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: 01249)

RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

FINANCIAL HIGHLIGHTS

Unaudited results for the nine months ended 30 September

	2015 *(HK$M)*	2014 *(HK$M)*	**Change**
Turnover	**3,667.8**	4,012.2	**–8.6%**
Gross profit	**491.2**	500.7	**–1.9%**
Operating profit	**151.0**	145.1	**+4.1%**
Profit for the period	**131.9**	123.7	**+6.6%**
Profit attributable to owners of the parent	**128.3**	113.0	**+13.6%**
Basic earnings per share *(HK cents)*	**51.96**	71.86	**–27.7%**

Highlights

For the nine months ended 30 September 2015, the Group recorded turnover of approximately HK$3,667.8 million, down by 8.6% year-on-year. Gross profit amounted to approximately HK$491.2 million, down by 1.9% year-on-year. Operating profit reached approximately HK$151.0 million, up by 4.1% year-on-year. Profit attributable to owners of the parent reached approximately HK$128.3 million, representing an increase of 13.6% year-on-year. The directors of the Company do not recommend the payment of any dividend for the nine months ended 30 September 2015.

The overall sales revenue of audio products reached approximately HK$1,697.7 million, representing an increase of 13.5% year-on-year. The sales revenue of video products reached approximately HK$1,089.7 million, representing a decrease of 31.3% year-on-year. The sales revenue of media boxes products reached approximately HK$600.9 million, representing an increase of 20.2% year-on-year. The sales revenue of ABS-s products reached approximately HK$129.2 million, representing a decrease of 49.5% 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 nine months ended 30 September 2015 with comparative figures for the said period last year as follows and these condensed consolidated 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

		Nine months ended 30 September		Three months ended 30 September	
		2015	2014	**2015**	2014
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER	4	**3,667,807**	4,012,233	**1,358,094**	1,632,637
Cost of sales		**(3,176,605)**	(3,511,564)	**(1,182,137)**	(1,420,780)
Gross profit		**491,202**	500,669	**175,957**	211,857
Other revenue and gains		**89,256**	68,548	**27,837**	17,037
Selling and distribution costs		**(136,229)**	(137,919)	**(46,122)**	(54,698)
Administrative expenses		**(136,535)**	(140,832)	**(49,757)**	(48,338)
Research and development costs		**(146,117)**	(132,649)	**(45,408)**	(65,452)
Other operating expenses		**(11,201)**	(12,742)	**(10,532)**	(12,399)
		150,376	145,075	**51,975**	48,007
Finance costs	5	**(5,228)**	(4,785)	**(1,711)**	(2,075)
Share of profits of an associate		**627**	1	**627**	–
PROFIT BEFORE TAX		**145,775**	140,291	**50,891**	45,932
Income tax expense	6	**(13,870)**	(16,590)	**(6,798)**	(4,823)
PROFIT FOR THE PERIOD		**131,905**	123,701	**44,093**	41,109
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		**9,582**	(2,428)	**(3,986)**	5,502
Exchange fluctuation reserve:					
Translation of foreign operations		**(26,734)**	(3,335)	**(27,652)**	797
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(17,152)**	(5,763)	**(31,638)**	6,299
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**114,753**	117,938	**12,455**	47,408

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

		Nine months ended 30 September		Three months ended 30 September	
		2015	2014	**2015**	2014
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit attributable to:					
Owners of the parent		**128,326**	112,960	**42,940**	40,505
Non-controlling interests		**3,579**	10,741	**1,153**	604
		131,905	123,701	**44,093**	41,109
Total comprehensive income attributable to:					
Owners of the parent		**112,346**	108,229	**12,488**	46,761
Non-controlling interests		**2,407**	9,709	**(33)**	647
		114,753	117,938	**12,455**	47,408
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		(Restated)		
Basic		**HK51.96 cents**	HK71.86 cents		
Diluted		**HK51.90 cents**	HK71.86 cents		

