TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1249

RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS
Unaudited results for the six months ended 30 June

	2013	2012	**Change**
	(HK$M)	*(HK$M)*	
Turnover	**1,921**	1,649	**+16.5%**
Gross profit	**243**	162	**+50.0%**
Operating profit	**99**	57	**+73.7%**
Profit attributable to owners of the parent	**62**	48	**+29.2%**
Basic earnings per share *(HK cents)*	**46.57**	36.27	**+28.4%**

HIGHLIGHTS

For the six months ended 30 June 2013, the Group recorded turnover of approximately HK$1,921 million, up by 16.5% year-on-year. Gross profit amounted to approximately HK$243 million, up by 50.0% year-on-year. Operating profit reached approximately HK$99 million, up by 73.7% year-on-year. Profit attributable to owners of the parent reached approximately HK$62 million, representing an increase of 29.2% year-on-year. The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2013.

The overall sales revenue of video products reached HK$938 million, representing a decrease of 18.7% year-on-year. The sales revenue of audio products reached HK$548 million, representing an increase of 95.1% year-on-year. The sales revenue of other products (mainly ABS-s products) reached HK$435 million, representing an increase of 103.4% year-on-year.

On 15 August 2013, shares of the Company were successfully listed on the Main Board of the Stock Exchange following a spin-off of the Company from TCL Multimedia, its then holding company.

The Board of Directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited combined results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2013 with comparative figures for the previous period as follows:

CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June		Three months ended 30 June	
		2013	2012	**2013**	2012
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	4	**1,921,267**	1,648,962	**1,026,618**	845,444
Cost of sales		**(1,677,915)**	(1,487,345)	**(886,608)**	(759,486)
Gross profit		**243,352**	161,617	**140,010**	85,958
Other revenue and gains		**92,778**	68,177	**35,273**	19,907
Selling and distribution costs		**(68,669)**	(63,591)	**(31,817)**	(39,015)
Administrative expenses		**(74,813)**	(43,197)	**(35,790)**	(18,023)
Research and development costs		**(94,004)**	(66,086)	**(51,518)**	(35,286)
Other operating expenses		**(17)**	(15)	**370**	(15)
		98,627	56,905	**56,528**	13,526
Finance costs	5	**(5,907)**	(712)	**(3,774)**	(187)
Share of profits or losses of an associate		**(30)**	(60)	**8**	28
PROFIT BEFORE TAX		**92,690**	56,133	**52,762**	13,367
Income tax expense	6	**(14,951)**	(7,778)	**(9,575)**	1,560
PROFIT FOR THE PERIOD		**77,739**	48,355	**43,187**	14,927
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange fluctuation reserve: Translation of foreign operations		**6,633**	(2,758)	**5,507**	(3,036)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**6,633**	(2,758)	**5,507**	(3,036)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**84,372**	45,597	**48,694**	11,891

	Note	Six months ended 30 June **2013** **(unaudited)** ***HK$'000***	2012 (unaudited) *HK$'000*	Three months ended 30 June **2013** **(unaudited)** ***HK$'000***	2012 (unaudited) *HK$'000*
Profit attributable to:					
Owners of the parent		**62,082**	48,355	**34,415**	14,927
Non-controlling interests		**15,657**	–	**8,772**	–
		77,739	48,355	**43,187**	14,927
Total comprehensive income attributable to:					
Owners of the parent		**67,026**	45,597	**38,525**	11,891
Non-controlling interests		**17,346**	–	**10,169**	–
		84,372	45,597	**48,694**	11,891
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic and diluted		**HK46.57 cents**	HK36.27 cents		

Details of the dividends are disclosed in note 8.

CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2013 (unaudited) *HK$'000***	31 December 2012 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**295,473**	146,176
Prepaid land lease payments		**38,205**	16,105
Investment in an associate		**363**	387
Deferred tax assets		**69,627**	68,164
Total non-current assets		**403,668**	230,832
CURRENT ASSETS			
Inventories		**356,846**	344,649
Trade receivables	10	**841,658**	825,218
Bills receivable		**22,748**	21,239
Prepayments, deposits and other receivables		**207,055**	290,082
Other investment		**134,252**	–
Tax recoverable		**1,386**	967
Derivative financial instruments		**29,584**	35,651
Pledged deposits		**485,193**	817,684
Cash and cash equivalents		**964,518**	997,289
Total current assets		**3,043,240**	3,332,779
CURRENT LIABILITIES			
Trade payables	11	**908,648**	798,917
Bills payable		**513,715**	766,041
Other payables and accruals		**1,134,727**	1,228,819
Interest-bearing bank borrowings	12	**106,271**	106,197
Tax payable		**89,810**	93,942
Derivative financial instruments		**18,225**	11,877
Provisions		**174,775**	164,199
Total current liabilities		**2,946,171**	3,169,992
NET CURRENT ASSETS		**97,069**	162,787
TOTAL ASSETS LESS CURRENT LIABILITIES		**500,737**	393,619

	Note	**30 June 2013 (unaudited)** *HK$'000*	31 December 2012 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**500,737**	393,619
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,582**	3,265
Net assets		**496,155**	390,354
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	**–**	–
Reserves		**376,253**	292,084
		376,253	292,084
Non-controlling interests		**119,902**	98,270
Total equity		**496,155**	390,354

Notes:

1. REORGANISATION AND BASIS OF PRESENTATION

The Company is an exempted company with limited liability 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.

The Group is principally involved in the manufacture and sale of audio-visual products.

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group subsequent to the end of the reporting period on 10 July 2013. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 August 2013 (the "Listing"). Details of the Reorganisation are set out in the section headed "Reorganisation" to the listing document of the Company dated 17 July 2013 (the "Listing Document").

The companies now comprising the Group were under the common control of the controlling shareholder before and after the Reorganisation. Accordingly, these unaudited interim condensed combined financial statements have been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the reporting period.

The condensed combined statements of comprehensive income, condensed combined statements of changes in equity and condensed combined statements of cash flows of the Group for the six months ended 30 June 2012 and 2013 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The condensed combined statements of financial position of the Group as at 31 December 2012 and 30 June 2013 have been prepared to present the assets and liabilities of the subsidiaries and/or business using the existing book values from the controlling shareholder's perspective.

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

No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

2. BASIS OF PREPARATION

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

The accounting policies and the basis of preparation adopted in the preparation of these condensed combined financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which also include HKASs and Interpretations) issued by the HKICPA, 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 3.1 below.

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

3.1 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 combined financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below, the adoption of these new and revised HKFRSs has had no significant financial effect on these condensed combined financial statements and there have been no significant changes to the accounting policies applied in these condensed combined financial statements.

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral arrangements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The amendment does not result in additional disclosures to the Group.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The amendment does not have any impact on the reported results or financial position of the Group.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The amendment does not have any impact on the reported results or financial position of the Group.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The amendment does not have any impact on the reported results or financial position of the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosure of defined benefit plans. The amendment does not have any impact on the reported results or financial position of the Group.

The *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have a significant financial impact on the Group. Those amendments that have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassification, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distribution to equity holders.

3.2 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 combined financial statements.

HKFRS 9	*Financial Instruments*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HK (IFRIC) – Int 21	*Levies*[1]

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

2 Effective for annual periods beginning on or after 1 January 2015

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

4. 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

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans	**2,434**	–
Factored trade receivables	**3,473**	712
Total	**5,907**	712

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**1,275**	2,315
Current – Elsewhere	**12,360**	4,492
Deferred	**1,316**	971
Total tax charge for the period	**14,951**	7,778

7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$9,747,000 (30 June 2012: HK$5,663,000) was charged to the condensed combined statement of comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK$208,000 (30 June 2012: HK$168,000) was charged to the condensed combined statement of 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 six months ended 30 June 2013 (30 June 2012: Nil).

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

The calculation of the basic earnings per share for the six months ended 30 June 2013 is based on the profit attributable to owners of the Company of HK$62,082,000 (six months ended 30 June 2012: HK$48,355,000), and on the assumption that 133,316,234 (six months ended 30 June 2012: 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 six months ended 30 June 2013 and 2012 as the Company had no potentially dilutive ordinary share in issue during those periods.

