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)

RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

FINANCIAL HIGHLIGHTS

Unaudited results for the nine months ended 30 September

	2014 **(HK$M)**	2013 (HK$M)	**Change**
Turnover	**4,012.2**	3,207.7	**+25.1%**
Gross profit	**500.7**	382.9	**+30.8%**
Operating profit	**145.1**	140.6	**+3.2%**
Profit for the period	**123.7**	110.4	**+12.0%**
Profit attributable to owners of the parent	**113.0**	88.7	**+27.4%**
Basic earnings per share *(HK cents)*	**75.33**	66.52	**+13.2%**

Highlights

For the nine months ended 30 September 2014, the Group recorded turnover of approximately HK$4,012.2 million, up by 25.1% year-on-year. Gross profit amounted to approximately HK$500.7 million, up by 30.8% year-on-year. Operating profit reached approximately HK$145.1 million, up by 3.2% year-on-year. Profit attributable to owners of the parent reached approximately HK$113.0 million, representing an increase of 27.4% year-on-year, which was mainly due to the completion of the Group's acquisition of the remaining 20% equity of its subsidiary, Tonly Electronics Limited, on 15 May 2014. The directors of the Company do not recommend the payment of any dividend for the nine months ended 30 September 2014.

The overall sales revenue of video products reached approximately HK$1,586.5 million, representing an increase of 0.4% year-on-year. The sales revenue of audio products reached approximately HK$1,495.7 million, representing an increase of 39.5% year-on-year. The sales revenue of media boxes products reached approximately HK$499.7 million, representing an increase of 3,618.1% year-on-year. The sales revenue of other products (mainly ABS-s products) reached approximately HK$430.3 million, representing a decrease of 20.5% year-on-year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2014 with comparative figures for the said period last year as follows and these condensed consolidated financial statements have not been audited, but have been reviewed by the Company's Audit Committee:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Nine months ended 30 September **2014** **(unaudited)** ***HK$'000***	2013 (unaudited) *HK$'000*	Three months ended 30 September **2014** **(unaudited)** ***HK$'000***	2013 (unaudited) *HK$'000*
TURNOVER	4	**4,012,233**	3,207,706	**1,632,637**	1,254,815
Cost of sales		**(3,511,564)**	(2,824,794)	**(1,420,780)**	(1,124,770)
Gross profit		**500,669**	382,912	**211,857**	130,045
Other revenue and gains		**68,548**	123,440	**17,037**	62,286
Selling and distribution costs		**(137,919)**	(107,785)	**(54,698)**	(39,116)
Administrative expenses		**(140,832)**	(137,535)	**(48,338)**	(62,722)
Research and development costs		**(132,649)**	(119,895)	**(65,452)**	(48,000)
Other operating expenses		**(12,742)**	(516)	**(12,399)**	(499)
		145,075	140,621	**48,007**	41,994
Finance costs	5	**(4,785)**	(13,067)	**(2,075)**	(7,160)
Share of profits or losses of an associate		**1**	7	**–**	37
PROFIT BEFORE TAX		**140,291**	127,561	**45,932**	34,871
Income tax expense	6	**(16,590)**	(17,136)	**(4,823)**	(2,185)
PROFIT FOR THE PERIOD		**123,701**	110,425	**41,109**	32,686
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Cash flow hedge:					
Effective portion of change in fair value of the hedging instrument arising during the period		**(2,428)**	–	**5,502**	–
Exchange fluctuation reserve:					
Translation of foreign operations		**(3,335)**	8,191	**797**	1,558
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(5,763)**	8,191	**6,299**	1,558
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**117,938**	118,616	**47,408**	34,244

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

		Nine months ended 30 September		Three months ended 30 September	
		2014	2013	**2014**	2013
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit attributable to:					
Owners of the parent		**112,960**	88,685	**40,505**	26,603
Non-controlling interests		**10,741**	21,740	**604**	6,083
		123,701	110,425	**41,109**	32,686
Total comprehensive income attributable to:					
Owners of the parent		**108,229**	94,785	**46,761**	27,759
Non-controlling interests		**9,709**	23,831	**647**	6,485
		117,938	118,616	**47,408**	34,244
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic and diluted		**HK75.33 cents**	HK66.52 cents		

