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: 1249)

RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

FINANCIAL HIGHLIGHTS
Unaudited results for the nine months ended 30 September

	2013 *(HK$M)*	2012 *(HK$M)*	**Change**
Turnover	**3,170**	2,711	**+16.9%**
Gross profit	**372**	295	**+26.1%**
Operating profit	**141**	106	**+33.0%**
Profit for the period	**110**	86	**+27.9%**
Profit attributable to owners of the parent	**89**	86	**+3.5%**
Basic earnings per share *(HK cents)*	**66.52**	64.51	**+3.1%**

Highlights

For the nine months ended 30 September 2013, the Group recorded turnover of approximately HK$3,170.4 million, up by 16.9% year-on-year. Gross profit amounted to approximately HK$371.6 million, up by 25.8% year-on-year. Operating profit reached approximately HK$140.6 million, up by 32.4% year-on-year. Profit attributable to owners of the parent reached approximately HK$88.7 million, representing an increase of 3.1% year-on-year. The directors of the Company do not recommend the payment of any dividend for the nine months ended 30 September 2013.

The overall sales revenue of video products reached HK$1,592.3 million, representing a decrease of 15.0% year-on-year. The sales revenue of audio products reached HK$1,072.3 million, representing an increase of 95.5% year-on-year. The sales revenue of other products (mainly ABS-s products) reached HK$505.8 million, representing an increase of 74.1% 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 consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2013 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Nine months ended 30 September		**Three months ended 30 September**	
		2013	2012	**2013**	2012
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	4	**3,170,395**	2,711,191	**1,249,128**	1,062,229
Cost of sales		**(2,798,750)**	(2,415,736)	**(1,120,835)**	(928,391)
Gross profit		**371,645**	295,455	**128,293**	133,838
Other revenue and gains		**160,751**	93,216	**67,973**	25,039
Selling and distribution costs		**(107,785)**	(95,342)	**(39,116)**	(31,751)
Administrative expenses		**(137,535)**	(75,747)	**(62,722)**	(32,550)
Research and development costs		**(145,939)**	(111,261)	**(51,935)**	(45,175)
Other operating expenses		**(516)**	(20)	**(499)**	(5)
		140,621	106,301	**41,994**	49,396
Finance costs	5	**(13,067)**	(3,517)	**(7,160)**	(2,805)
Share of profits or losses of an associate		**7**	(83)	**37**	(23)
PROFIT BEFORE TAX		**127,561**	102,701	**34,871**	46,568
Income tax expense	6	**(17,136)**	(16,698)	**(2,185)**	(8,920)
PROFIT FOR THE PERIOD		**110,425**	86,003	**32,686**	37,648
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange fluctuation reserve: Translation of foreign operations		**8,191**	(4,610)	**1,558**	(1,852)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**8,191**	(4,610)	**1,558**	(1,852)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**118,616**	81,393	**34,244**	35,796

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	Nine months ended 30 September		Three months ended 30 September	
		2013	2012	**2013**	2012
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit attributable to:					
Owners of the parent		**88,685**	86,003	**26,603**	37,648
Non-controlling interests		**21,740**	–	**6,083**	–
		110,425	86,003	**32,686**	37,648
Total comprehensive income attributable to:					
Owners of the parent		**94,785**	81,393	**27,759**	35,796
Non-controlling interests		**23,831**	–	**6,485**	–
		118,616	81,393	**34,244**	35,796
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic and diluted		**HK66.52 cents**	HK64.51 cents		

Details of the dividends are disclosed in note 8.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 September 2013 (unaudited) *HK$'000***	31 December 2012 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**349,463**	146,176
Prepaid land lease payments		**38,227**	16,105
Investment in an associate		**403**	387
Deferred tax assets		**69,720**	68,164
Total non-current assets		**457,813**	230,832
CURRENT ASSETS			
Inventories		**557,168**	344,649
Trade receivables		**956,854**	825,218
Bills receivable		**9,802**	21,239
Prepayments, deposits and other receivables		**186,969**	290,082
Other investment		**134,876**	–
Tax recoverable		**877**	967
Derivative financial instruments		**15,104**	35,651
Pledged deposits		**108,917**	817,684
Cash and cash equivalents		**456,722**	997,289
Total current assets		**2,427,289**	3,332,779
CURRENT LIABILITIES			
Trade payables		**1,244,212**	798,917
Bills payable		**134,982**	766,041
Other payables and accruals		**590,491**	1,228,819
Interest-bearing bank borrowings	10	**106,234**	106,197
Tax payable		**85,758**	93,942
Derivative financial instruments		**7,247**	11,877
Provisions		**181,711**	164,199
Total current liabilities		**2,350,635**	3,169,992
NET CURRENT ASSETS		**76,654**	162,787
TOTAL ASSETS LESS CURRENT LIABILITIES		**534,467**	393,619