10. TRADE RECEIVABLES

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

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

An aged analysis of the trade receivables that are not considered to be impaired as at the end of the reporting period is as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
	HK$'000	*HK$'000*
Neither past due nor impaired	**816,057**	798,978
Less than 90 days past due	**16,897**	24,026
90 to 180 days past due	**–**	76
Over 180 days past due	**8,704**	2,138
	841,658	825,218

11. TRADE PAYABLES

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

	30 June 2013 (unaudited)	31 December 2012 (audited)
	HK$'000	*HK$'000*
Current to 90 days	**871,556**	774,473
91 to 180 days	**22,955**	23,728
181 to 365 days	**13,434**	105
Over 365 days	**703**	611
	908,648	798,917

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

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2013 (unaudited) *HK$'000*	31 December 2012 (audited) *HK$'000*
Current		
Bank loan – secured	**106,271**	106,197

Notes:

(a) As at 31 December 2012 and 30 June 2013, the carrying amounts of the Group's bank borrowings approximated to their fair values.

(b) As at 30 June 2013, the Group's bank loans were secured by certain of the Group's time deposits amounting to HK$108,412,000 (31 December 2012: HK$106,486,000).

13. SHARE CAPITAL

Company

	As at 30 June 2013 *HK$'000*
Issued and fully paid:	
1 ordinary share of US$1 each	–

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 its then shareholder.

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 Technology Holdings Limited ("TCL Multimedia") as a result of the Reorganisation.

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

On 7 August 2013, 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 on the close of business on the 7 August 2013 (the "Distribution Record Date"), such number being the difference between one tenth of TCL Multimedia shares in issue on the Distribution Record Date and 133,109,811.

14. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in this announcement, on 10 July 2013, the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out to the section headed "Reorganisation" to the Listing Document of the Company.

On 15 August 2013, 133,316,234 ordinary shares of HK$1 each of the Company in issue were distributed in specie by TCL Multimedia to its qualifying shareholders (shareholders at the Distribution Record Date) in proportion of one share of the Company for every whole multiple of ten TCL Multimedia shares held by them.

The Company's shares were successfully listed on the Stock Exchange on 15 August 2013.

INDUSTRY OVERVIEW

Uncertainties surrounding the global economy continued to linger during the first half of 2013. Notwithstanding quantitative easing measures implemented by various countries to stimulate their economies, the global economic landscape remained complex. These, coupled with the structural transformation of China's (the "PRC") economy, clouded the country's growth prospects, dampened sentiments in both the capital markets and consumer market. The Group has adopted a prudent yet optimistic approach to numerous upcoming challenges.

According to the market research report by Euromonitor, the proportion of video product sales in the global retail sales of consumer electronics decreased from approximately 31.5% in 2010 to approximately 29.5% in 2011, and is expected to decrease further to approximately 23.4% in 2015. The proportion of audio product sales increased from approximately 68.5% in 2010 to approximately 70.5% in 2011, and is expected to increase further to approximately 76.6% in 2015. The statistics indicated that market demand for traditional video products, including DVD players and Blu-ray ("BD") players, gradually slowed down. In contrast, due to increasing consumer demand for high-quality audio products, especially the demand driven by the rising popularity of smart TVs, wireless network and intelligent mobile telecommunications, the markets for traditional and new audio products such as home theater system ("HTS"), media boxes, Micro & Mini speakers ("Micro & Mini"), wireless speakers, soundbars and dockings have been growing consistently. As a result, the audio-visual ("AV") product market is being transformed. To adapt to the changes in the market, the Group has proactively implemented a strategic transformation by shifting its focus from video business to audio business with advanced technologies and potential for rapid growth when it was fostering growth drivers.

BUSINESS REVIEW

The Group is the world's leading vertically-integrated manufacturing services provider in the AV product industry, and is principally engaged in research and development ("R&D"), manufacturing and sale of premium AV Products for internationally-renowned brands on an original design manufacturing ("ODM") basis. According to a market research report by Euromonitor, the Group was the largest video product manufacturer and the third largest HTS and soundbars manufacturer in the PRC in terms of production volume in 2012. The Group has been separately listed on the Main Board of the Stock Exchange since 15 August 2013.

