TELEFIELD INTERNATIONAL (HOLDINGS) LIMITED
中慧國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1143)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

- Achieved turnover of HKD1,832.9 million for the year ended 31 December 2014 (2013: HKD1,825.5 million)
- Achieved profit attributable to owners of the Company of HKD0.6 million (2013: HKD28.6 million)
- Recommended final dividend of HK cents 1.5 per share

The board of directors (the "Board") of Telefield International (Holdings) Limited 中慧國際控股有限公司 (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014 (the "Year" or the "Period"), together with the comparative figures of 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	4	**1,832,867**	1,825,542
Cost of goods sold		**(1,484,356)**	(1,452,278)
Gross profit		**348,511**	373,264
Other income	5	**65,890**	23,872
Selling and distribution expenses		**(161,722)**	(125,547)
Administrative expenses		**(189,141)**	(153,618)
Other operating expenses		**(83,675)**	(66,988)
(Loss)/profit from operations		**(20,137)**	50,983
Finance costs	6	**(15,873)**	(13,300)
Share of profit/(loss) of associates		**2**	(129)
Share of loss of a joint venture		**(1,433)**	–
(Loss)/profit before tax		**(37,441)**	37,554
Income tax expense	7	**(4,832)**	(6,140)
(Loss)/profit for the year		**(42,273)**	31,414
Attributable to:			
Owners of the Company		**577**	28,566
Non-controlling interests		**(42,850)**	2,848
		(42,273)	31,414
Earnings per share	9		
Basic (HK cents)		**0.14**	6.94
Diluted (HK cents)		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	**2014** *HK$'000*	2013 *HK$'000*
(Loss)/profit for the year		**(42,273)**	31,414
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
(Loss)/gain on property revaluation		**(600)**	1,000
Deferred tax changes from loss/gain on property revaluation		**99**	(165)
		(501)	835
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**1,481**	3,941
Other comprehensive income for the year, net of tax		**980**	4,776
Total comprehensive income for the year		**(41,293)**	36,190
Attributable to:			
Owners of the Company		**(600)**	33,422
Non-controlling interests		**(40,693)**	2,768
		(41,293)	36,190

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Fixed assets		**105,050**	76,703
Prepaid lease payments		**7,001**	–
Goodwill		**3,471**	8,311
Intangible assets		**43,132**	55,425
Investments in associates		**2,403**	–
Investment in a joint venture		**134**	–
Available-for-sale financial assets		**–**	–
Deferred tax assets		**12,221**	10,884
		173,412	151,323
Current assets			
Inventories		**290,143**	292,956
Trade receivables	*10*	**315,648**	420,770
Prepayments, deposits and other receivables		**116,236**	94,029
Derivative financial assets		**4,824**	–
Amount due from a non-controlling shareholder of a subsidiary		**1,257**	2,454
Current tax assets		**4,822**	1,143
Bank and cash balances		**185,752**	183,138
		918,682	994,490
Current liabilities			
Trade payables	*11*	**280,502**	318,240
Accruals and other payables		**266,247**	229,291
Amounts due to non-controlling shareholders of subsidiaries		**1,798**	4,203
Bank borrowings		**117,075**	111,813
Financial liabilities at fair value through profit or loss		**3,428**	3,476
License fee payable		**9,963**	6,867
Derivative financial liabilities		**82**	6,119
Product warranty provisions		**21,885**	19,343
Current tax liabilities		**5,222**	5,128
		706,202	704,480
Net current assets		**212,480**	290,010
Total assets less current liabilities		**385,892**	441,333

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
AS AT 31 DECEMBER 2014

	Note	**2014** **HK$'000**	2013 *HK$'000*
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**646**	9,929
License fee payable		**16,474**	19,777
Deferred tax liabilities		**17,225**	21,237
		34,345	50,943
NET ASSETS		**351,547**	390,390
Capital and reserves			
Share capital		**4,117**	4,117
Reserves		**365,639**	373,677
Equity attributable to owners of the Company		**369,756**	377,794
Non-controlling interests		**(18,209)**	12,596
TOTAL EQUITY		**351,547**	390,390

NOTES TO FINANCIAL STATEMENTS

For the Year Ended 31 December 2014

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies (e.g. land and buildings, derivative financial assets/liabilities, financial liabilities at fair value through profit or loss).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