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**30 September 2013 (unaudited)** *HK$'000*	31 December 2012 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**534,467**	393,619
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,924**	3,265
Net assets		**530,543**	390,354
EQUITY			
Equity attributable to owners of the parent			
Issued capital	11	**133,316**	–
Reserves		**270,812**	292,084
		404,128	292,084
Non-controlling interests		**126,415**	98,270
Total equity		**530,543**	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 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 condensed consolidated financial statements have been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the reporting period.

The condensed consolidated statements of comprehensive income, condensed consolidated statements of changes in equity and condensed consolidated statements of cash flows of the Group for the nine months ended 30 September 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 consolidated statements of financial position of the Group as at 31 December 2012 and 30 September 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

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 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated 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 consolidated 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

	Nine months ended 30 September	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans	**7,823**	120
Factored trade receivables	**5,244**	3,397
Total	**13,067**	3,517

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 September 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.

	Nine months ended 30 September	
	2013	2012
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**7,908**	2,865
Current – Elsewhere	**8,569**	11,471
Deferred	**659**	2,362
Total tax charge for the period	**17,136**	16,698

7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$14,202,000 (30 September 2012: HK$5,663,000) was charged to the condensed consolidated statement of comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK$365,000 (30 September 2012: HK$252,000) was charged to the condensed consolidated 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 nine months ended 30 September 2013 (30 September 2012: 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 2013 is based on the profit attributable to owners of the Company of HK$88,685,000 (nine months ended 30 September 2012: HK$86,003,000), and on the assumption that 133,316,234 (nine months ended 30 September 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 nine months ended 30 September 2013 and 2012 as the Company had no potentially dilutive ordinary share in issue during those periods.

10. INTEREST-BEARING BANK BORROWINGS

	30 September 2013 (unaudited) *HK$'000*	31 December 2012 (audited) *HK$'000*
Current		
Bank loan – secured	**106,234**	106,197

Notes:

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

(b) As at 30 September 2013, the Group's bank loans were secured by certain of the Group's time deposits amounting to HK$108,913,000 (31 December 2012: HK$106,486,000).

11. SHARE CAPITAL

Company

	As at 30 September 2013 *HK$'000*
Issued and fully paid:	
133,316,234 ordinary share of HK$1 each	**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 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.

INDUSTRY OVERVIEW

According to a market research report by Euromonitor, the proportion of video product sales in the global retail sales of audio-visual products decreased to approximately 29.5% in 2011 from approximately 31.5% in 2010, and was expected to hit the low of about 23.4% in 2015. The proportion of audio product sales increased to about 70.5% in 2011 from about 68.5% in 2010, and was expected to rise to about 76.6% in 2015. The demand for traditional video disc players is gradually weakening amid the transformation of the audio-visual ("AV") product market. In contrast, the demand for high-quality audio products continues to rise. The growth is especially pronounced and consistent in the demand for such new audio products as soundbars, dockings and wireless speakers with the advent of high-definition smart TVs, wireless network and smart mobile telecommunications. To cope with the changes in the market, the Group has proactively implemented a strategic transformation by shifting its focus from traditional video product business to audio product business of advanced technologies.

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. It has been listed on the Main Board of the Hong Kong Stock Exchange since 15 August 2013.

During the nine months ended 30 September 2013 (the "Period"), the Group recorded a turnover of approximately HK$3,170.4 million, up by 16.9% year-on-year. According to a market research report by Euromonitor, the Group was the largest video product manufacturer and the third largest manufacturer of home theatre system ("HTS") and soundbars in the People's Republic of China ("PRC") in terms of production volume in 2012. To proactively adapt to the trends of the industry, the Group continued to shift its focus from the business of traditional video disc players to those of products as diverse as media boxes, audio products and Advanced Broadcasting System-Satellite receivers ("ABS-s"). The Group's gross profit rose by 25.8% year-on-year to approximately HK$371.6 million, which was attributable to the optimized product portfolio, vertically integrated production and economies of scale. Gross profit margin increased by 0.8 percentage point year-on-year to approximately 11.7%.

