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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 YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS
Results for the year ended 31 December

	2013 **(HK$M)**	2012 (HK$M)	**Change**
Turnover	**4,554**	3,673	**+24.0%**
Gross profit	**492**	433	**+13.6%**
Operating profit	**161**	114	**+41.2%**
Profit attributable to owners of the parent	**107**	95	**+12.6%**
Basic earnings per share *(HK cents)*	**80.02**	71.38	**+12.1%**
Full year dividend per share *(HK cents)*			
– Paid interim dividend per share *(HK cents)*	**–**	377.0*	**N/A**
– Proposed final dividend per share *(HK cents)*	**23.8**	–	**N/A**

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

HIGHLIGHTS

For the year ended 31 December 2013, the Group recorded turnover of approximately HK$4,554 million, up by 24.0% year-on-year. Gross profit amounted to approximately HK$492 million, up by 13.6% year-on-year. Operating profit reached approximately HK$161 million, up by 41.2% year-on-year. Profit attributable to owners of the parent reached approximately HK$107 million, representing an increase of 12.6% year-on-year. The Board of Directors proposed a final dividend of HK23.8 cents per share.

The overall sales revenue of video products reached HK$2,140 million, representing a decrease of 10.6% year-on-year. The sales revenue of audio products reached HK$1,703 million, representing an increase of 95.2% year-on-year. The sales revenue of other products (mainly ABS-s products) reached HK$711 million, representing an increase of 75.0% 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 consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Twelve months ended 31 December		Three months ended 31 December	
		2013	2012	**2013**	2012
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	3	**4,554,275**	3,673,063	**1,346,569**	943,012
Cost of sales		**(4,062,080)**	(3,240,122)	**(1,237,286)**	(810,719)
Gross profit		**492,195**	432,941	**109,283**	132,293
Other income and gains, net		**117,620**	90,818	**(5,820)**	16,462
Selling and distribution costs		**(141,553)**	(141,929)	**(33,768)**	(46,587)
Administrative expenses		**(147,169)**	(125,418)	**(9,634)**	(49,671)
Research and development costs		**(160,014)**	(142,151)	**(40,119)**	(44,557)
Other operating expenses, net		**(384)**	–	**132**	20
		160,695	114,261	**20,074**	7,960
Finance costs	4	**(9,211)**	(3,514)	**3,856**	3
Share of profits of an associate		**7**	2	**–**	85
PROFIT BEFORE TAX	5	**151,491**	110,749	**23,930**	8,048
Income tax expense	6	**(17,433)**	(15,587)	**(297)**	1,111
PROFIT FOR THE YEAR/PERIOD		**134,058**	95,162	**23,633**	9,159
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		**11,642**	493	**3,451**	5,103
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**11,642**	493	**3,451**	5,103
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**145,700**	95,655	**27,084**	14,262

		Twelve months ended 31 December		Three months ended 31 December	
		2013	2012	**2013**	2012
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit attributable to:					
Owners of the parent		**106,679**	95,162	**17,994**	9,159
Non-controlling interests		**27,379**	–	**5,639**	–
		134,058	95,162	**23,633**	9,159
Total comprehensive income attributable to:					
Owners of the parent		**115,358**	95,655	**20,573**	14,262
Non-controlling interests		**30,342**	–	**6,511**	–
		145,700	95,655	**27,084**	14,262
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8				
Basic and diluted		**HK80.02 cents**	HK71.38 cents		

Details of the dividends proposed for the year are disclosed in note 7.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2013** ***HK$'000***	31 December 2012 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**393,215**	146,176
Prepaid land lease payments		**39,727**	16,105
Investment in an associate		**406**	387
Deferred tax assets		**72,826**	68,164
Total non-current assets		**506,174**	230,832
CURRENT ASSETS			
Inventories		**459,758**	344,649
Trade receivables	9	**875,274**	825,218
Bills receivable		**21,955**	21,239
Prepayments, deposits and other receivables		**198,888**	290,082
Other investment		**135,991**	–
Tax recoverable		**2,104**	967
Derivative financial instruments		**14,077**	35,651
Pledged deposits		**–**	817,684
Cash and cash equivalents		**410,460**	997,289
Total current assets		**2,118,507**	3,332,779
CURRENT LIABILITIES			
Trade payables	10	**958,806**	798,917
Bills payable		**220,236**	766,041
Other payables and accruals		**619,181**	1,228,819
Interest-bearing bank borrowings	11	**–**	106,197
Tax payable		**84,156**	93,942
Derivative financial instruments		**7,952**	11,877
Provisions		**180,947**	164,199
Total current liabilities		**2,071,278**	3,169,992
NET CURRENT ASSETS		**47,229**	162,787
TOTAL ASSETS LESS CURRENT LIABILITIES		**553,403**	393,619