Details of the dividends are disclosed in note 8.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2015 (unaudited) *HK$'000*	31 December 2014 (audited) *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**427,654**	465,608
Prepaid land lease payments	**75,552**	38,960
Investment in an associate	**17,673**	–
Deferred tax assets	**81,108**	80,247
Total non-current assets	**601,987**	584,815
CURRENT ASSETS		
Inventories	**433,861**	432,187
Trade receivables	**1,245,141**	978,182
Bills receivable	**14,917**	15,168
Prepayments, deposits and other receivables	**324,948**	187,443
Tax recoverable	**1,727**	2,381
Derivative financial instruments	**29,635**	840
Cash and cash equivalents	**718,820**	938,303
Total current assets	**2,769,049**	2,554,504
CURRENT LIABILITIES		
Trade payables	**1,322,534**	1,087,559
Bills payable	**15,262**	19,903
Other payables and accruals	**579,331**	631,768
Tax payable	**94,620**	97,558
Derivative financial instruments	**25,189**	8,011
Provisions	**217,365**	196,539
Total current liabilities	**2,254,301**	2,041,338
NET CURRENT ASSETS	**514,748**	513,166
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,116,735**	1,097,981

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	30 September 2015 (unaudited) HK$'000	31 December 2014 (audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,116,735**	1,097,981
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**6,009**	2,655
Net assets		**1,110,726**	1,095,326
EQUITY			
Equity attributable to owners of the parent			
Issued capital	10	**249,163**	248,968
Reserves		**861,563**	818,499
		1,110,726	1,067,467
Non-controlling interests		**–**	27,859
Total equity		**1,110,726**	1,095,326

Notes:

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 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include 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 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 revised HKFRSs for the first time for the current period's condensed consolidated financial statements.

Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs

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

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. These amendments do not have any significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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.

Amendments to HKAS 1	*Disclosure Initiative*[1]
HKFRS 9	*Financial Instruments*[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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

4. OPERATING SEGMENT INFORMATION

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

5. FINANCE COSTS

	Nine months ended 30 September	
	2015	2014
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans	**–**	235
Factored trade receivables	**5,228**	4,550
Total	**5,228**	4,785

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 September 2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Nine months ended 30 September	
	2015	2014
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**509**	7,518
Current – Elsewhere		
Charge for the year	**19,554**	7,070
Overprovision in prior years	**(9,548)**	–
Deferred	**3,355**	2,002
Total tax charge for the period	**13,870**	16,590

7. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$44,392,000 (nine months ended 30 September 2014: HK$24,845,000) was charged to 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$994,000 (nine months ended 30 September 2014: HK$548,000) 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 nine months ended 30 September 2015 (nine months ended 30 September 2014: Nil).

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

The calculations of the basic and diluted earnings per share are based on:

	Nine months ended 30 September	
	2015	2014
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**128,236**	112,960

	Number of shares Nine months ended 30 September	
	2015	2014
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**246,929,123**	157,204,914*
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	**346,087**	–
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**247,275,210**	157,204,914

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the rights issue (the "Rights Issue") completed on 21 November 2014 to reflect the bonus element inherent in the rights issue.

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 September 2014 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during the last period.

10. SHARE CAPITAL

COMPANY

	30 September 2015 (unaudited) *HK$'000*	31 December 2014 (audited) *HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
249,162,626 (31 December 2014: 248,968,066) ordinary share of HK$1.00 each	**249,163**	248,968

During the nine months ended 30 September 2015, the subscription rights attaching to 194,560 share options were exercised at the subscription price of HK$6.02 per share, resulting in the issue of 194,560 shares of HK$1.00 each for a total cash consideration of HK$1,171,000 before expenses.

