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 THREE MONTHS ENDED 31 MARCH 2014

FINANCIAL HIGHLIGHTS

Unaudited results for the three months ended 31 March

	2014 *(HK$M)*	2013 *(HK$M)*	**Change**
Turnover	**1,056**	916	**+15.3%**
Gross profit	**113**	110	**+2.7%**
Operating profit	**44**	42	**+4.8%**
Profit for the period	**36**	35	**+2.9%**
Profit attributable to owners of the parent	**29**	28	**+3.6%**
Basic earnings per share *(HK cents)*	**21.61**	20.75	**+4.1%**

HIGHLIGHTS

For the three months ended 31 March 2014, the Group recorded turnover of approximately HK$1,056 million, up by 15.3% year-on-year. Gross profit amounted to approximately HK$113 million, up by 2.7% year-on-year. Operating profit reached approximately HK$44 million, up by 4.8% year-on-year. Profit attributable to owners of the parent reached approximately HK$29 million, representing an increase of 3.6% year-on-year. The directors of the Company do not recommend the payment of any interim dividend for the three months ended 31 March 2014.

The overall sales revenue of video products reached approximately HK$450 million, representing an increase of 15.3% year-on-year. The sales revenue of audio products reached approximately HK$328 million, representing an increase of 47.0% year-on-year. The sales revenue of media boxes reached approximately HK$201 million, representing an increase of 3,817.5% year-on-year. The sales revenue of other products (mainly ABS-s products) reached approximately HK$77 million, representing an decrease of 74.2% year-on-year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2014 with comparative figures for the relevant period in the previous year as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 March	
		2014	2013
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	4	**1,055,786**	916,180
Cost of sales		**(942,981)**	(806,223)
Gross profit		**112,805**	109,957
Other income and gains, net		**22,077**	35,975
Selling and distribution costs		**(27,035)**	(36,852)
Administrative expenses		**(40,894)**	(39,025)
Research and development costs		**(23,123)**	(27,570)
Other operating expenses, net		**(62)**	(386)
		43,768	42,099
Finance costs	5	**(2,319)**	(2,133)
Share of losses of an associate		**(71)**	(38)
PROFIT BEFORE TAX		**41,378**	39,928
Income tax expense	6	**(5,787)**	(5,376)
PROFIT FOR THE PERIOD		**35,591**	34,552
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on: translation of foreign operations		**(3,695)**	1,127
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(3,695)**	1,127
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**31,896**	35,679

	Notes	Three months ended 31 March **2014** **(unaudited)** ***HK$'000***	2013 (unaudited) *HK$'000*
Profit attributable to:			
Owners of the parent		**28,810**	27,667
Non-controlling interests		**6,781**	6,885
		35,591	34,552
Total comprehensive income attributable to:			
Owners of the parent		**26,033**	28,502
Non-controlling interests		**5,863**	7,177
		31,896	35,679
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		**HK21.61 cents**	HK20.75 cents

Details of the dividends are disclosed in note 8.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2014 (unaudited) *HK$'000*	As at 31 December 2013 (audited) *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**426,552**	393,215
Prepaid land lease payments	**39,219**	39,727
Investment in an associate	**332**	406
Deferred tax assets	**72,210**	72,826
Total non-current assets	**538,313**	506,174
CURRENT ASSETS		
Inventories	**378,300**	459,758
Trade receivables	**923,548**	875,274
Bills receivable	**85,552**	21,955
Prepayments, deposits and other receivables	**168,474**	198,888
Other investment	**–**	135,991
Tax recoverable	**407**	2,104
Derivative financial instruments	**4,806**	14,077
Cash and cash equivalents	**341,287**	410,460
Total current assets	**1,902,374**	2,118,507
CURRENT LIABILITIES		
Trade payables	**944,358**	958,806
Bills payable	**45,233**	220,236
Other payables and accruals	**613,536**	619,181
Tax payable	**86,463**	84,156
Derivative financial instruments	**11,042**	7,952
Provisions	**161,265**	180,947
Total current liabilities	**1,861,897**	2,071,278
NET CURRENT ASSETS	**40,477**	47,229
TOTAL ASSETS LESS CURRENT LIABILITIES	**578,790**	553,403

	Note	As at 31 March 2014 (unaudited) *HK$'000*	As at 31 December 2013 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**578,790**	553,403
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,521**	4,176
Net assets		**574,269**	549,227
EQUITY			
Equity attributable to owners of the parent			
Issued capital	10	**133,316**	133,316
Reserves		**310,565**	291,385
		443,881	424,701
Non-controlling interests		**130,388**	124,526
Total equity		**574,269**	549,227

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 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.