	Note	**31 December 2013** **HK$'000**	31 December 2012 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**553,403**	393,619
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,176**	3,265
Net assets		**549,227**	390,354
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	**133,316**	–
Reserves		**291,385**	292,084
		424,701	292,084
Non-controlling interests		**124,526**	98,270
Total equity		**549,227**	390,354

Notes:

1. BASIS OF PRESENTATION

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Stock Exchange of Hong Kong Limited ("the Reorganisation"), the Company became the holding company of the companies now comprising the Group. Since the companies now comprising the Group were under the common control of the controlling shareholder both before and after the Reorganisation, these financial statements have been prepared using the principles of merger accounting.

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

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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements for the years ended 31 December 2013 and 2012.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. As explained above, the acquisition of subsidiaries under common control has been accounted for using the principles of merger accounting.

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

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

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

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

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

2. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

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

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] No mandatory effective date yet determined but is available for adoption

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

4. FINANCE COSTS

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

5. PROFIT BEFORE TAX

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

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

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

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

6. INCOME TAX

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

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

7. DIVIDENDS

	2013	2012
	HK$'000	*HK$'000*
Interim dividend		
– Nil (2012: HK377.0 cents) per ordinary share	**–**	502,564
Proposed final dividend		
– HK23.8 cents (2012: nil) per ordinary share	**31,729**	–
	31,729	502,564

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

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

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

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

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

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

9. TRADE RECEIVABLES

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

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

Sales to third party customers

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

Sales to related parties

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

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

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

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

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Certain subsidiaries of the Group have entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 31 December 2013, trade receivables factored to banks aggregated to HK$659,821,000 (2012: HK$451,574,000), and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

10. TRADE PAYABLES

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

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

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

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

11. INTEREST-BEARING BANK BORROWINGS

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

Notes:

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

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

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

12. SHARE CAPITAL

Shares

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

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

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

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

Notes:

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

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

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

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

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

INDUSTRY OVERVIEW

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

According to a market research report by Euromonitor, it is expected that global sales of video disc player products will fall about 6.7% in 2014 and further to about 6.2% in 2015. On the contrary, home theater, soundbars and other audio products will be an increase of approximately 6.9% in 2040. It is expected a further rise to about 6.0 percent in 2015. In light of the market research data and the management's understanding of the industry, it is expected that DVD players, Blu-ray disc players and other traditional video player products will gradually slow down. However, smart TVs, wireless networks and intelligent mobile communications and consumer demand driven by the pursuit of high quality audio products, home theatre, sound bar and other audio products will continue to raise steadily, audio-visual ("AV") products market is entering a transition phase. In order to respond to the changes in market demand, the Group will actively implement strategic transformation, and gradually shift the focus to streaming media players, audio products and live satellite diversified product portfolio from conventional disc player.

BUSINESS REVIEW

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

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

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

Product Sales

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

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

The Group's revenue breakdown by products:

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

(1) Mainly DVD players and BD players

(2) Mainly HTS and Micro & Mini

(3) Mainly wireless speakers, soundbars and dockings

Video Product Business

The Group's video disc player manufacturing business was affected by the shrinking demand for conventional DVD players, with its revenue down by 10.6% to HK$2,139.6 million. Nevertheless, as a leading and competitive video disc player manufacturer in both China and the world, the Group coped with the changes in the industry by accommodating to the important clients' marketing and product strategies, and by giving its advantages in technology, production and supply chain full play. It also mitigated the impact of the shrinking video disc player market by expanding its market share. Meanwhile, it saw opportunities in the popularization and development of high definition television and three-dimensional technology which led to steady development of the BD player market. The Group will continue to enhance its software development capability, improve its product designs, raise the efficiency of its R&D, and shift the business segment's focus to the media boxes. All these measures will enrich and broaden the video product range, and will prolong the products' life cycle, thus enhancing their competitiveness.

