TONLY

TONLY ELECTRONICS HOLDINGS LIMITED
通 力 電 子 控 股 有 限 公 司

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

RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS
Unaudited results for the six months ended 30 June

	2014	2013	**Change**
	(HK$M)	*(HK$M)*	
Turnover	**2,380**	1,953	**+21.9%**
Gross profit	**289**	253	**+14.2%**
Operating profit	**97**	99	**–2.0%**
Profit attributable to owners of the parent	**72**	62	**+16.1%**
Basic earnings per share *(HK cents)*	**51.10**	46.57	**+9.7%**

HIGHLIGHTS

For the six months ended 30 June 2014, the Group recorded turnover of approximately HK$2,380 million, up by 21.9% year-on-year. Gross profit amounted to approximately HK$289 million, up by 14.2% year-on-year. Operating profit dropped to approximately HK$97 million, down by 2.0% year-on-year. Profit attributable to owners of the parent reached approximately HK$72 million, representing an increase of 16.1% year-on-year. The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2014.

The overall sales revenue of video products reached approximately HK$954 million, representing an increase of 2.6% year-on-year. The sales revenue of audio products reached approximately HK$741 million, representing an increase of 35.3% year-on-year. The sales revenue of media boxes reached approximately HK$389 million, representing an increase of 4,102.7% year-on-year. The sales revenue of other products (mainly ABS-s products) reached approximately HK$296 million, representing a decrease of 36.7% 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 six months ended 30 June 2014 with comparative figures for the said period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June		Three months ended 30 June	
		2014	2013	**2014**	2013
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
TURNOVER	4	**2,379,596**	1,952,891	**1,323,810**	1,036,711
Cost of sales		**(2,090,784)**	(1,700,024)	**(1,147,803)**	(893,801)
Gross profit		**288,812**	252,867	**176,007**	142,910
Other revenue and gains		**51,511**	61,154	**29,434**	25,179
Selling and distribution costs		**(83,221)**	(68,669)	**(56,186)**	(31,817)
Administrative expenses		**(92,494)**	(74,813)	**(51,600)**	(35,788)
Research and development costs		**(67,197)**	(71,895)	**(44,074)**	(44,325)
Other operating expenses		**(343)**	(17)	**(281)**	369
		97,068	98,627	**53,300**	56,528
Finance costs	5	**(2,710)**	(5,907)	**(391)**	(3,774)
Share of profits or losses of an associate		**1**	(30)	**72**	8
PROFIT BEFORE TAX		**94,359**	92,690	**52,981**	52,762
Income tax expense	6	**(11,767)**	(14,951)	**(5,980)**	(9,575)
PROFIT FOR THE PERIOD		**82,592**	77,739	**47,001**	43,187
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Cash flow hedge:					
Effective portion of change in fair value of the hedging instrument arising during the period		**(7,930)**	–	**(7,930)**	–
Exchange fluctuation reserve:					
Translation of foreign operations		**(4,132)**	6,633	**(437)**	5,506
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(12,062)**	6,633	**(8,367)**	5,506
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**70,530**	84,372	**38,634**	48,693

	Notes	Six months ended 30 June **2014** **(unaudited)** ***HK$'000***	Six months ended 30 June 2013 (unaudited) *HK$'000*	Three months ended 30 June **2014** **(unaudited)** ***HK$'000***	Three months ended 30 June 2013 (unaudited) *HK$'000*
Profit attributable to:					
Owners of the parent		**72,455**	62,082	**43,645**	34,415
Non-controlling interests		**10,137**	15,657	**3,356**	8,772
		82,592	77,739	**47,001**	43,187
Total comprehensive income attributable to:					
Owners of the parent		**61,468**	67,026	**35,435**	38,524
Non-controlling interests		**9,062**	17,346	**3,199**	10,169
		70,530	84,372	**38,634**	48,693
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9				
Basic and diluted		**HK51.10 cents**	HK46.57 cents		