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 periods ended 31 March 2014 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 consolidated statements of financial position of the Group as at 31 March 2014 and 31 December 2013 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.

2.1 BASIS OF PREPARATION

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2.2 below.

These condensed consolidated financial statements have been prepared under historical cost convention, except for the derivative financial instruments, which have been measured at fair value. 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 period ended 31 March 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. As explained in note 1 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 business 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 shorter 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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.

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 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 9, HKFRS 7 and HKAS 39 Amendments	Hedge Accounting and amendment to HKFRS9, HKFRS7 and HKAS39 [2]
HKAS 19 Amendments	Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contribution [1]
Annual improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014 [1]
Annual improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014 [1]

[1] Effective for annual periods beginning on or after 1 July 2014

[2] 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 other comprehensive income. 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 other comprehensive income 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.

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

	Three months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**–**	871
Interest on factored trade receivables	**2,319**	1,262
Total	**2,319**	2,133

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (31 March 2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Three months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**3,687**	610
Current – Elsewhere	**1,755**	5,527
Deferred	**345**	(761)
Total tax charge for the period	**5,787**	5,376

7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$6,201,000 (31 March 2013: HK$4,583,000) was charged to the condensed consolidated statement of comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK$173,000 (31 March 2013: HK$85,000) 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 three months ended 31 March 2014 (31 March 2013: Nil).

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

The calculation of the basic earnings per share for the three months ended 31 March 2014 is based on the profit attributable to owners of the Company of HK$28,810,000 (three months ended 31 March 2013: HK$27,667,000), and the weighted average number of ordinary shares of 133,316,234 (as at 31 March 2013: 133,316,234) in issue during 2013, as if the Reorganisation had been effective since 1 January 2013.

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the period ended 31 March 2013 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, as if the shares had been in issue throughout the period ended 31 March 2013.

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

10. SHARE CAPITAL

	As at 31 March 2014 *HK$'000*	As at 31 December 2013 *HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
133,316,234 ordinary share of HK$1.00 each	**133,316**	133,316

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

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

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.

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

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

INDUSTRY OVERVIEW

The global economy is expected to recover slightly in 2014 after it was mired in the doldrums in the past three years. With its confidence bolstered by the falling unemployment rate and rising industrial production, the Unites States' Federal Reserve has decided to gradually taper its quantitative easing this year and to start raising the prime rate next year, resulting in the appreciation of RMB again US dollar in the first quarter of 2014. This development has somehow affected the confidence of investors and consumers. Meanwhile, China's economic growth is decelerating steadily as the country's economic restructuring gets into full swing. At the microeconomic level, corporate income and profit are being constrained by the country's appreciating currency and rising labour cost. Against this backdrop, the Group will take an optimistic yet prudent approach to the challenges on the markets.

Based on the data in market researches and the management's understanding of the industry, it is expected that there will be steady growth in the markets for audio products and media boxes which function as accessories of wireless network and smart mobile telecommunication devices. The transformation and upgrade of the industry of audio and video products will accelerate. The Group will forge ahead with its strategy of "transformation and entrepreneurship" to cope with the changes in the markets, and will seek to expand its customer base while shifting the focus of its business from conventional video disc players to a diverse product portfolio that includes media boxes and audio products.

BUSINESS REVIEW

The Group is the world's leading vertically-integrated manufacturing services provider in the audio-visual ("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 was also the largest video product manufacturer and the fourth largest manufacturer of home theatre system ("HTS") in the world in terms of production volume in 2013. For the first three months ended 31 March 2014, the Group's turnover rose by 15.3% year on year to approximately HK$1,056 million. The Group began research, development and production of new products in the third quarter of 2013 which called for higher labour cost and additional floor space, and it relocated its production equipment to a new production plant during the peak season. However, its operational efficiency has since been recovering and will take some time to resume to a satisfactory level. For the first quarter of this year, gross profit grew by 2.7% year on year to approximately HK$113 million, while gross profit margin decreased to 10.7% from 12.0% in the corresponding period of 2013.

Operating profit rose by 4.8% year on year to approximately HK$44 million. Net profit grew by 2.9% year on year to approximately HK$36 million. Net profit margin was 3.4%.