(a) Application of new and revised HKFRSs

The following standards have been adopted by the Group for the first time for the financial year beginning 1 January 2014:

Amendment to HKAS 32, Offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

Amendment to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments do not have an impact on these consolidated financial statements as the recoverable amounts of assets or cash-generating units have been determined on the basis of their value in use.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS (CONT'D)

(a) Application of new and revised HKFRSs (cont'd)

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these consolidated financial statements as the Group is not currently subjected to significant levies.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

Amendments to HKFRS 2 (Annual Improvements to HKFRSs 2010-2012 Cycle)

This amendment clarifies the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment is applicable prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014 and had no effect on the Group's consolidated financial statements.

Amendments to HKFRS 3 (Annual Improvements to HKFRSs 2010-2012 Cycle)

This amendment, applicable prospectively to business combinations for which the acquisition date is on or after 1 July 2014, requires any contingent consideration that is classified as an asset or a liability (i.e. non-equity) to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. It had no effect on the Group's consolidated financial statements.

Amendments to HKFRS 13 (Annual Improvements to HKFRSs 2010-2012 Cycle)

This amendment to the standard's basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2014. The directors anticipate that the new and revised HKFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS (CONT'D)

(b) New and revised HKFRSs in issue but not yet effective (cont'd)

List of new and revised HKFRSs in issue but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

3. SEGMENT INFORMATION

The Group has four operating segments as follows:

EMS – Electronic manufacturing services

Distribution Businesses:

Communications Products ("CP") – Marketing and distribution of communications products

Multimedia Products and Computer Accessories ("MPCA") – Assembling and/or marketing and distribution of branded multimedia products and computer accessories

Gaming Products and Toys ("GPT") – Marketing and distribution of gaming and entertainment products

Operating segments has been changed during the year to reflect the Group's realignment of operations. Comparative figures have been restated to conform to current period's presentation.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

3. SEGMENT INFORMATION (CONT'D)

(a) Information about operating segment profit or loss, assets and liabilities:

	EMS	Distribution Businesses CP	Distribution Businesses MPCA	Distribution Businesses GPT	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2014					
Revenue from external customers	**937,416**	**250,607**	**557,693**	**87,151**	**1,832,867**
Intersegment revenue	**140,102**	**762**	**31,357**	**819**	**173,040**
Segment profit/(loss)	**58,142**	**(9,478)**	**(66,865)**	**(18,785)**	**(36,986)**
Interest revenue	**1,047**	**2**	**3**	**9**	**1,061**
Interest expense	**2,286**	**5,416**	**8,171**	**–**	**15,873**
Depreciation and amortisation	**18,339**	**7,243**	**2,538**	**7,386**	**35,506**
Other material items of income and expenses					
– Impairment of goodwill	**–**	**–**	**–**	**4,840**	**4,840**
Staff costs	**217,791**	**33,693**	**47,037**	**9,313**	**307,834**
Additions to segment non-current assets	**40,990**	**6,995**	**4,022**	**3,364**	**55,371**
As at 31 December 2014					
Segment assets	**828,284**	**174,707**	**284,906**	**73,825**	**1,361,722**
Segment liabilities	**319,571**	**136,396**	**318,694**	**106,694**	**881,355**
Investments in associates	**–**	**2,403**	**–**	**–**	**2,403**
Investment in a joint venture	**134**	**–**	**–**	**–**	**134**

	EMS	Distribution Businesses CP	Distribution Businesses MPCA	Distribution Businesses GPT	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2013 (restated)					
Revenue from external customers	886,777	252,334	594,356	92,075	1,825,542
Intersegment revenue	205,631	260	88,833	–	294,724
Segment profit/(loss)	45,104	312	16,084	(10,152)	51,348
Interest revenue	998	2	3	22	1,025
Interest expense	1,882	4,439	6,979	–	13,300
Depreciation and amortisation	18,176	7,612	1,089	6,747	33,624
Other material items of income and expense					
– Impairment of goodwill	–	–	–	4,302	4,302
Staff costs	216,805	27,583	36,932	8,020	289,340
Additions to segment non-current assets	13,007	421	2,745	34	16,207
As at 31 December 2013 (restated)					
Segment assets	793,699	167,913	393,786	114,661	1,470,059
Segment liabilities	328,746	132,134	358,901	128,222	948,003
Investments in an associate	–	–	–	–	–