Details of the dividends are disclosed in note 8.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2014 (unaudited) *HK$'000***	31 December 2013 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**442,195**	393,215
Prepaid land lease payments		**39,007**	39,727
Investment in an associate		**–**	406
Deferred tax assets		**72,138**	72,826
Total non-current assets		**553,340**	506,174
CURRENT ASSETS			
Inventories		**437,250**	459,758
Trade receivables	10	**1,045,579**	875,274
Bills receivable		**15,056**	21,955
Prepayments, deposits and other receivables		**165,786**	198,888
Other investment		**–**	135,991
Tax recoverable		**351**	2,104
Derivative financial instruments		**625**	14,077
Cash and cash equivalents		**362,672**	410,460
Total current assets		**2,027,319**	2,118,507
CURRENT LIABILITIES			
Trade payables	11	**1,122,006**	958,806
Bills payable		**8,233**	220,236
Other payables and accruals		**569,465**	619,181
Interest-bearing bank borrowings	12	**38,757**	–
Tax payable		**84,662**	84,156
Derivative financial instruments		**8,554**	7,952
Provisions		**156,117**	180,947
Total current liabilities		**1,987,794**	2,071,278
NET CURRENT ASSETS		**39,525**	47,229
TOTAL ASSETS LESS CURRENT LIABILITIES		**592,865**	553,403

	Notes	30 June 2014 (unaudited) HK$'000	31 December 2013 (audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**592,865**	553,403
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,838**	4,176
Net assets		**588,027**	549,227
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	**165,979**	133,316
Reserves		**395,716**	291,385
		561,695	424,701
Non-controlling interests		**26,332**	124,526
Total equity		**588,027**	549,227

Notes:

1. BASIS OF PREPARATION

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

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

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 HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 10, HKFRS 12 and 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*

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

3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

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

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

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] No mandatory effective date yet determined but is available for adoption

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

In addition, the new Hong Kong Companies Ordinance (Chapter 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

4. OPERATING SEGMENT INFORMATION

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

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans	**–**	2,434
Factored trade receivables	**2,710**	3,473
Total	**2,710**	5,907

6. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**10,017**	1,275
Current – Elsewhere	**1,088**	12,360
Deferred	**662**	1,316
Total tax charge for the period	**11,767**	14,951

7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$14,857,000 (30 June 2013: HK$9,747,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's property, plant and equipment; and amortisation of HK$346,000 (30 June 2013: HK$208,000) was charged to the condensed consolidated statement of profit or loss and other comprehensive income in respect of the Group's prepaid land lease payments.

8. DIVIDENDS

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

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

The calculation of the basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to owners of the Company of HK$72,455,000 divided by weighted average of outstanding shares in issue of 141,797,651 during the period. The calculation of the basic earnings per share for the six months ended 30 June 2013 is based on the profit attributable to owners of the Company of HK$62,082,000 and on the assumption that 133,316,234 shares, comprising an aggregate of 133,109,811 and 206,423 issued ordinary shares of the Company on 10 July 2013 and 7 August 2013, respectively, have been in issue throughout the period.

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

10. TRADE RECEIVABLES

The majority of the Group's sales in the PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 60 to 180 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 15 to 150 days. Sales to certain long term strategic customers were also made on open-account basis with average credit terms of no more than 180 days.

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

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

	30 June 2014 (unaudited) ***HK$'000***	31 December 2013 (audited) *HK$'000*
Neither past due nor impaired	**1,031,604**	832,503
Less than 90 days past due	**404**	35,810
90 to 180 days past due	**1,224**	5,479
Over 180 days past due	**12,347**	1,482
	1,045,579	875,274

11. TRADE PAYABLES

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

	30 June 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*
Current to 90 days	**1,103,409**	940,531
91 to 180 days	**5,617**	4,718
181 to 365 days	**11,399**	12,714
Over 365 days	**1,581**	843
	1,122,006	958,806

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

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 (unaudited) *HK$'000*	31 December 2013 (audited) *HK$'000*
Current		
Bank loan – unsecured	**38,757**	–

As at 30 June 2014, the carrying amounts of the Group's bank borrowings approximated to it fair value.

13. SHARE CAPITAL

Company

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

The Company was incorporated on 8 February 2013 with an initial authorised share capital of US$50,000 divided into 50,000 shares of a par value of US$1 each. On the date of incorporation, 1 ordinary share of US$1 was allotted and issued by the Company to its then shareholder.

On 10 July 2013, written resolution of the sole shareholder of the Company was passed pursuant to which (a) the authorised share capital of the Company was increased from US$50,000 to the aggregate of (1) US$50,000 and (2) HK$500,000,000 by creation of 500,000,000 ordinary shares of HK$1 each; and (b) the allotment of 133,109,811 ordinary shares of HK$1 each to TCL Multimedia Technology Holdings Limited ("TCL Multimedia") as a result of the Reorganisation.

