21. OTHER INVESTMENT

	GROUP	
	2014	2013
	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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2014 HK$'000	2013 HK$'000
Assets		
Forward currency contracts	840	14,077
Liabilities		
Forward currency contracts	8,011	6,782
Interest rate swaps	–	1,170
	8,011	7,952

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 loss of HK$2,333,000 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 2014 (2013: net unrealised gain of HK$5,162,000).

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 CASH EQUIVALENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**938,303**	410,460	**485**	–

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

Included in the Group's cash and bank balances were deposits of HK$391,834,000 (2013: HK$88,511,000) 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% (2013: 0.39% to 1.27%) per annum, being the savings rates offered by the People's Bank of China. Further details of the interest income attributable to the deposits with the subsidiary of TCL Corporation are set out in note 32 to the financial statements.

24. TRADE PAYABLES

	Group	
	2014	2013
	HK$'000	HK$'000
Due to third parties	**1,063,420**	899,237
Due to companies controlled by TCL Corporation	**24,139**	59,569
	1,087,559	958,806

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

	Group	
	2014	2013
	HK$'000	HK$'000
Current to 90 days	**1,036,144**	940,531
91 to 180 days	**35,023**	4,718
181 to 365 days	**2,334**	12,714
Over 365 days	**14,058**	843
	1,087,559	958,806

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

25. OTHER PAYABLES AND ACCRUALS

	Group 2014 HK$'000	Group 2013 HK$'000	Company 2014 HK$'000	Company 2013 HK$'000
Other payables (note (a))	147,709	127,432	–	–
Accruals	422,734	418,063	560	–
Receipts in advance	18,029	42,812	–	–
Due to companies controlled by TCL Corporation (note(b))	43,296	30,874	–	–
	631,768	619,181	560	–

Notes:

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

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

26. PROVISIONS

PRODUCT WARRANTIES

	Group 2014 HK$'000	Group 2013 HK$'000
At 1 January	180,947	164,199
Additional provision	83,826	36,593
Amount utilised during the year	(27,645)	(21,223)
Reversal of unutilised amounts	(37,162)	(3,840)
Liquidation of a subsidiary	(3,002)	–
Exchange realignment	(425)	5,218
At 31 December	196,539	180,947

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.

27. DEFERRED TAX

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

GROUP

DEFERRED TAX LIABILITIES

	Note	Depreciation allowance excess of related depreciation HK$'000	Fair value adjustment arising from acquisition of a subsidiary HK$'000	Withholding tax for dividend HK$'000	Total HK$'000
Gross deferred tax liabilities at January 2013		–	406	2,859	3,265
Deferred tax charged/(credited) to profit or loss during the year	10	–	(406)	1,317	911
Gross deferred tax liabilities at 31 December 2013 and 1 January 2014		–	–	4,176	4,176
Deferred tax charged/(credited) to profit or loss during the year	10	128	–	(1,649)	(1,521)
Gross deferred tax liabilities at 31 December 2014		128	–	2,527	2,655

NOTES TO FINANCIAL STATEMENTS

31 December 2014

27. DEFERRED TAX (CONTINUED)

GROUP

DEFERRED TAX ASSETS

	Note	**Deferred income** HK$'000	**Accruals and other provisions** HK$'000	**Total** HK$'000
Gross deferred tax assets at 1 January 2013		–	68,164	68,164
Deferred tax credited to profit or loss during the year	10	–	2,492	2,492
Exchange realignment		–	2,170	2,170
Gross deferred tax assets at 31 December 2013 and 1 January 2014		–	72,826	72,826
Deferred tax credited to profit or loss during the year	10	1,577	6,039	7,616
Exchange realignment		7	(202)	(195)
Gross deferred tax assets at 31 December 2014		1,584	78,663	80,247

The Group has tax losses of HK$2,761,000 (2013: HK$1,137,000) 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.

28. SHARE CAPITAL

SHARES

	Company 2014 HK$'000	Company 2013 HK$'000
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
248,968,066 (2013:133,316,234) ordinary shares of HK$1.00 each	**248,968**	133,316

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

	Notes	Number of shares in issue with par value of HK$1	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 8 February 2013 (date of incorporation)		–	–	–	–
Deemed distribution to TCL Multimedia		133,316,234	133,316	–	133,316
At 31 December 2013 and 1 January 2014		133,316,234	133,316	–	133,316
Issue of consideration shares	(a)	32,662,477	32,663	160,046	192,709
Issue of right shares	(b)	82,989,355	82,989	340,256	423,245
Share issue expenses	(b)	–	–	(1,993)	(1,993)
At 31 December 2014		248,968,066	248,968	498,309	747,277

NOTES TO FINANCIAL STATEMENTS

31 December 2014

28. SHARE CAPITAL (CONTINUED)

SHARES (CONTINUED)

Notes:

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

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

SHARE OPTIONS

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

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

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

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

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

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

	2014	
	Weighted average exercise price per share HK$	Number of options '000
At 1 January	–	–
Granted during the year	6.02	14,454
At 31 December	6.02	14,454

NOTES TO FINANCIAL STATEMENTS

31 December 2014

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

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

2014

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

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

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

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

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

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

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

28. SHARE CAPITAL (CONTINUED)

SHARE OPTIONS (CONTINUED)

At the end of the reporting period, the Company had 14,454,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 14,454,000 additional ordinary shares of the Company and additional share capital of HK$14,454,000 and share premium account of HK$72,559,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 14,454,000 share options outstanding under the Scheme, which represented approximately 5.8% of the Company's shares in issue as at that date.