Product Sales

The Group's products are classified as: (i) video disc players which include video disc players digital versatile disc ("DVD") players and blu-ray disc ("BD") players, (ii) audio products which include HTS, Micro & Mini speakers ("Micro & Mini"), wireless speakers, soundbars and audio docks, (iii) media boxes which include over-the-top devices providing Internet services and contents ("OTT") and (iv) other businesses which are mainly of Advanced Broadcasting Satellite ("ABS-s") products, components and research and development. During the period under review, revenue from the Group's video disc player business increased by 15.3% year on year to approximately HK$450 million; revenue from its audio product business grew by 47.0% year on year to approximately HK$328 million; revenue from its media box business surged by 3,817.5% year on year to approximately HK201 million; revenue from its other businesses decreased by 74.2% year on year to approximately HK$77 million. The revenue from video disc players, audio products, media boxes and other businesses accounted for 42.6%, 31.1%, 19.0% and 7.3% respectively of the Group's turnover.

The Group's revenue breakdown by products:

	For the first three months of 2014 *(HK$'000)*	For the first three months of 2013 *(HK$'000)*	**change**
Video disc players (1)	**449,592**	389,841	**+15.3%**
Audio products			
– Traditional audio products (2)	**171,419**	170,009	**+0.8%**
– New audio products (3)	**156,951**	53,409	**+193.9%**
Subtotal	**328,370**	223,418	**+47.0%**
Media boxes (4)	**201,123**	5,134	**+3,817.5%**
Other businesses			
– ABS-s products	**32,540**	247,908	**–86.9%**
– Components	**21,998**	28,348	**–22.4%**
– Research & Development	**22,163**	21,531	**+2.9%**
Subtotal	**76,701**	297,787	**–74.2%**
Total	**1,055,786**	916,180	**+15.2%**

(1) Mainly DVD players and BD players

(2) Mainly HTS and Micro & Mini speakers

(3) Mainly wireless speakers, soundbars and audio docks

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

Video Disc Player Business

Although the conventional DVD player market was affected by the shrinking approximately demand in general, the Group's video disc player sales rose by 15.3% year on year to HK$450 million for the first three months of 2014. This was because the Group accommodated to the important clients' marketing and product strategies, and gave its advantages in technology, production supply chain and customer relations full play. As a result, it was able to expand the market share of its products. It will continue to raise the efficiency of its research and development and to improve its supply chain management with an aim of increasing the gross profit margin and competitiveness of its video disc players.

Audio Product Business

In the first three months of 2014, audio product business became the Group's most important operation, marking the success in business transformation following years of efforts. The advancement of Internet and wireless technologies and the development of smart mobile devices generated huge market potential for new types of audio products. To capitalize on the market trend, the Group will maintain the competitiveness of its audio product business by stepping up research in the audio and electroacoustic fields and developing new types of audio products to meet the demand. During the period under review, it achieved satisfactory audio product sales, which saw the business segment's revenue rose by 47.0% year on year to approximately HK$328 million for the first three months of 2014, compared with approximately HK$223 million in the corresponding period of 2013. In particular, sales of new types of audio products rose by 193.9% year on year to approximately HK$157 million. The Group expects that the proportion of the audio product segment in its turnover will continue to rise.

Media Box Business

To capitalize on the development of Internet technologies, the Group teamed up with domestic and foreign Internet and telecommunications companies to jointly develop its media box business with an aim of enriching and expanding its product portfolio. The business segment's revenue surged by 3,817.5% year on year to approximately HK$201 million for the first three months of 2014 for the Group has just entered this business in the first quarter of 2014. The Group will increase the competitiveness of its products by leveraging on its advantages in research and development, enhancing its software development capabilities and improving product design. Meanwhile, it will expand the business segment's customer base and raise the efficiency of its production and operations. The Group expects that media box business will become one of its important income sources in 2014.

Other Businesses

To comply with the regulatory requirements of the relevant authorities, the orders placed for the Group's ABS-s in a tender it won in 2013 will be mainly fulfilled in the second and third quarters of 2014. As a result, its ABS-s sales for the first quarter of 2014 decreased when compared with that for the same period of 2013. Sales of the Group's ABS-s decreased by 86.9% year on year to approximately HK$33 million. The Group believes that ABS-s has huge market potential and they will become one of its growth drivers in the next several years.

Meanwhile, the Group satisfied its internal needs for plastic components in production and sold the surplus to external parties to generate additional income. Furthermore, the Group was also actively engaged in the research and development in eletroacoustics by developing high quality drivers and speakers in-house to enhance its vertical integration and hence its audio products' competitiveness.

In addition, since most of the Group's clients were leading international consumer electronics brands which had high requirements in terms of product quality and specifications, the Group leveraged on its advantages in product research and development to develop exterior design and materials for the products and to innovate on behalf of the clients. The move won the Group praises from its clients and generated income, which in turn served as further investment in its research and development and thus helped it maintain competitiveness.