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

On 7 August 2013, additional 206,423 ordinary shares of HK$1 each were issued by the Company to TCL Multimedia as a result of the exercise by TCL Multimedia of an adjustment option to require the Company to issue and allot further shares to it on the close of business on the 7 August 2013 (the "Distribution Record Date"), such number being the difference between one tenth of TCL Multimedia shares in issue on the Distribution Record Date and 133,109,811.

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

14. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current periods' presentation.

INDUSTRY OVERVIEW

The global economy has been recovering slowly in 2014 with the positive influence from declining unemployment rate, raising industrial production and the rebounding real estate market. However, confidence remains vulnerable in the market and uncertainties still linger. The United States reported a 2.9% decline in its GDP for the first quarter in 2014. Risks including unemployment and deflation, etc., also hindered recovery of the European economy. Meanwhile, the growth in China is slowing down gradually as the country takes its restructuring to the institutional levels. Appreciation of the Renminbi and persistent escalation of labor costs also take toll on corporate revenues and profitability. Under the prevailing operating environment, the Group continues to adopt a cautious and optimistic approach to challenges in the marketplace.

Based on data from market researches and the management's understanding of the industry, steady growth is expected to be seen in the markets for audio products and media boxes that are associated with wireless network connectivity and smart mobile telecommunication devices. The audio-visual market will see its transformation and updating accelerate. The Group will actively implement "transformation and entrepreneurship" strategy to cope with 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 diversified product portfolio comprising media boxes and audio products.

BUSINESS REVIEW

According to the market research report by Techno System Research, for the first three months ended 31 March 2014, the Group was the world's largest video product manufacturer and fourth largest home theater system ("HTS") manufacturer respectively, and according to GICIC, the Group is the fourth largest manufacturer of soundbars in China for the first six months ended 30 June 2014. For the first six months ended 30 June 2014, the Group recorded a turnover of approximately HK$2,379.6 million, up by 21.8% year-on-year. The Group had began research, development and production of new products since the third quarter of 2013, a move that called for higher labor cost and additional floor space. It also relocated its production facilities 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 more acceptable level. For the first half of 2014, gross profit grew by 14.2% year-on-year to approximately HK$288.8 million, while gross profit margin narrowed to 12.1% from 12.9% for the corresponding period of 2013.

Operating profit declined by 1.5% year-on-year to approximately HK$97.1 million. Net profit for the period under review grew by 6.2% year-on-year to approximately HK$82.6 million.

Product Sales

The Group's products are classified into four categories: (i) video disc players which include video disc players digital versatile disc ("DVD") players and blue-ray disc ("BD") players, (ii) audio products which include HTS (without wireless technology), Micro & Mini speakers ("Micro & Mini"), wireless speakers and soundbars (with wireless technology), (iii) media boxes and (iv) other businesses which are mainly Advanced Broadcasting Satellite ("ABS-s") products, components and research and development income. During the period under review, revenue from the Group's video disc player business increased by 2.6% year-on-year to approximately HK$953.8 million, while revenue from the audio product business grew by 35.3% year-on-year to approximately HK$740.7 million; revenue from its media box business surged by 4,102.7% year-on-year to approximately HK$389.4 million. Revenue from its other businesses decreased by 36.7% year-on-year to HK$295.8 million. The revenues from video disc players, audio products, media boxes and other businesses accounted for 40.1%, 31.1%, 16.4% and 12.4%, respectively, of the Group's turnover.

The Group's revenue breakdown by products:

	For the first six months of 2014 ***(HK$'000)***	For the first six months of 2013 *(HK$'000)*	**Change**
Video disc players (1)	**953,756**	929,300	**+2.6%**
Audio products			
– Traditional audio products (2)	**391,509**	439,569	**–10.9%**
– New audio products (3)	**349,167**	107,805	**+223.9%**
Subtotal	**740,676**	547,374	**+35.3%**
Media boxes (4)	**389,381**	9,265	**+4,102.7%**
Other businesses			
– ABS-s products	**188,213**	372,972	**–49.5%**
– Components	**59,840**	62,357	**–4.0%**
– Research & Development income	**47,730**	31,623	**+50.9%**
Subtotal	**295,783**	466,952	**–36.7%**
Total	**2,379,596**	1,952,891	**+21.8%**

(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)

The Video Disc Player Business

Although the conventional DVD player market was affected by shrinking demand in general, the gradual withdrawal of selected competitors, when coupled with the Group's approach to accommodating closely the important clients' marketing and product strategies and leveraging in full its edges in technology, production, supply chain and customer relations, helped maintain its competitiveness. The decline in the Group's video disc player sales had been much slower than the market average, thereby helped expand market shares of its products. As a result, this business segment saw revenue for the first six months of 2014 grow by 2.6% year-on-year to approximately HK$953.8 million.