Details of the dividends are disclosed in note 8.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**454,946**	393,215
Prepaid land lease payments	**38,870**	39,727
Investment in an associate	**–**	406
Deferred tax assets	**72,256**	72,826
Total non-current assets	**566,072**	506,174
CURRENT ASSETS		
Inventories	**586,697**	459,758
Trade receivables	**1,207,488**	875,274
Bills receivable	**7,313**	21,955
Prepayments, deposits and other receivables	**193,760**	198,888
Other investment	**–**	135,991
Tax recoverable	**428**	2,104
Derivative financial instruments	**1,388**	14,077
Cash and cash equivalents	**378,246**	410,460
Total current assets	**2,375,320**	2,118,507
CURRENT LIABILITIES		
Trade payables	**1,439,572**	958,806
Bills payable	**14,975**	220,236
Other payables and accruals	**595,492**	619,181
Tax payable	**88,037**	84,156
Derivative financial instruments	**4,826**	7,952
Provisions	**156,876**	180,947
Total current liabilities	**2,299,778**	2,071,278
NET CURRENT ASSETS	**75,542**	47,229
TOTAL ASSETS LESS CURRENT LIABILITIES	**641,614**	553,403

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**30 September 2014 (unaudited)** ***HK$'000***	31 December 2013 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**641,614**	553,403
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**6,178**	4,176
Net assets		**635,436**	549,227
EQUITY			
Equity attributable to owners of the parent			
Issued capital	10	**165,979**	133,316
Reserves		**442,479**	291,385
		608,458	424,701
Non-controlling interests		**26,978**	124,526
Total equity		**635,436**	549,227

Notes:

1. **BASIS OF PREPARATION**

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

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

2. **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

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

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) – Int 21	*Levies*

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

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 9	*Financial Instruments* [4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39* [4]
HKFRS 11 Amendments	Amendments to HKFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* [2]
HKFRS 14	*Regulatory Deferral Accounts* [2]
HKFRS 15	*Revenue from Contracts with Customers* [3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* [1]
HKAS 16 and HKAS 38 *Amendments*	Amendments to HKAS 16 Property, *Plant and Equipment and* HKAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation* [2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014 [1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014 [1]

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 No mandatory effective date yet determined but is available for adoption

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

In addition, the new Hong Kong Companies Ordinance (Chapter 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.

4. OPERATING SEGMENT INFORMATION

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

5. FINANCE COSTS

	Nine months ended 30 September	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans	**235**	7,823
Factored trade receivables	**4,550**	5,244
Total	**4,785**	13,067

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 September 2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Nine months ended 30 September	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**7,518**	7,908
Current – Elsewhere	**7,070**	8,569
Deferred	**2,002**	659
Total tax charge for the period	**16,590**	17,136

7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$24,845,000 (nine months ended 30 September 2013: HK$14,202,000) was charged to condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK$548,000 (nine months ended 30 September 2013: HK$365,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's prepaid land lease payments.

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2014 (nine months ended 30 September 2013: Nil).

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

The calculation of the basic earnings per share for the nine months ended 30 September 2014 is based on the profit attributable to owners of the Company of HK$112,960,000 divided by weighted average of outstanding shares in issue of 149,946,597 during the period. The calculation of the basic earnings per share for the nine months ended 30 September 2013 is based on the profit attributable to owners of the Company of HK$88,685,000 and on the assumption that 133,316,234 shares, comprising an aggregate of 133,109,811 and 206,423 issued ordinary shares of the Company on 10 July 2013 and 7 August 2013, respectively, have been in issue throughout the period.

No adjustment has been made to the basic earnings per share amounts presented for the nine months ended 30 September 2014 and 2013 as the Company had no potentially dilutive ordinary share in issue during those periods.

10. SHARE CAPITAL

COMPANY

	30 September 2014 (unaudited) ***HK$'000***	31 December 2013 (audited) *HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
165,978,711 (31 December 2013: 133,316,234) ordinary share of HK$1.00 each	**165,979**	133,316

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

On 10 July 2013, written resolution of the sole shareholder of the Company was passed pursuant to which (a) the authorised share capital of the Company was increased from US$50,000 to the aggregate of (1) US$50,000 and (2) HK$500,000,000 by creation of 500,000,000 ordinary shares of HK$1 each; and (b) the allotment of 133,109,811 ordinary shares of HK$1 each to TCL Multimedia in exchange for 99 shares in Tonly International Limited, a then subsidiary of TCL Multimedia, pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

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

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

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

On 15 May 2014, 32,662,477 ordinary shares of HK$1 each were issued by the Company to non-controlling shareholders as a consideration for the acquisition of the remaining 20% equity interests of a subsidiary of the Group.

