



**Tonly Electronics' Profit Attributable to Owners of the Parent
Increased by 16.1% Year-on-year to
Approximately HK\$72 Million for the First Half of 2014**

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**Further optimized product structure
New audio and media box products become the key business drivers in future**

Results Highlights:

- For the first half of 2014, the Group's turnover increased by 21.9% year-on-year ("yoy") to approximately HK\$2,380 million, due to the better-than-expected performance of the video disc player business.
 - The sales revenue of video products reached approximately HK\$953.8 million, up 2.6% yoy;
 - The sales revenue of audio products reached approximately HK\$740.7 million, up 35.3% yoy;
 - The sales revenue of media box products reached approximately HK\$389.4 million, up 4,102.7% yoy, and
 - The sales revenue of other products (mainly advanced broadcasting system-satellite receivers ("ABS-s") products) reached approximately HK\$295.8 million, representing a decrease of 36.7% yoy.
- Operating profit declined by 1.5% yoy to approximately HK\$97.1 million. Net profit for the period under review grew by 6.2% yoy to approximately HK\$82.6 million.
- Profit attributable to owners of the parent reached approximately HK\$72 million, representing an increase of 16.1% yoy, which is due to the better-than-expected revenue of the video disc player business and the accounting implication contributed by the Group's acquisition of the remaining 20% equity interests of the subsidiary Tonly Group Electronics Co., Ltd on 15 May 2014.
- The Group further optimized its product structure. Sales of new audio and media box products grew significantly, which had become the key business drivers of the Group.
- Production efficiency has recovered to a reasonable industry level since May this year, contributing to better production efficiency for the future.

(13 August 2014, Hong Kong) **Tonly Electronics Holdings Limited** ("Tonly Electronics" or "the Group"; SEHK stock code: 01249) today announced its unaudited interim results for the six months ended 30 June 2014.

The Group continued to transform and upgrade our businesses and expand its product portfolio, and entered the OTT (over-the-top) business in early 2014. For the six months ended 30 June 2014, the Group recorded a turnover of approximately HK\$2,380 million, up by 21.9% yoy. The operating efficiency was once dropped in last third quarter, due to the research and new product launch and relocation of its production facilities to a new production plant during the peak season. After several-month adjustment and reforming the labour structure, the Group's operational efficiency has been recovering to a reasonable level since May 2014. Gross profit amounted to approximately HK\$289 million, up by 14.2% yoy. Gross profit margin declined to 12.1% from 12.9% of the corresponding period of 2013, because of the operating efficiency in the recovery during the first and early second quarter and shifting of certain business segments to OEM formats, which commend relatively lower gross profit margin and operating margin compared to ODM business. Operating profit decreased by 1.5% yoy to approximately HK\$97.1million. Net profit reached approximately HK\$82.6 million, up by 6.2% yoy. Thanks to the better-than-expected sales of video disc players and the accounting effect due to the Group's acquisition of the remaining 20% equity interests of the subsidiary Tonly Group Electronics Co., Ltd. On 15 May 2014, the profit attributable to owners of the parent reached approximately HK\$72 million, representing an increase of 16.1% yoy. Basic earnings per share were 51.10 HK cents (1H2013: 46.57 HK cents).

During the period under review, the performance of the video disc player business was better-than-expected. Revenue from the Group's video disc player business increased by 2.6% yoy to approximately HK\$953.8 million, mainly due to the gradual withdrawal of certain competitors and leveraging in full its edges in technology, production, supply chain and customer relations, helped maintain the Group's competitiveness.

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 saw the business segment's revenue rose by 35.3% yoy to approximately HK\$740.7 million, accounting for 31.1% of the Group's turnover. In particular, sales of new types of audio products continue to rise rapidly by 233.9% yoy to approximately HK\$349.2 million.

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 4,102.7% yoy to approximately HK\$389.4 million, accounting for 16.4% of the Group's turnover. 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.

The sales of other business declined by 36.7% yoy to approximately HK\$295.8 million, accounting for 12.4% of the Group's turnover. Since part of the government tenders of ABS-s in the first half of 2014 has 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 49.5% yoy to approximately HK\$188.2 million.

For production and supply chain management, the Group is gradually improving its labour structure and retaining more skillful staff, which has seen the per capita productivity improve significantly. 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. The actual production capacity of Huizhou Production Base has gradually stabilized at designed production capacity level. Production efficiency has recovered to a reasonable industry level since May this year. 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. For its R&D, the Group appropriated about 4.2% of its total revenue during the period. The Group's R&D expenses as a percentage of turnover was much higher than the industry average.

Mr. Yu Guang Hui , Chief Executive Officer of Tonly Electronics, said, "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 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 more efforts in strengthening its integrated production capabilities, especially development of electro-acoustic 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 strengthen its leading position in the global audio-visual market, as well as create maximum value for the customers and shareholders."

The sales of the Group by products are set forth as follows:

	1H 2014	1H 2013	Change
	(HK\$'000)	(HK\$'000)	
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 box products⁽⁴⁾	389,381	9,265	+4,102.7%
Other products			
— ABS-s product	188,213	372,972	-49.5%
— Components	59,840	62,357	-4.0%
— R&D 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 service and contents)

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About Tonly Electronics

Tonly Electronics Holdings Limited (stock code: 01249) is a leading vertically-integrated manufacturing services provider in the audio-visual (“AV”) products. It is the largest video products manufacturer and the fourth largest HTS manufacturer in the world, and is principally engaged in the research and development, manufacturing and sales of audio-visual products (excluding TV sets) and media box products for international brands on an ODM basis. Tonly Electronics is also one of the ABS-s manufacturers under the programmes of “Hu Hu Tong” and “Cun Cun Tong” initiated by The State Administration of Radio, Film, and Television (“SARFT”). Its ultimate controlling shareholder is TCL Corporation. For more information, please visit www.tonlyele.com.