11. COMPARATIVE AMOUNTS

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

INDUSTRY OVERVIEW

In the third quarter of 2015, China's economic growth continued to slow down, as unprecedented volatilities in the Mainland stock market, coupled with the unexpected Renminbi ("RMB") exchange-rate policy adjustment from the People's Bank of China, exerted pressure on the exchange rate, and caused the overall economy to slide. In the European market, although the Greek government started a series of measures to provide temporary debt relief, Europe still faces challenges to its long-term economic development, exacerbated by the influx of refugees to many European countries. Along with the pending decision of the US Federal Reserve to raise interest rates due to the ambiguity in the global economy, market uncertainty has been further increased. In face of downward pressure on the global economy, the Group continued to uphold its prudent and pragmatic approach, ready to meet the ever-changing market conditions and challenges.

As the use of wireless technology and smart home related technology become more prevalent, the audio products and media boxes market continues to develop and the market demand for its corresponding peripheral products will continue to rise. To grasp the market opportunities, the Group continues to fully implement its strategy of "transformation and entrepreneurship" to actively develop its media boxes and new audio products business, thus offer a diversified product portfolio in a bid to expand market shares and drive overall growth.

BUSINESS REVIEW

The Group is one of the world's leading vertically integrated manufacturer of audio-visual products, and is principally engaged in the research and development ("R&D"), manufacturing and sales of premium audio-visual products and wireless smart internet products on behalf of internationally renowned brands on an original-design-manufacturing ("ODM") basis. According to market research report by Techno System Research, based on annual production volume in 2014, the Group is the largest video product manufacturer and the fourth largest home theater system ("HTS") manufacturer.

Since the beginning of this year, to face the challenges brought about by the economic uncertainties, the Group continued to pursue internal assimilation of project experiences and addressing structural and systemic operation issues to enhance production efficiency, while expanding and optimising its client portfolio externally to improve product mix, so that even though sales fell slightly, operating profit still maintained growth.

In September, the Group won the bid for the Inner Mongolia Autonomous Region's Advanced Broadcasting System-Satellite ("ABS-s") "Hu Hu Tong" project through its wholly-owned subsidiary, with a bid amount of approximately RMB26.7 million. Since 2012, the Group has full coverage of ten service areas in Inner Mongolia Autonomous Regions. Over the same period, the Group won the bid for the "2015 Digital Wireless Coverage Project for Central Radio and TV Programmes" satellite signal receiving device project, with a bid amount of approximately RMB16.0 million. This marks Tonly Electronics' formal entry into the ultra high-tech front-end wireless coverage device sector. Furthermore, the Group's first proprietary high-end noise-canceling wireless headphone developed for an internationally renowned consumer electronics brand started commercial shipment in September 2015. It is expected to gradually become a significant revenue source of the Group.

For the nine months ended 30 September 2015, the Group recorded a turnover of approximately HK$3,667.8 million, down 8.6% year-on-year. Gross profit decreased by 1.9% year-on-year to approximately HK$491.2 million, while gross profit margin increased from 12.5% in the same period last year to 13.4%. Operating profit rose by 4.1% year-on-year to approximately HK$151.0 million. Profit attributable to owners of the parent for the period under review grew by 13.6% year-on-year to approximately HK$128.3 million. Net profit margin was 3.6%.

Product Sales

The Group's products are classified into four categories: (i) Audio products which include HTS (without wireless technology), Micro & Mini speakers ("Micro & Mini"), wireless speakers, HTS with soundbars (with wireless technology) and headphones, (ii) Video disc players which include digital versatile disc ("DVD") players and blu-ray disc ("BD") players, (iii) Media boxes and (iv) Other businesses which are mainly ABS-s products, components, R&D income.

During the period under review, revenue from the Group's audio product business grew by 13.5% year-on-year to approximately HK$1,697.7 million; revenue from video disc player business decreased by 31.3% year-on-year to approximately HK$1,089.7 million; revenue from media box business rose by 20.2% year-on-year to approximately HK$600.9 million; revenue from other businesses decreased by 35.0% year-on-year to approximately HK$279.5 million.