INDUSTRY OVERVIEW

The global economy has been recovering slowly in the third quarter of 2014. Despite the improving employment environment and industrial production, uncertainties still linger. Although the quantitative easing policy of the United States was coming to an end while the interest-rate rise cycle is going to take place hereafter, unemployment and deflation is still hindering the recovery of the European economy. Meanwhile, economic growth in China decelerate gradually as the country takes its restructuring to institutional level. Appreciation of the Renminbi and persistent escalation of labour costs also take toll on corporate revenues and profitability. Under the prevailing operating environment, the Group continues to adopt a cautious and optimistic approach to challenges in the market place.

Based on the data from market researches and the management's understanding of the industry, the Group expected steady growth to be seen in the markets for audio products and media boxes that are associated with wireless network connectivity and smart mobile telecommunication devices. The transformation and upgrade of the audio-visual equipment industry will accelerate. The Group will actively implement its strategy of "transformation and entrepreneurship" to cope with changes in the markets, and will seek to raise the production efficiency, expand its customer base while shifting the focus of its business from conventional video disc players to a diversified product portfolio comprising media boxes and audio products.

BUSINESS REVIEW

The Group is a global leading vertically integrated manufacturer of audio-visual products, 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, the Group was the world's largest video product manufacturer and fourth largest home theater system ("HTS") manufacturer based on production volume for the first half of 2014.

For the nine months ended 30 September 2014, the Group recorded a turnover of approximately HK$4,012.2 million, up by 25.1% year-on-year. The Group has began its research, development and production of new types of products since the third quarter of 2013, a move called for higher labor cost and additional floor space. It also relocated its production facilities to its current production plant last year and experienced a decline in operational efficiency. However, with the hardwork of the management and the staffs, the operational efficiency has restored to a satisfactory level. For the third quarter of 2014, gross profit grew by 30.8% year-on-year to approximately HK$500.7 million. Gross profit margin widened to 12.5% from 11.9% for the corresponding period of 2013. Operating profit rose by 3.2% year-on-year to approximately HK$145.1 million. Profit attributable to the shareholders of the Company for the period under review grew by 27.4% year-on-year to approximately HK$113.0 million. Net profit margin was 3.1%.

Product Sales

The Group's products are classified into four categories: (i) video disc players which include digital versatile disc ("DVD") players and blue-ray disc ("BD") players, (ii) audio products which include 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 Satellite ("ABS-s") products, components and research and product development. During the period under review, revenue from the Group's video disc player business increased by 0.4% year-on-year to approximately HK$1,586.5 million; revenue from the audio product business grew by 39.5% year on year to approximately HK$1,495.7 million; revenue from its media box business surged by 3,618.1% year-on-year to approximately HK$499.7 million; and revenue from its other businesses decreased by 20.5% year-on-year to approximately HK$430.3 million. The revenues from the businesses of video disc players, audio products, media boxes and other businesses accounted for 39.5%, 37.3%, 12.5% and 10.7%, respectively, of the Group's turnover.

The Group's revenue breakdown by products:

	For nine months ended 30 September 2014 (unaudited) ***(HK$'000)***	For nine months ended 30 September 2013 (unaudited) *(HK$'000)*	**Change**
Video disc players [1]	**1,586,546**	1,581,008	**+0.4%**
Audio products			
– Traditional audio products [2]	**819,513**	765,555	**+7.0%**
– New audio products [3]	**676,150**	306,750	**+120.4%**
Subtotal	**1,495,663**	1,072,305	**+39.5%**
Media boxes [4]	**499,747**	13,441	**+3,618.1%**
Other businesses			
– ABS-s products	**255,831**	439,940	**–41.8%**
– Components	**118,906**	63,701	**+86.7%**
– Research & Development	**55,540**	37,311	**+48.9%**
Subtotal	**430,277**	540,952	**–20.5%**
Total	**4,012,233**	3,207,706	**+25.1%**

(1) Mainly DVD players and BD players

(2) Mainly HTS and Micro & Mini speakers

(3) Mainly wireless speakers, soundbars and audio docks

(4) Mainly OTT (provision of over-the-top internet services and contents)

Video Product Business

Although the conventional DVD player market was affected by shrinking demand in general, the decline in the Group's video disc player sales was much slower than the industry average, thereby helped expand market shares of its products. This is attributable to the gradual withdrawal of selected competitors, the Company's close accommodation with the important clients' marketing and product strategies, and its ability to fully leverage the technologies that it has built up over the years and its advantages in production, supply chain and customer relations. The Group was able to maintain its competitiveness. Revenue from the business segment grew by 0.4% year-on-year to approximately HK$1,586.5 million for the first nine months of 2014.