During the six months ended 30 June 2013, the Group recorded a turnover of approximately HK$1,921.3 million, up by 16.5% year on year. The Group proactively accommodates to changes in development of the industry and caters to needs for market development by shifting its focus from traditional DVD players and BD players to a diversified product portfolio which comprises media boxes, audio products and Advanced Broadcasting System-Satellite receivers ("ABS-s"). With vertical integration of production, economies of scale, production cost control and optimisation of product mix, the Group significantly improved the gross profit and gross profit margin and consistently maintained them at healthy levels. Gross profit amounted to approximately HK$243.4 million, up by 50.0% year on year. Gross profit margin was maintained at a healthy level of approximately 12.7%, up by 2.9 percentage points year-on-year.

Operating profit rose by 73.7% year-on-year to approximately HK$98.6 million. Net profit for the period was approximately HK$77.7 million, up by 60.8% year-on-year. Net profit margin was 4.0%. Basic earnings per share were HK46.57 cents for the first half of 2013.

Product Sales

The Group's products generally fall into three categories, namely (i) video products, mainly video disc players, including DVD players and BD players, and media boxes; (ii) audio products, which are mainly HTS, Micro & Mini, wireless speakers, soundbars and dockings; and (iii) other products, which are mainly ABS-s and components.

During the period under review, revenue from the Group's video product decreased by 18.7% year-on-year to HK$938.4 million; revenue from the audio product business grew by 95.1% year on year to HK$548.1 million; revenue from the business of other products increased by 103.4% year-on-year to HK$434.8 million. Revenues from the three business segments of video products, audio products and other products accounted for 48.9%, 28.5% and 22.6% respectively of the Group's turnover.

The sales of the Group by products are set forth as follows:

	2013 1H (*HK$'000*)	2012 1H (*HK$'000*)	**Change**
AV products			
– video disc players[(1)]	**929,300**	1,148,520	**–19.1%**
– media boxes	**9,095**	5,659	**+60.7%**
Subtotal	**938,395**	1,154,179	**–18.7%**
Audio Products			
– traditional audio products[(2)]	**373,841**	264,040	**+41.6%**
– new audio products[(3)]	**174,267**	16,948	**+928.2%**
Subtotal	**548,108**	280,988	**+95.1%**
Other products			
– ABS-s product components	**372,972**	198,891	**+87.5%**
– Components	**61,792**	14,904	**+314.6%**
Subtotal	**434,764**	213,795	**+103.4%**
Total	**1,921,267**	1,648,962	**+16.5%**

(1) Mainly DVD players and BD players

(2) Mainly HTS and Micro & Mini

(3) Mainly wireless speakers, soundbars and dockings

Video Product Business

The Group is one of the most competitive and leading video player manufacturers in China and in the world, with video disc players as one of the major businesses. Although the shrinking market for traditional DVD players resulted in a year-on-year 18.7% decrease in the Group's video product sales to HK$938.4 million, the Group mitigated the impact by adapting proactively to changes in the industry. For instance, it expands market shares of its products by accommodating to the important clients' market approach and products strategies and by leveraging our advantages in costs and supply chain. The Group envisages that the BD player market will be growing consistently as high definition TVs and 3D technologies are gaining in popularity and evolving. The Group will continue to improve product designs and enhance supply chain management in order to achieve economies of scale and reduce production costs. Meanwhile, it will ramp up its capacity for developing stronger software so that it will be able to enrich and expand its video product portfolio with an emphasis on the internet streaming media-based video products. This will enhance the user experience.

Audio Product Business

During the period under review, the audio product business segment achieved satisfactory sales performance. Sales of traditional audio products, which include HTS and Micro & Mini continued to grow fast. Meanwhile, breakthroughs were achieved in product development and sales of new audio products, which include wireless speakers, soundbars and dockings. Sales of audio products increased by 95.1% year-on-year to HK$548.1 million for the first half of this year, compared with the HK$281.0 million for the first half of last year. In particular, sales of new audio products rose by 928.2% year-on-year to HK$174.3 million. The development of internet-enabled and wireless technologies, smart TVs and intelligent mobile devices such as smart phones and tablets has revolutionised the audio products and generated tremendous market potential. The Group stepped up its effort in research and development of new audio products with an aim to capitalise on the market opportunities. In the period under review, the Group developed more than 14 new audio product series which comprised 77 new products. The Group believes that audio products, especially the new audio products with innovative applications and huge market potential, will become one of the key growth drivers in the future given the ongoing development of wireless technologies, smart TVs and intelligent mobile devices.