Production and Supply Chain 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 was 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.

The Group is gradually improving its manpower structure, altering the workers' income structure to retain the most skillful staff for higher per capita productivity. In 2014 Q1, the plant adopted automated production and commenced relevant trials to tackle the problems of labor shortage and rising labor costs in the PRC. As orders placed for innovative products feature with variety and small batch, the Group gradually adopted cellular manufacturing mode to reduce the non-operating hours of the plant for higher efficiency. The Group optimized the plant's management relevant to the equipment system usage and maintenance, to achieve a higher efficiency and effectiveness of its fixed assets and capital expenditure. The production capacity of the base in Huizhou has reached the target. The Group is searching for the land to set up a new plant in view of its business development.

Research and Development (R&D) and product innovation

The Group attaches great importance to product innovation and thus invests substantially in research and development. As of 31 March 2014, 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 first quarter of the year, R&D expenses were approximately 3.6% of the Group's turnover, which was higher than the industry average as the Group attempted to enhance its product development capabilities and overall competitiveness.

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 consistently provide higher value-added ODM solutions.

Future Plans and Outlook

Looking ahead to the coming quarters in 2014, we expect the operating environment to improve gradually as the prospect for global economic growth becomes brighter. Nevertheless, companies' income and profitability will be constrained by the appreciating Chinese currency and rising labour cost. In response to the economic environment and changing industrial trends, the Group will transform and upgrade its businesses enterprisingly. Specifically, it will continue to enhance its capabilities of designing products and developing core technologies, and will leverage its innovation capability to launch new types of products to satisfy the market's wants and needs. It will also create growth drivers by expanding its product portfolio. Furthermore, the Group will maintain solid relationships with its clients, expand the scope of its cooperation with them, and obtain business from new clients.

The demand for smartphones and tablets has been rising on the back of the popularization of wireless connection technologies, Internet and mobile telecommunications. To cope with the changes in the market's wants and needs, the Group has already shifted its business focus to a new type of audio products which are compatible with the Internet and smart devices. Furthermore, the Group is building 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 technological trends of the industry and adopt automated production facilities to achieve product diversification and to maintain its competitiveness. It will also use its overseas supply chain to mitigate the pressure of China's rising costs and enhance its capacity for fulfilling orders. Moreover, it 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 effort into strengthening its capacity for developing drivers and speakers and will step up research in electro-acoustic system.

Furthermore, the Group will continue to maintain its solid client base and build up its global operational capability, industry capability and technical capabilities. With its global operational capability, the Group will obtain new clients, provide competitive products and services and develop a global supply chain. With its technical capability, the Group will enhance its electroacoustic technologies and develop a solid portfolio of new types of audio products as well as fundamental technologies and wireless technologies for Bluetooth and WIFI. It will also use its industry capability to strengthen the vertical integration of the businesses of related devices, and enhance its fundamental strengths in the industry through automation to reinforce its leading position in the global market for AV products. The Group hopes to expand its revenue scale rapaidly in the next few years through specialized management, organic business growth, restructuring and M&A opportunities with an aim to maximizing shareholders' value.

Financial Review

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 31 March 2014, nor other material acquisitions and disposals of subsidiaries during the period.

Liquidity and Financial Resources

The Group's principal financial instruments comprise of bills receivable, 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 March 2014 amounted to HK$341,287,000 of which 2.89% was maintained in Hong Kong dollars, 36.82% in US dollars, 60.26% in Renminbi and 0.03% in Euro.

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

As at 31 March 2014, the Group's gearing ratio was 0% since the Group's had cash balances of HK$341,287,000 and without interest-bearing bank borrowings.

Pledge of Assets

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

Capital Commitments and Contingent Liabilities

As at 31 March 2014, the Group had capital commitments of approximately HK$70,169,000 (31 December 2013: HK$95,518,000) and Nil (31 December 2013: Nil) which were contracted but not provided for and authorised but not contracted for, respectively. The Group did not have any material contingent liabilities as at 31 March 2014.

Foreign Exchange Exposure

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

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

Employee and Remuneration Policy

The Group had a total of 4,758 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 three months ended 31 March 2014.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the three months ended 31 March 2014, 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") save for the deviation from the Code Provision F.1.1. The reasons for such deviation remain the same as those stated in the Company's 2013 annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the three months ended 31 March 2014, 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 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 three months ended 31 March 2014.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 23 April 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.