Audio Product Business

For the first nine months of 2014, the audio product business grew further and had become the Group's most important business segment. The increasing popularity of the Internet and wireless technologies has created a bright prospect for new types of audio products that serve as peripherals of smartphones and television sets. To cope with the market trend, the Group has always been strengthening research efforts in the audio and electroacoustic fields and developing innovative audio products. It has also been enhancing its overall product design capability and production effectiveness. During the period under review, sales of the Group's audio products were satisfactory, with revenue growing by 39.5% to approximately HK$1,495.7 million from approximately HK$1,072.3 for the first nine months of 2014. In particular, sales of new types of audio products surged by 120.4% year-on-year to approximately HK$676.2 million.

The Media Box Business

To capitalize on the development of Internet technologies, the Group teamed up with domestic and foreign Internet and telecommunication companies to jointly develop the media box business with the aim of enriching and expanding its product portfolio. Revenue from the business segment surged by 3,618.1% year-on-year to approximately HK$499.7 million for the first nine months of 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 and enhance its relationships with the clients. The Group expects that the media box business will become an important component of its businesses.

Other Businesses

Since some of the provincial government postponed or suspended their tenders of ABS-s in 2014, sales of the Group's ABS-s products for the first nine months of 2014 declined by 41.8% year-on-year to approximately HK$255.8 million.

Meanwhile, having satisfied its internal needs for plastic components in production, the Group also sold the surplus to external parties to generate additional income. Furthermore, the Group was also actively engaged in research and development of eletroacoustics and developed high quality drivers and speakers in-house to enhance its vertical integration capabilities. The moves have improved the competitiveness of its audio products.

In addition, most of the Group's clients are leading international consumer electronics brands and have stringent requirements for product quality and specifications. The Group meets their needs by providing research and design services on electronics, structures and application softwares, leveraging its advantage in product research and development. The move has earned the Group acclaim from the clients and has helped generate more income, which in turn supports ongoing investment in research and development to help maintain the Group's competitiveness.

Production and Supply Chain Management

Although the Group has seen its new plant officially commenced production in July 2013, in order to meet its future business needs and further improve its production efficiency, the Group has identified a suitable land parcel and is planning to build new plant facilities to expand the production capacity.

The Group is gradually improving its labor structure and successfully retaining more skillful staff, the per capita productivity improved significantly in the period under review. It also started to adopt more automation in its production in the first quarter and has commenced tests on automation in response to the tightening labor supply in China. As the orders placed for innovative products usually feature better varieties and are in smaller batches, the Group is gradually adopting a single-worker cellular manufacturing model to lower man-hour counts during non-operating hours of the plant for higher efficiency. The actual production capacity of our production base in Huizhou has gradually stabilized at designed production capacity level. Production efficiency has recovered to a reasonable industry level since May this year. Through benchmarking technology within industry, the Group optimized manufacturability and technology of products for higher efficiency and quality; and continued improvement of worker performance via know-how.

R&D and product innovation

In order to accommodate product transformations and changing consumer preferences, the Group attaches great importance to product innovation and design, and invests substantially in research and development. For the nine months ended 30 September 2014, R&D expenses were approximately HK$171.0 million, about 4.3% of the Group's total revenue. The Group's R&D expenses as a percentage of turnover was much higher than the industry average. Its R&D team comprised more than 600 staff, who worked in the Group's R&D bases in Huizhou, Shenzhen and Xi'an. They 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. Meanwhile, the Group has established a core electroacoustic design team that comprises a number of experienced foreign experts. It will continue to recruit accomplished design experts for the team to support its business development and product transformation, with increased efforts in developing OTT products.