The Audio Product Business

For the first six months of 2014, the audio product business grew further and had become the Group's most important business segment, and its importance grows with time. With the increasing popularity and applications of the Internet, wireless and other technologies, new audio products peripheral to smartphones and televisions ("TV(s)") will continue to enjoy bright prospects in the market. The Group has always been actively strengthening research efforts in the audio and electroacoustic fields and develops new types of innovative audio products, in order to enhance the overall design capability and production effectiveness to accommodate market demand and development trends better. During the period under review, the Group achieved satisfactory sales for audio products and saw the business segment's revenue for the first six months of 2014 rose by 35.3% year-on-year to approximately HK$740.7 million, from approximately HK$547.4 million for the corresponding period of 2013. In particular, sales of new types of audio products rose by 233.9% year-on-year to approximately HK$349.2 million.

The 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 the media box business with an aim to enriching and expanding its product portfolio. The business segment's revenue for the first six months of 2014 surged by 4,102.7% year-on-year to approximately HK$389.4 million. The Group will enhance the competitiveness of its products by strengthening its software development capabilities and improving product design. Meanwhile, it will expand the customer base for this business segment and strengthen relationships with the customers. The Group expects that the media box business will become an important component of its businesses.

OTHER BUSINESSES

Since part of the government tenders of ABS-s in the first half of 2014 has been postponed to the second half of the year, as a results, sales of the Group's ABS-s products for the first six months of 2014 declined by 49.5% year-on-year to approximately HK$188.2 million.

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

In addition, since most of its clients are leading international consumer electronics brands which have stringent requirements in terms of product quality and specifications, the Group leveraged its edges in product research in development of exterior designs, materials and innovations of the products for the clients. The move won recognitions from clients and helped generate better income, which in turn supported ongoing investments in research and development and helped maintain the Group's competitiveness.

PRODUCTION AND SUPPLY CHAIN MANAGEMENT

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

The Group is gradually improving its labor structure and successfully retaining more skillful staff, the per capita productivity improved significantly in the first half of 2014. It also started to adopt more automation in its production in the first quarter and has commenced tests on automation in response to the tightening labor supply in China. As the orders placed for innovative products usually feature better varieties and are in smaller batches, the Group is gradually adopting a single-worker cellular manufacturing model to lower man-hour counts during non-operating hours of the plant for higher efficiency. The actual production capacity of our production base in Huizhou has gradually stabilized at designed production capacity level. Production efficiency has recovered to a reasonable industry level since May this year. Through benchmarking technology within industry, the Group optimized manufacturability and technology of products for higher efficiency and quality; and continued improvement of worker performance via know-how.

RESEARCH AND DEVELOPMENT (R&D) AND PRODUCT INNOVATION

In order to accommodate product transformations and changing consumer preferences, the Group attaches great importance to product innovation and design, invests substantially in research and development. For the six months ended 30 June 2014, the Group appropriated about 4.2% of its total revenue, approximately HK$100.2 million. The Group's R&D expenses as a percentage of turnover was much higher than the industry average for strengthening its R&D capability and competitiveness. Its 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 new audio, video, platforms and electroacoustic products. As at 30 June 2014, number of patents of the Group increased to 51. Meanwhile, the Group has established a core electroacoustic design team comprising a number of experienced foreign experts. It will continue to recruit senior design experts for the team to support its business development and product transformation.

FUTURE PLANS AND OUTLOOK

Looking ahead to the second half of 2014, the operating environment is set to improve considerably despite global economic recovery continues with uncertainties. Nevertheless, corporate revenues and profitability will be constrained by appreciation of the Renminbi and rising labor costs. The Group will continue to strengthen its product design and research and development capabilities of core technologies. The Group will also leverage its innovation capability to launch new types of products that meet needs in the market, and establish new growth drivers by expanding its product portfolio. Furthermore, the Group will reinforce its relationships with existing clients and expand the scopes of cooperations with them, while continuing to prospect for new clientele in order to cope with challenges brought about by unforeseen changes in the economy.