Audio Product Business

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

Other Businesses

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

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

Production and Supply Chain Management

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

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

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

The Group attaches great importance to product innovation and thus invests substantially in R&D. As of 31 December 2013, the Group's R&D team comprised more than 600 staff, who worked in R&D bases in Huizhou, Shenzhen and Xi'an. They are mainly engaged in developing customized products, adaptation of new products, and development of fundamental technologies. Meanwhile, the Group formed a core electro-acoustic design team which comprised a number of well experienced foreign experts. It will hire more such experienced experts for the team to support its business development and product transformation. During the year, R&D expenses were approximately 3.5% of the Group's turnover, which was higher than industry average in order to enhance its capacity for product development and its overall competitiveness. In 2013, the Group completed 51 fundamental research projects, and developed 110 product series which comprised 421 products.

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

Future Plans and Outlook

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

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

On the other hand, a solid customer base will remain the centre stage of the Group. Commitment the building of three capabilities (global operational capability, industry capability and technical capability) building, in terms of global operations, the Group will develop new customers while providing clients with worldwide competitive products and services, and carry out the layout of the global supply chain; in terms of technical capabilities, it will enhance the electro-acoustic related technical capabilities, structure and basic technical capabilities of new types of audio products, as well as Bluetooth and WIFI based wireless technology capabilities; in terms of the industrial capacity, strengthening the vertical integration of related devices, through industrial automation, to enhance the ability of the industrial base in order to establish the Group's leading position in the global market of AV products. All these measures aim at maximizing value for all the customers and shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

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

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 December 2013 amounted to HK$410,460,000 of which 2.63% was maintained in Hong Kong dollars, 68.14% in US dollars, 29.2% in Renminbi, 0.03% in Euro.

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

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

Pledge of Assets

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

Capital Commitments and Contingent Liabilities

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

Pending Litigation

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

Foreign Exchange Exposure

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

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

Employee and Remuneration Policy

The Group had a total of 5,493 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company.

PURCHASES, SALES OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of shares for the year ended 31 December 2013.

FINAL DIVIDEND

The Board has proposed a final dividend, for the year ended 31 December 2013, of HK23.8 cents (2012: nil) in cash per share.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 17 April 2014, Thursday, for the purposes of determining the entitlements of the shareholders to attend and vote at the annual general meeting. No transfer of the shares may be registered on that date. In order to qualify to attend and vote at the annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 16 April 2014, Wednesday.

The register of members of the Company will be closed from 25 April 2014, Friday to 29 April 2014, Tuesday (both dates inclusive), for the purpose of determining the entitlements of the shareholders of the Company to the proposed final dividend upon passing of relevant resolution. No transfer of shares may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 24 April 2014, Thursday.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 17 April 2014, Thursday. The notice of annual general meeting will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited and despatched to the shareholders of the Company in due course.

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 31 December 2013, complied with the code provisions ("Code Provisions") of 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") except the followings:

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

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

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

Due to other pre-arranged business commitments which must be attended to by each of them, Mr. YUAN Bing and Mr. LEONG Yue Wing, both of whom being non-executive directors of the Company; and Mr. LI Qi and Mr. YOUNG Shiao Ming, both of whom being independent non-executive directors of the Company, were not present at the extraordinary general meeting of the Company held on 13 December 2013. However, Mr. REN Xuenong, an executive director and the financial controller of the Company and Mr. POON Chiu Kwok, an independent non-executive director of the Company were present at the extraordinary general meeting to ensure an effective communication with the shareholders thereat.

Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs.

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

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2013, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises three members including Mr. POON Chui Kwok (Chairman), Mr. LI Qi and Mr. YOUNG Shiao Ming all being independent non-executive directors.

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 (the "Model Code"). Specific enquiries 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 Listing Date to 31 December 2013.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 21 February 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.