Operating profit rose by 32.4% year-on-year to approximately HK$140.6 million. Profit attributable to owners of the parent grew by 3.1% year-on-year to approximately HK$88.7 million. Net profit margin was 2.8%. Basic earnings per share were HK66.52 cents.

Product Sales

During the Period, revenue from the Group's video product business decreased by 15.0% year-on-year to HK$1,592.3 million; revenue from the audio product business grew by 95.5% year-on-year to HK$1,072.3 million; revenue from its business of other products increased by 74.1% year-on-year to HK$505.8 million. The revenues from the three business segments of video products, audio products and other products accounted for 50.2%, 33.8% and 16.0% respectively of the Group's turnover.

The Group's revenue breakdown by products:

	For nine months ended 30 September 2013 (unaudited) ***(HK$'000)***	For nine months ended 30 September 2012 (unaudited) *(HK$'000)*	**Change**
Video products			
– video disc player [(1)]	**1,581,008**	1,860,847	**-15.0%**
– media boxes	**11,297**	11,372	**-0.7%**
Subtotal	**1,592,305**	1,872,219	**-15.0%**
Audio products			
– traditional audio products [(2)]	**765,555**	489,583	**+56.4%**
– new audio products [(3)]	**306,750**	58,866	**+421.1%**
Subtotal	**1,072,305**	548,449	**+95.5%**
Other products			
– ABS-s products	**439,940**	262,071	**+67.9%**
– components	**65,845**	28,452	**+131.4%**
Subtotal	**505,785**	290,523	**+74.1%**
Total	**3,170,395**	2,711,191	**+16.9%**

(1) Mainly DVD players and BD players

(2) Mainly HTS and Micro & Mini

(3) Mainly wireless speakers, soundbars and dockings

Video Product Business

Although the shrinking market demand for traditional DVD players resulted in a year-on-year 15.0% decrease in the Group's video product sales to HK$1,581.0 million, the Group mitigated the impact by adapting proactively to changes in the industry. For instance, it expands the market shares of its products by accommodating to the important clients' marketing and product strategies and by leveraging its own 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 raise the efficiency of its research and development, improve its supply chain management and enhance its products' profitability, while focusing its video product business on the development of the internet streaming media-based video products, which have higher market potential.

Audio Product Business

During the Period, the audio product business segment achieved satisfactory sales performance. Sales of traditional audio products (including HTS and Micro & Mini) continued to grow rapidly. Meanwhile, breakthroughs were achieved in product development and sales of new audio products (including wireless speakers, soundbars and dockings). Sales of audio products increased by 95.5% year-on-year to HK$1,072.3 million for the first nine months of this year, compared with the HK$548.4 million for the same period of last year. In particular, sales of new audio products surged by 421.1% year-on-year to HK$306.8 million. The development of internet and wireless technologies, smart TVs and smart mobile devices has generated tremendous market potential for new audio products. The Group transforms its audio product business by stepping up its effort in research and development of new audio products. It is expected that the proportion of the audio product business in the Group's turnover will continue to increase, which will become one of the Group's major growth engines in the future.

Other Businesses

During the Period, the segment of other businesses generated HK$439.9 million in turnover, up by 67.9% year-on-year. The Group believes that ABS-s products have tremendous market potential and will become one of its key growth engines in the future.

Meanwhile, the Group has achieved vertical integration in production of plastic and structural components, strengthening its production capacity and enhancing its cost efficiency. The Group also sells surplus structural components to external parties to generate additional income. Furthermore, the Group also develops 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. In order to better control its product quality, production process and costs, the Group adopts flexible production methods, extends the coverage of its supply chain to overseas markets and has established a quality assurance system in accordance with international standards. The Group's vertically integrated production has enabled it to offer a wide range of services including product development, design and manufacturing of components and parts, and product assembly.

The Group's production facilities for AV products are mainly located in Huizhou, Guangdong Province, the PRC. Designed annual production capacity has reached approximately 17 million units with the new production plant, in which the relocation of production equipments have been completed in September 2013. Their utilization rate is 102% at present, and is expected to increase along with production output and efficiency to meet the growing demand for audio products.