The Group's revenue breakdown by product:

	For the nine months ended 30 September 2015 (unaudited) *(HK$'000)*	For the nine months ended 30 September 2014 (unaudited) *(HK$'000)*	**Change**
Audio Products			
– Traditional audio products[1]	**730,326**	819,513	**–10.9%**
– New audio products[2]	**967,368**	676,150	**+43.1%**
Subtotal	**1,697,694**	1,495,663	**+13.5%**
Video disc players[3]	**1,089,714**	1,586,546	**–31.3%**
Media Boxes[4]	**600,911**	499,747	**+20.2%**
Other Businesses			
– ABS-s products	**129,155**	255,831	**–49.5%**
– Components	**115,182**	118,906	**–3.1%**
– Research & Development income	**35,151**	55,540	**–36.7%**
Subtotal	**279,488**	430,277	**–35.0%**
Total	**3,667,807**	4,012,233	**–8.6%**

(1) Mainly include HTS and Micro & Mini

(2) Mainly include wireless speakers, soundbars, audio docks and headphones

(3) Mainly DVD players and BD players

(4) Mainly include OTT (over-the-top) Internet services and contents set top box (STB)

Audio Product Business

Due to the growing popularity of Internet and wireless technologies, there is substantial market demand for new types of audio accessory products for smartphones and television sets. During the period under review, sales of audio products achieved encouraging growth with revenue grew from HK$1,495.7 million in the same period last year to HK$1,697.7 million, representing an increase of 13.5% year-on-year.

Riding on the prevalent market trends, the Group actively strengthens the product development of wireless technology, power dissipation technique, new technologies and new materials, to develop new audio products. Meanwhile, the Group also continues to enhance the competitiveness of its audio products, and is committed to investing in R&D of electroacoustics technology to further the development of its proprietary speaker transducers and speaker products.

Video Disc Player Business

With the growing popularity of tablet PCs and smartphones applications, the market demand for traditional DVD players continues to shrink. The Group has leveraged on its years of accumulated technology R&D, production capability, good supply chain and strong client relationships to maintain a leading position in the industry, however, still fell behind the pace of the continuously diminishing market. At the same time, due to the changes in customer's purchasing strategy, the related branded video disc player business recorded significant decline as a result. During the period under review, revenue from the Group's video disc player decreased by 31.3% year-on-year to HK$1,089.7 million.

Media Box Business

By strengthening software development capabilities and improving product design, the Group was able to enhance the competitiveness of its products and significantly expand its client base. It also successfully established cooperation relationships with foreign and domestic internet and telecommunications companies to explore more business from telecommunication operator, contributing to steady growth in the media box business. In the first nine months of 2015, revenue from the Group's media box business rose 20.2% year-on year to HK$600.9 million.

The Group is optimistic about its overseas set top box ("STB") business. In the first half of 2015, the Group rebuilt its overseas STB team, while consolidating and strengthening relationships with existing customers to further expand the media boxes business and develop more diversified products.

Other Businesses

The Group fully leverages on its competitive advantages in product R&D to provide a wide range of R&D services to leading international consumer electronics brands. The Group develops new products and capabilities that meet the stringent requirements for product quality and specifications of these international brand customers have, on one hand generating additional sources of revenue and on the other upholding its R&D capabilities and competitiveness. Additionally, having satisfied the internal demand for plastic components in production, the Group also sells the surplus to external parties to generate further income.

During the period under review, sales of ABS-s products generated revenue of HK$129.2 million, a decrease of 49.5% year-on-year, mainly due to the decrease in governmental ABS-s tendering projects. However, sales of ABS-s products are expected to benefit from the Central Government's gradual opening of the ABS-s retail market.

Production and Supply Chain Management

With the labour shortage in China, wages have continued to rise. In the face of labour problems, the Group is committed to enhancing its human resources system. During the reporting period, the Group significantly increased the proportion of automated equipment and automated product testing processes. It helped strengthen the stability of its skilled workers to boost its per capita production efficiency.