RESTRICTED SHARE AWARD SCHEME

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
31 December 2014

28. SHARE CAPITAL (CONTINUED)

RESTRICTED SHARE AWARD SCHEME (CONTINUED)

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

	2014 Number of Awarded Shares '000
At 1 January	–
Purchased during the year (note)	656
At 31 December	656

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

29. 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) Share option reserve

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

(ii) Reserve funds

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

29. RESERVES (CONTINUED)

(A) GROUP (CONTINUED)

(iii) 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 Technology Holdings Limited ("TCL Multimedia").

(iv) Merger reserve

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

(v) Hedging reserve

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

29. RESERVES (CONTINUED)

(B) COMPANY

	Notes	Share premium account HK$'000	Share option reserve* HK$'000	Retained earnings HK$'000	Share held for the Award Scheme HK$'000	Total HK$'000
At 8 February 2013 (date of incorporation)		–	–	–	–	–
Profit for the year and total comprehensive income for the period		–	–	33,600	–	33,600
At 31 December 2013 and 1 January 2014		–	–	33,600	–	33,600
Profit for the year and total comprehensive income for the year		–	–	(1,228)	–	(1,228)
Rights Issue	28	340,256	–	–	–	340,256
Share issue expenses	28	(1,993)	–	–	–	(1,993)
Acquisition of non-controlling interests	33(a)	160,046	–	–	–	160,046
Equity-settled share option arrangement		–	5,739	–	–	5,739
Purchase of shares for the Award Scheme	28	–	–	–	(3,794)	(3,794)
Final 2013 dividend declared		–	–	(31,729)	–	(31,729)
At 31 December 2014		498,309	5,739	643	(3,794)	500,897

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

30. OPERATING LEASE ARRANGEMENTS

AS LESSEE

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

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

	GROUP	
	2014	2013
	HK$'000	HK$'000
Within one year	**4,301**	1,748
In the second to fifth years, inclusive	**1,400**	346
	5,701	2,094

31. COMMITMENTS

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

	GROUP	
	2014	2013
	HK$'000	HK$'000
Contracted, but not provided for buildings:	**34,027**	95,518

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

NOTES TO FINANCIAL STATEMENTS
31 December 2014

32. RELATED PARTY TRANSACTIONS

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

	Notes	2014 HK$'000	2013 HK$'000
The companies controlled by TCL Corporation:			
Sales of raw materials	(i)	136,276	174,666
Sales of finished goods	(ii)	63,262	77,669
Purchases of raw materials	(iii)	140,256	189,438
Rental expense	(iv)	7,436	13,984
Reimbursement of general brand advertising costs	(v)	–	7,115
Interest income	(vi)	1,563	5,427
Other finance service fee	(vii)	372	342
Management fee expense	(viii)	–	1,254
Call centre services fee	(ix)	55	66
Construction service fee expense	(x)	–	4,638
Subcontracting fee expense	(xi)	51,503	36,368
Technology support services and trade name licence fee	(xii)	7,908	3,215

Notes:

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

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

(iii) The purchases of raw materials 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.

(vi) The interest was charged at rates ranging from 0.39% to 1.27% (2013: 0.39% to 1.27%) per annum, which were determined with reference to the savings rates offered by the People's Bank of China.

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

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

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

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

(xii) The technology support services and trade name licence fee was charged at rate of 0.15% of Group's turnover for the period from the Listing Date to the year ended 31 December 2014.

(b) Other transactions with related parties:

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.

Except for item (a)(vi), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2014

(a) Acquisition of non-controlling interests

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

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

YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(b) Liquidation of a subsidiary

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

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

YEAR ENDED 31 DECEMBER 2013

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.

34. 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.

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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

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.

NOTES TO FINANCIAL STATEMENTS
31 December 2014

34. 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
2014		
If Hong Kong dollar weakens against United States dollar	5	14,613
If Renminbi weakens against United States dollar	5	(33,179)
If Hong Kong dollar strengthens against United States dollar	(5)	(14,613)
If Renminbi strengthens against United States dollar	(5)	33,179
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)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK

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

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

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

	As at 31 December	
	2014	2013
	%	%
Due from the Group's largest external customer	7.2	21.4
Due from the Group's five largest external customers	31.2	77.2

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

34. 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 2014 HK$'000	2013 HK$'000
Trade payables (note 24)	**1,087,559**	958,806
Bills payable	**19,903**	220,236
Other payables (note 25)	**147,709**	127,432
Due to companies controlled by TCL Corporation (note 25)	**43,296**	30,874
	1,298,467	1,337,348

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 2014 and 2013.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT (CONTINUED)

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

	GROUP	
	2014	2013
	HK$'000	HK$'000
Interest-bearing bank borrowings	**–**	–
Less: Cash and bank balances (note 23)	**(938,303)**	(410,460)
Net cash	**(938,303)**	(410,460)
Equity attributable to owners of the parent	**1,067,467**	424,701
Gearing ratio	**–**	–

35. COMPARATIVE AMOUNTS

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 February 2015.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
TURNOVER	**5,421,007**	4,554,275	3,673,063	4,099,454	3,762,649
PROFIT BEFORE TAX	**185,945**	151,491	110,749	124,728	211,041
Income tax expense	**(24,560)**	(17,433)	(15,587)	(28,856)	(42,757)
PROFIT FOR THE YEAR	**161,385**	134,058	95,162	95,872	168,284
Attributable to:					
Owners of the parent	**149,894**	106,679	95,162	95,872	168,284
Non-controlling interests	**11,491**	27,379	–	–	–
	161,385	134,058	95,162	95,872	168,284

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,139,319**	2,624,681	3,563,611	2,886,226	2,855,644
Total liabilities	**(2,043,993)**	(2,075,454)	(3,173,257)	(2,260,408)	(2,347,526)
Non-controlling interests	**(27,859)**	(124,526)	(98,270)	–	–
	1,067,467	424,701	292,084	625,818	508,118

TONLY

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