R&D And Product Innovation

The Group attaches great importance to product innovation and the ability to adapt to industrial trends, and thus invests substantially in research and development. As of 30 September 2013, the Group's research and development team comprised more than 600 members, who worked in research and development bases in Huizhou, Shenzhen and Xi'an. They are mainly engaged in developing customized products, adaptation of new products, planning and preliminary development of new technologies and software development. The research and development team supported the Group's business development and product transformation. During the Period, research and development expenses were approximately 4.6% of the Group's turnover, which was higher than industry average. The Group raised the proportion of research and development expenses in turnover in order to enhance its capacity for product development and thus its overall competitiveness.

The Group has established a research and development 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 nine months of 2013, the Group completed 41 fundamental research projects, and developed 86 product series which comprised 328 products. The newly developed products included 34 new audio product series which comprised 195 new products.

In order to meet customers' requirements in the rapidly changing consumer electronics market, the Group will drive product innovation based on the latest market trend by obtaining insights into consumers' preferences through surveys and carrying out technological pre-research. The move will enable the Group to provide higher value-added ODM (original design manufacturing) solutions.

FUTURE PLANS AND OUTLOOK

The global economy remains uncertain with recent mixed developments. China has shown signs of an upswing in economic growth while Japan seems to have restarted its economy; nevertheless, the United States has been irresolute on scaling back its quantitative easing, and the Euro-zone's sovereign debt problem remains unsettling. Against this backdrop, the Group will press ahead with its business transformation according to the AV product industry's trend by speeding up product launches and by developing new products to cater market demand with its strong capacity for research and development. Mobile smart devices and smart TVs will probably gain traction in the markets, and the new audio products, which function as their major accessories, have huge market potential. To capitalize on the trend, the Group has been shifting its focus from the business of traditional video disc players to that of audio products, especially the new audio products which serve as accessories of smart TVs, smartphones and other mobile smart devices.

Furthermore, the Group will continue to cooperate closely with internationally renowned brands and focus on the key clients, with an aim of consolidating and expanding its market share. In order to achieve further breakthroughs in its audio product business, it will foster its capacity for technological innovation in electro-acoustics, with emphasis on the research and development of drivers and speakers. Meanwhile, the Group will retain the video product business as one of its major operations to maintain the strong strategic partnerships with its clients. The Group will leverage its advantages in vertical integration and automated production facilities to produce a diverse range of products and raise efficiency of research and development, thus maintaining its competitiveness in the industry. It will also develop its overseas supply chain to mitigate the adverse effect of the shrinking video disc player market. The Group believes that there is great potential from the ABS-s business as well as the ODM/OEM business of set top boxes for both domestic and overseas markets for further business growth. The Group will continue to pursue breakthroughs in its businesses and profitability with an aim of maximizing value for its customers and shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 30 September 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 September 2013 amounted to HK$456,712,000 of which 0.23% was maintained in Hong Kong dollars, 70.65% in US dollars, 29.09% in Renminbi and 0.03% in Euro.

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

As at 30 September 2013, the Group's gearing ratio was 0% since the Group's total pledged deposits and cash and bank balances of HK$565,639,000 were higher than the total interest-bearing bank borrowings of HK$106,234,000. The maturity profile of the borrowings was due within one year.

Pledge of Assets

As at 30 September 2013, saved as disclosed in note 10, time deposits of the Group amounting to HK$108,913,000 were pledged as securities for the Group's bank loans amounting to HK$106,234,000. In additions, the other investment amounting to HK$134,876,000 was pledged as securities for the Group's bills payable amounting to HK$134,860,000.

Capital Commitments and Contingent Liabilities

As at 30 September 2013, the Group had capital commitments of approximately HK$347,716,000 (31 December 2012: HK$91,936,000) and HK$109,808,000 (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$930,192,000 as at 31 December 2012) in favor of TCL Multimedia, which was utilised to the extent of HK$555,529,000 as at 31 December 2012. Such guarantee was released on 13 August 2013.

Foreign Exchange Exposure

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

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

Employee and Remuneration Policy

The Group had a total of 7,113 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

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 2013.

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 period from the date of Listing to 30 September 2013, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules").

AUDIT COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company 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 2013.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 23 October 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.