The Group has already shifted its business focus to the new type of audio products which are compatible with the Internet and smart devices. Furthermore, the Group is building up its innovation capability in electroacoustic and related new technologies in order to enhance its core competitiveness in audio products. Meanwhile, the Group will closely follow industry trends in technology development, will adopt automated production facilities to achieve production diversification and maintain its competitiveness in the industry. The Group will also leverage its overseas supply chain to mitigate the pressure of rising costs in China and enhance its capacity for fulfilling orders. Moreover, the Group will focus on R&D of new products, new technologies, new production techniques and new materials with an emphasis on efficiency. It will also enhance its technology and capabilities in 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 electroacoustic systems.

Furthermore, through efforts from the management team and cooperation from the colleagues, the Group has successfully resolved its efficiency issues in the last three quarters and has begun to bring its profitability back on track. Looking ahead, the Group will seek to get through bottlenecks on its business growth by actively expanding its production capacity and increasing its production efficiency, while promoting its media boxes business by deepening cooperation with domestic and foreign Internet and telecommunications companies. Meanwhile, the Group will attempt to tap into other fields of business by organic or acquisition expansion in order to seek further growths in its business segments and revenues. In addition, the Group will endeavor to spend more efforts in strengthening its integrated production capabilities, especially development of electroacoustic technologies which will take the Group to the high-end category, and improve the Group's profitability for the future. The Group will continue to reinforce and establish its leading position in the global audio-visual market, and all of these measures are aimed at maximizing value for the customers and shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 25 February 2014, the Company entered into a sale and purchase agreement with Run Fu Holdings Limited ("**Run Fu**") and Star Force Investment Limited ("**Star Force**") pursuant to which (i) Run Fu and Star Force agreed to sell and the Company agreed to purchase 20% of the total issued share capital of Tonly Electronics Limited (the "**Sale Shares**") and (ii) the Company would in return allot and issue a total of 32,662,477 shares to the Run Fu and Star Force as consideration for purchase of the Sale Shares. The transaction was completed on 15 May 2014.

Save as disclosed above, there were no significant investments held as at 30 June 2014 nor other material acquisitions and disposals of subsidiaries during the period under review.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, 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 30 June 2014 amounted to HK$362,672,000 of which 2.30% was maintained in Hong Kong dollars, 88.28% in US dollars, 9.38% in Renminbi and 0.04% in Euro.

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

As at 30 June 2014, the Group's gearing ratio was 0% since the Group's cash and bank balances of HK$362,672,000 were higher than the total interest-bearing bank borrowings of HK$38,757,000. The maturity profile of the borrowings was due within one year.

Pledge of Assets

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

Capital Commitments and Contingent Liabilities

As at 30 June 2014, the Group had capital commitments of approximately HK$70,767,000 (31 December 2013: HK$95,936,000) and Nil (31 December 2013: Nil) which were contracted but not provided for and authorised but not contracted for, respectively. The Group did not have any material contingent liabilities as at 30 June 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 4,390 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 redeemed any of the Company's securities during the period under review.

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 six months ended 30 June 2014, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from the Code Provisions A.6.7 and F.1.1. The reasons for the deviation from the Code Provisions F.1.1 remain the same as those set out in the Company's 2013 annual report.

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

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

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

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received a confirmation (the "Confirmation") from TCL Corporation and T.C.L. Industries (H.K.) Limited (the "Covenantors") signed by them on 14 July 2014 and 15 July 2014 respectively confirming that for the period from 1 January 2014 to 30 June 2014 and up to the respective date of signing the Confirmation by the relevant Covenantor, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 (the "Deed of Non-Competition") and, in particular, they and their respective Associates have not, directly or indirectly, carry on or be engaged or interested in the research and development, manufacturing and sales relating to AV Products (excluding TV sets), which is from time to time carried on or engaged or interested in by the Group.

The independent non-executive directors of the Company have reviewed the Confirmation and all of them are satisfied that the Deed of Non-Competition has been complied with during the period under review.

AUDIT COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Board has adopted a code of conduct regarding directors' securities transaction on the same terms as the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all directors and they have confirmed that throughout the period from 1 January 2014 to 30 June 2014, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

On behalf of the Board
YUAN, Bing
Chairman

Hong Kong, 13 August 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.