FUTURE PLANS AND OUTLOOK

Looking ahead to the fourth quarter of 2014, global economy is set to continue its moderate recovery and businesses' operational efficiency will be improving, but uncertainties remain. Nevertheless, the appreciation of Renminbi and rising labour cost will constrain corporate revenues and profitability. To cope with the challenges from any unforeseen changes in the economy, the Group will continue to strengthen its capabilities of designing products and researching and developing core technologies. It will also leverage its innovation capability to launch new types of products that meet the market's needs, and create new growth drivers by expanding its product portfolio. Furthermore, the Group will reinforce its relationships with existing clients by expanding the scope of cooperation with them, and at the same time will continue to prospect for new clients.

The Group has already shifted its business focus to the new type of audio products which are compatible with the Internet and smart devices. Furthermore, the Group is building up its innovation capability in electroacoustics and related new technologies to enhance its core competitiveness in audio products. 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. The Group will also leverage its overseas supply chain to mitigate the pressure of rising costs in China and enhance its capacity for delivering orders. Moreover, the Group will focus on R&D of new products, new technologies, new production techniques and new materials with an emphasis on efficiency. It will also enhance its technology and capabilities to design intelligent ancillary products. In particular, it will put more effort into strengthening its capacity for developing drivers and speakers and will step up research in electroacoustic system.

The management team and staffs have worked hard together to enable the Group to successfully resolve its efficiency issues that had arose since the third quarter of last year. The Group has been on the right track to restore its profitability to the normal level. Looking ahead, the Group will seek to breakthrough bottlenecks in its business growth by actively expanding production capacity and increasing production efficiency. It will also speed up the development of its media box business by enhancing its cooperation with domestic and foreign Internet and telecommunication companies. Meanwhile, the Group will attempt to enter other new businesses, expand its existing businesses and enlarge its income source through both organic or acquisitions expansion. In addition, the Group will strengthen its integrated production capabilities, especially those of developing electroacoustic technologies for the high-end products. This will improve the Group's 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 Tonly Electronics Limited 20% of the entire issued share capital ("Sale Shares"); and (ii) the Company will allot and issue of 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 30 September 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, bills receivable, cash, short-term deposits and other investment. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balance of the Group as at 30 September 2014 amounted to approximately HK$378,246,000 of which 1.58% was maintained in Hong Kong dollars, 83.50% in US dollars, 14.89% in Renminbi and 0.03% in Euro.

There was no material change in available credit facilities when compared with the year ended 31 December 2013 and there was no asset held under finance lease as at 30 September 2014.

As at 30 September 2014, the Group's gearing ratio was 0% since the Group had cash and bank balances of approximately HK$378,246,000 and without interest-bearing bank borrowings.

On 29 September 2014, the Company announced to raise not less than approximately HK$423,245,710, 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, which is fully underwritten by the Company's controlling shareholder, T.C.L. Industries Holdings (H.K.) Limited, has not completed at the date of announcement, details of which are set out in the Company's announcement dated 29 September 2014.

Pledge of Assets

There was no pledge of assets by the Group as at 30 September 2014.

Capital Commitments and Contingent Liabilities

As at 30 September 2014, the Group had capital commitments of approximately HK$65,051,000 (31 December 2013: HK$95,936,000) and Nil (31 December 2013: Nil) which were contracted but not provided for and authorised but not contracted for, respectively. The Group did not have any material contingent liabilities as at 30 September 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 a total of 4,564 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of shareholders, share options for subscribing a total of 12,975,000 shares were granted to employees under the Company's share option schemes on 30 September 2014.

PURCHASES, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or reduced any of the Company's securities during the period from the date of Listing to 30 September 2014.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the nine months ended 30 September 2014, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation from the Code Provisions A.6.7 and F.1.1. The reasons for the deviation from the Code Provisions F.1.1 remain the same as those set out in the Company's 2013 annual report.

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

Due to other pre-arranged business commitments which must be attended to by them, Mr. LEONG Yue Wing being non-executive director of the Company, and Mr. LI Qi and Mr. YOUNG Shiao Ming, both of whom being independent non-executive director, were not present at the annual general meeting and extraordinary general meeting of the Company held on 17 April 2014.

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

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2014, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises three members, namely Mr. Poon Chiu Kwok (Chairman), Mr. Li Qi and Mr. Young Shiao Ming, all being independent non-executive directors of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Group has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Specific enquires have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period from the date of Listing to 30 September 2014.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 22 October 2014

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