In addition, to reduce the non-operating hours of the plant, the Group fulfilled the orders in small quantity for each of the various types of innovative products to gradually adopting a cellular manufacturing mode. It also reorganised the location and layout of the plant to boost overall efficiency. Meanwhile, in accordance with the industry's best practices, the Group has improved its equipment maintenance and management system, the actual production capacity of the Huizhou production base has lift to the designated level as a result.

In June 2015, through business reorganisation and capital reduction, the Group proposed to consolidate the moulding and plastic parts manufacturing business of Guangdong Regency Optics-Electron Corp ('Regency Optics") into the Group. The Group also purposed to combine the entire production process with its upstream operations to reduce production costs and achieve synergy. This will allow the Group to have full control of Regency Optics and realise vertical integration and development of the Group's plastic moulding business.

On top of this, the Group took advantage of its global supply chain and strengthened the operational capability of its overseas supply chain with the aim of providing more competitive products for customers. The Group has established HTS and DVD production lines in its factory in Indonesia which procured some of the raw materials locally and acquired new customers, thus boosting the shipments substantially during the reporting period.

Research and Development (R&D) and Product Innovation

With the growing popularity of smart technology and electronic product innovations, superior product development capabilities in the face of fierce competition is the key to success. The Group has strived for product innovation and design, with substantial investment in R&D above that of the average industry level. During the period under review, the Group's R&D expenses were approximately HK$146.1 million, representing 4.0% of its total revenue. The Group owns R&D bases in Huizhou, Shenzhen and Xi'an. Its R&D team is comprised of over 600 staff who mainly develop and introduce products to the market catering to clients' specific requirements, and carry out visionary research on fundamental technologies of the products. The Group has also amassed a design team with foreign experienced electroacoustic professionals which greatly strengthened its core product R&D capabilities and competitiveness on top of hardware development.

In September 2015, the Group's first proprietary high-end noise-canceling wireless headphone started commercial shipment. This headphone combines active noise-canceling, Bluetooth transmission and touch control technologies. Leveraging on its strong R&D capabilities, the Group transformed the initial design concept into a viable product and released to the reputable client in only ten months. Furthermore, the on-schedule delivery of this high quality product has earned the customer's trust and recognition.

Establishment of a Venture Capital Fund to Promote Smart Business Development

In April 2015, the Group partnered with Shenzhen Qianhai Haofang Keji Limited to form a venture capital fund (the "Fund"), with initial investment of the fund at approximately RMB60 to 100 million. The establishment of the Fund enables the Group to expand its investment portfolio in order to broaden the revenue base, and also establish strategic alliances in order to enhance the ability to create a new ecosystem.

Using the ODM and original-equipment-manufacturing ("OEM") businesses as its foundation, the Group will actively develop into "Smart + Internet" business. It will cooperate with partners through the establishment of the Fund by using capital as the linkage to invest in innovative Internet or intelligent hardware-related businesses. This will enable the Group to enter new business areas and accelerate its rapid transformation, in order to build a new business ecosystem and enhance the Group's competitiveness and profitability.

Future Plans and Outlook

Looking ahead to the fourth quarter of 2015, the macroeconomic outlook remains uncertain. China's economy remains weak, affected by the European debt crisis and the continued refugee crisis, recovery in the near-term is limited. The US dollar has continued to strengthen as global commodity prices fall, also clouding the economic outlook.

In the face of global economic volatility, the Group will continue to strengthen its development capabilities in product design and core technologies, and adhere to focus on product innovation as its expansion strategy. It will introduce more innovative products to meet market demands and consumer preferences. The Group is committed to creating new growth opportunities by optimising its product portfolio, further expanding its customer base and strengthening partnerships with strategic clients.

The future trend of the market is dominated by the Internet and wireless technology. Demand for smart home appliances and tablet PCs continuing to grow, while the associated new audio products will also prevail. To increase product competitiveness, the Group will intensify its efforts to enhance product quality and optimise product design, further invest into R&D and strengthen its innovation capabilities in electroacoustics and related technologies. To mitigate the pressures of rising costs in the PRC, the Group will fully leverage on its overseas supply chain and integrate automated production capacities to achieve highly efficient and diversified production targets. At the same time, it will deepen cooperation with both domestic and overseas internet and telecommunications companies to promote the development of its media box business.