Other Businesses

The Group is one of the major suppliers and manufacturers of satellite-used receivers in the PRC, and is among the few companies that are licensed to carry out this business in the PRC. The Group has been authorised to engage in the production of ABS-s products with the market coverage of the products spanned 18 provinces and/or autonomous regions in the country. During the period under review, the business segment generated HK$373.0 million in turnover, up by 87.5% year on year. According to "The Outline of Cultural Reform and Development during the 12th Five-year Plan" in China, the signal coverage of those satellite-used receivers will extend to some 200 million users in remote or rural areas that have yet to be covered by cable televisions in the country. The Group believes that ABS-s products have tremendous potential for development and will become one of its key growth engines in the future.

Through an acquisition of a controlling equity interest in Guangdong Regency Optics-Electron Corporation in December 2012, the Group has achieved vertical integration in production of plastic and structural components. The move strengthened its production capacity and enhanced its cost efficiency. Meanwhile, the Group sold surplus structural components to the external parties to generate additional income. Furthermore, the Group also developed drivers and speakers in-house to enhance its products' competitiveness.

Production and Supply Chain Management

The Group has been proactively implementing vertical integration of its production. It adopts flexible production methods, extends the coverage of its supply chain to overseas markets and has established a quality assurance system pursuant to international standards to control its product quality, production process and costs. The Group's vertically integrated production has enabled it to offer a wide range of services covering product design, design and manufacturing of components and parts, and product assembly.

The Group's production facilities for AV products most are located in Huizhou, Guangdong Province, the PRC. The production facilities are in compliance with a quality assurance system that matches international standards and have been accredited under five systems of international management standards and quality management.

In order to meet its needs in future business development and to further improve its production efficiency, the Group had begun constructing the new factory from 2011. The new factory officially commenced production in July 2013. It's designed annual production capacity is expected to reach approximately 17 million. The Group envisages that as the new plant commences commercial operation, it will be able to meet the growing demand for audio products with its enhanced production capacity and production efficiency.

R&D and product innovation

The Group emphasises product innovation and invests substantially in research and development. As of 30 June 2013, the Group's R&D team comprised more than 500 members, who worked in R&D bases in Huizhou, Shenzhen and Xi'an. They are mainly engaged in developing customised products, adaptation of new products, planning and preliminary development of new technologies and software development. Meanwhile, the Group has formed a core electro-acoustic design team which comprises a number of well experienced foreign experts. It will hire more such experienced experts for the team to support its business development and product transformation. During the period under review, R&D expenses were approximately 4.9% of the Group's turnover. The Group raised the proportion of R&D expenses in turnover in order to enhance its capacity for product development and its overall competitiveness.

The Group has established an R&D management system based on the concept of integrated product development that meets customers' requirements, thereby enhancing its ability to actively and closely cooperate with its customers and to develop products that meet specific requirements within a relatively short period of time. In the first half of 2013, the Group completed 24 fundamental research projects, and developed 52 product series which comprised 164 products. The newly developed products include 14 new audio product series which comprised 77 new products.

In order to meet customers' requirements in the rapidly changing consumer electronics market, we plan to innovate audio products such as wireless speakers of the latest market trend based insights into consumer preferences survey and technological pre-research. The move will enable the Group to provide higher value-added ODM solutions.

Future Plans and Outlook

Although the United States is planning a withdrawal of its quantitative easing policies, the economic outlook for Europe, the PRC and other regions are still a concern. Signs of a global economic recovery are yet to be seen. In the circumstances, the Group will continue to transform its business and speed up product launches according to the trends of the economy, industry and popularisation of wireless and mobile communication. It will take advantage of its strong capacity for research and development to launch new products that meet the market's needs.