In line with business development needs, the Group has acquired a parcel of land next to its existing Huizhou plant, and has begun construction of a new plant. It will allow the Group to expand production capabilities and complement supply chain management, to increase overall production efficiency. In addition, the Group will continue to look for opportunities, both organically and through acquisitions, to expand into new business areas, diversify service offering and revenue stream. To conclude, the Group aims to provide high quality product and services to its customers through enhancing productivity, developing new technologies, diversifying product offerings and expanding into new businesses, with an ultimate goal of maximising value for the Group and its shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There were no significant investment held as at 30 September 2015, nor other material acquisitions and disposals of subsidiaries during the period.

Acquisition of the land use right in Huizhou

On 24 March 2015, TCL Technoly Electronics (Huizhou) Co., Ltd. (as the grantee), a wholly owned subsidiary of the Company, entered into a land use right grant agreement with Huizhou Land Resources Administration (as the grantor) for grant of the land use right to a piece of land in Huizhou (the "Land") at the consideration of RMB31,760,000, which has been fully settled on 29 March 2015. This transaction did not constitute notifiable transaction as none of the applicable percentage ratios reached 5%. The Land will be used for construction of a production plant and an ancillary office building. The construction project have commenced by September 2015 and is expected to finish by March 2017. The Company considers the acquisition of the land use right an important step to the Company's strategic development and expects that the new production plant would substantially enhance the Group's production efficiency and capacity.

Acquisition of the entire issued share capital of FP Group Limited

On 30 July 2015, Tonly International, a direct wholly-owned subsidiary of the Company, as the purchaser, entered into a sale and purchase agreement with the Winmax, as the vendor, and FPI, as the guarantor, (both being independent third parties of the Company), pursuant to which Tonly International has conditionally agreed to acquire, and Winmax has conditionally agreed to sell, the entire issued share capital of the FP Group Limited at a total consideration of RMB88,792,136, subject to adjustment, and the FPI has conditionally agreed to guarantee the full and punctual performance by the Winmax of its obligations under the Sale and Purchase Agreement. Details of the acquisition has been disclosed in the announcement of the Company dated 31 July 2015.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 30 September 2015 amounted to approximately HK$718,820,000 of which 14.4% was maintained in Hong Kong dollars, 16.7% in US dollars and 68.9% in Renminbi.

There was no material change in available credit facilities when compared with the year ended 31 December 2014 and there was no asset held under finance lease as at 30 September 2015.

As at 30 September 2015, the Group's gearing ratio was 0% since the Group had cash and bank balances of approximately HK$718,820,000 and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 30 September 2015.

Capital Commitments and Contingent Liabilities

As at 30 September 2015, the Group had capital commitments of approximately HK$59,155,000 (31 December 2014: HK$34,027,000). The Group did not have any material contingent liabilities as at 30 September 2015.

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 approximately 4,400 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

Pursuant to the rules of the Award Scheme adopted by the Company on 28 August 2014, the Company purchased from the market a total of 3,216,000 shares being the awarded shares during the nine months ended 30 September 2015. The total amount paid to acquire such shares was approximately HK$19,377,000.

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 nine months ended 30 September 2015, 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, 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 2014 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 2015.

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

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2015, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Poon Chiu Kwok, Mr. Li Qi and Mr. Young Shiao Ming, and is chaired by Mr. Poon Chiu Kwok who possesses appropriate accounting and related financial management expertise. The primary duties of the audit committee are to assist the Board to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company and to perform other duties and responsibilities as assigned by the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Group has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Specific enquires have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the nine months ended 30 September 2015.

On behalf of the Board
YUAN Bing
Chairman

Hong Kong, 19 October 2015

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.