The popularisation of smart TVs, smartphones and tablet PCs is gaining momentum. Meanwhile, audio products are major accessories for smartphones and other communication devices for information and entertainment. To capture opportunities in the trend, the Group has been shifting its business focus from traditional video disc players to the audio products, especially the new audio products for smart TVs and smartphones. Furthermore, the Group will continue its deep cooperation with internationally renowned brands and focus on the key clients. It will build up its capacity for innovation in electro-acoustic technologies with an aim to achieve more in its audio product business. Meanwhile, in order to maintain its deep and strategic cooperation with its clients, the Group will retain video product business as one of its major operations. We believe that, as smart TVs, internet enabled multimedia and network technologies are evolving rapidly, there will still be certain demand for video products. We shall use our advantage in vertical integration and automated production facilities to produce a diverse range of products and thus maintain our competitiveness.

The Group will continue to step up its efforts in the research and development of new products and new technologies and new production techniques, with particular emphasis on efficiency. It will also enhance its technology and capabilities of designing intelligent ancillary products. Meanwhile, the Group will put more efforts in strengthening its capacity for developing drivers and speakers and research in electro-acoustic technologies. It will also step up effort in developing intelligent ancillary products and new audio products with a view to enriching its product portfolio. It will also continue to solidify its strategic co-operations with international brands and major clients in an attempt to enhancing its leading position in the global audio-visual product market, and meanwhile, leverage on vertically-integrated operations, aiming at maximising value for all the customers and shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 30 June 2013, nor other material acquisitions and disposals 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 June 2013 amounted to HK$964,518,000 of which 0.17% was maintained in Hong Kong dollars, 60.63% in US dollars, 39.19% in Renminbi and 0.01% in Euro.

There was no material change in available credit facilities when compared with the year ended 31 December 2012 and there was no asset held under finance lease as at 30 June 2013.

As at 30 June 2013, the Group's gearing ratio was 0% since the Group's total pledged deposits and cash and bank balances of HK$1,449,711,000 were higher than the total interest-bearing bank borrowings of HK$106,271,000. The maturity profile of the borrowings was due within one year.

Pledge of Assets

As at 30 June 2013, saved as disclosed in note 12, time deposits of the Group amounting to HK$108,412,000 were pledged as securities for the Group's bank loans amounting to HK$106,271,000. In additions, the remaining time deposits of the Group of HK$376,781,000 and other investment amounting to HK$134,252,000 were pledged as securities for the Group's bills payable amounting to HK$510,890,000.

Capital Commitments and Contingent Liabilities

As at 30 June 2013, the Group had capital commitments of approximately HK$60,719,000 (31 December 2012: HK$91,936,000) and HK$75,393,000 (31 December 2012: HK$169,844,000) which were contracted but not provided for and authorised but not contracted for, respectively. The Group has provided a joint guarantee for a term loan facility of US$120,000,000 (equivalent to HK$930,840,000 and HK$930,192,000 as at 30 June 2013 and 31 December 2012 respectively) in favor of TCL Multimedia, which was utilised to the extent of HK$494,785,000 and HK$555,529,000 as at 30 June 2013 and 31 December 2012 respectively.

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 4,967 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.

PURCHASES, SALES OR REDEMPTION OF SHARES

The shares of the Company were not listed on the Stock Exchange as at 30 June 2013 and neither the Company nor any of its subsidiaries had purchased, sold or reduced any of the Company's securities during the period from 8 February 2013 (date of incorporation) to 30 June 2013.

CORPORATE GOVERNANCE

As the Company's shares were not yet listed on the Stock Exchange as at 30 June 2013, the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") was not applicable to the Company for the period under review. The Company has adopted the Code as its corporate governance code of practices on 12 July 2013 and has complied with the code provisions of the Code since the listing of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's condensed combined financial statements for the six months ended 30 June 2013, including the accounting principles adopted by the Group, with the Company's management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

As the Company's shares were not yet listed on the Stock Exchange as at 30 June 2013, the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules was not applicable to the Company for the period under review. The Company has adopted a model code of conduct regarding securities transactions by the directors of the Company on terms no less exacting than the required standard as set out in the Model Code on 12 July 2013.

On behalf of the Board
YUAN, Bing
Chairman

Hong Kong, 15 August 2013

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.