3. SEGMENT INFORMATION (CONT'D)

(b) Reconciliations of segment revenue and profit or loss:

	2014 *HK$'000*	2013 *HK$'000* (restated)
Revenue		
Total revenue of reportable segments	**2,005,907**	2,120,266
Elimination of intersegment revenue	**(173,040)**	(294,724)
Consolidated revenue	**1,832,867**	1,825,542

	2014 *HK$'000*	2013 *HK$'000* (restated)
Profit or loss		
Total (loss)/profit of reportable segments	**(36,986)**	51,348
Intersegment elimination	**2,750**	(9,500)
Unallocated amounts:		
Impairment loss on amount due from an associate	**(1,774)**	(4,165)
Share of profit/(loss) of associates	**2**	(129)
Share of loss of a joint venture	**(1,433)**	–
Consolidated (loss)/profit before tax	**(37,441)**	37,554

Reconciliations of segment assets and liabilities:

	2014 *HK$'000*	2013 *HK$'000* (restated)
Assets		
Total assets of reportable segments	**1,361,722**	1,470,059
Elimination of intersegment assets	**(275,108)**	(325,630)
Elimination of unrealised profits	**(6,741)**	(9,500)
Unallocated amounts:		
Deferred tax assets	**12,221**	10,884
Consolidated total assets	**1,092,094**	1,145,813

	2014 *HK$'000*	2013 *HK$'000* (restated)
Liabilities		
Total liabilities of reportable segments	**881,355**	948,003
Elimination of intersegment liabilities	**(275,108)**	(325,630)
Unallocated amounts:		
Bank borrowings	**117,075**	111,813
Deferred tax liabilities	**17,225**	21,237
Consolidated total liabilities	**740,547**	755,423

3. SEGMENT INFORMATION (CONT'D)

(c) Geographical information:

The Group's revenue from external customers based on the location and information about its non-current assets by location of assets are detailed below:

	2014 *HK$'000*	2013 *HK$'000*
Revenue		
Germany	**456,567**	368,654
The People's Republic of China (the "PRC") (including Hong Kong)	**351,328**	351,325
The United States of America (the "U.S.A.")	**278,890**	294,800
Switzerland	**152,096**	198,928
Italy	**80,472**	107,767
Poland	**99,311**	60,331
France	**111,098**	74,261
United Kingdom	**36,059**	66,273
Others	**267,046**	303,203
Consolidated total	**1,832,867**	1,825,542

	2014 *HK$'000*	2013 *HK$'000*
Non-current assets		
Germany	**18,640**	16,598
The PRC (including Hong Kong)	**108,915**	78,821
The U.S.A.	**28,144**	42,322
Others	**5,492**	2,698
Consolidated total	**161,191**	140,439

(d) Revenue from major customers:

An analysis of revenue from major customers which account for 10 percent or more of the Group's revenue is as follows:

	2014 *HK$'000*	2013 *HK$'000*
EMS segment		
Largest customer	**200,409**	208,592
Distribution Business – MPCA segment		
Largest customer	**259,901**	258,961

4. REVENUE

	2014	2013
	HK$'000	*HK$'000*
Sales of goods	**1,856,245**	1,843,970
Net sales return arising from product warranty	**(23,378)**	(18,428)
	1,832,867	1,825,542

5. OTHER INCOME

	2014	2013
	HK$'000	*HK$'000*
Bank interest income	**1,061**	1,025
Compensation from suppliers	**3,968**	–
Consultancy fee income	**762**	2,328
Discount on acquisition	**1,918**	915
Gain on derivative assets or liabilities	**9,122**	883
Gain on financial liabilities at fair value through profit or loss	**6,036**	–
Insurance claim	**1,649**	3
Promotion contribution from suppliers	**15,868**	–
Rental income	**318**	–
Reversal of allowance for trade receivables	**–**	2,612
Reversal of commission payable	**444**	–
Reversal of copyright fee provisions	**1,281**	5,019
Reversal of license fees provisions	**5,953**	–
Reversal of overly provided discount provisions	**5,841**	3,742
Sales of scrap materials	**4,458**	1,175
Sales of tooling to an associate	**4,274**	–
Others	**2,937**	6,170
	65,890	23,872

6. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Bank overdraft interest	**14**	11
Bank loans interest	**3,141**	1,523
Interest on import/export loans	**1,217**	740
Interest on factoring loans	**6,323**	6,752
Other interest expenses	**5,178**	4,274
	15,873	13,300

7. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**8,177**	8,014
Under-provision in prior years	**82**	39
	8,259	8,053
Current tax – Overseas		
Provision for the year	**1,866**	3,502
Under/(over)-provision in prior years	**618**	(1,809)
	2,484	1,693
Deferred tax	**(5,911)**	(3,606)
	4,832	6,140

Hong Kong Profits Tax has been provided at a rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year ended 31 December 2014.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of (loss)/profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2014	2013
	HK$'000	*HK$'000*
(Loss)/profit before tax	**(37,441)**	37,554
Tax at the Hong Kong Profits Tax rate of 16.5% (2013: 16.5%)	**(6,178)**	6,196
Tax effect of income that is not taxable	**(5,809)**	(7,994)
Tax effect of expenses that are not deductible	**11,919**	13,381
Tax effect of temporary differences not recognised	**(1,131)**	(203)
Tax effect of tax concession	**(5,656)**	(4,473)
Under/(over)-provision in prior years	**700**	(1,770)
Tax effect of utilisation of tax losses not previously recognized	**(202)**	(370)
Tax effect of unused tax losses not recognised	**9,626**	1,049
Effect of different tax rates of subsidiaries	**1,563**	324
Income tax expense	**4,832**	6,140

8. DIVIDENDS

	2014	2013
	HK$'000	*HK$'000*
2013 Final of HK cents 2.5 (2012: HK cents 2.0) per ordinary share	**10,293**	8,234
2014 Interim of HK cents 1.5 (2013: HK cents 1.5) per ordinary share	**6,176**	6,176
	16,469	14,410

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2014 of HK cents 1.5 per shares has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

9. EARNINGS PER SHARE

	2014	2013
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	**577**	28,566
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**411,714,000**	411,714,000

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years.

10. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
0 to 90 days	**302,141**	387,681
91 to 180 days	**7,835**	25,835
181 to 365 days	**589**	5,764
Over 365 days	**5,083**	1,490
	315,648	420,770

10. TRADE RECEIVABLES (CONT'D)

Reconciliation of allowance for trade receivables:

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**1,023**	3,635
Allowance for the year	**2,291**	2,843
Reversal for the year	**–**	(2,612)
Bad debts written off	**–**	(2,843)
At 31 December	**3,314**	1,023

As of 31 December 2014, trade receivables of approximately HK$64,879,000 (2013: HK$96,366,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An aging analysis of these trade receivables is as follows:

	2014	2013
	HK$'000	*HK$'000*
Up to 3 months	**56,298**	85,760
Over 3 months	**8,581**	10,606
	64,879	96,366

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2014	2013
	HK$'000	*HK$'000*
United States dollar	**230,494**	251,052
Hong Kong dollar	**1,318**	788
Renminbi	**6,539**	8,255
Euro	**75,435**	159,171
Others	**1,862**	1,504
Total	**315,648**	420,770

11. TRADE PAYABLES

The aging analysis of trade payables, based on invoice date, is as follows:

	2014	2013
	HK$'000	*HK$'000*
0 to 90 days	**251,580**	312,898
91 to 180 days	**583**	3,160
181 to 365 days	**26,317**	588
Over 365 days	**2,022**	1,594
	280,502	318,240

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2014	2013
	HK$'000	*HK$'000*
United States dollar	**138,084**	194,734
Hong Kong dollar	**94,593**	61,385
Renminbi	**18,865**	16,818
Euro	**28,799**	44,503
Others	**161**	800
Total	**280,502**	318,240

SCOPE OF WORK OF RSM NELSON WHEELER

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditors, RSM Nelson Wheeler, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2014. The work performed by RSM Nelson Wheeler in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by RSM Nelson Wheeler on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The global economy has continued to experience difficulty in realising growth as many developed countries remained under the shadow of the financial crisis, while emerging economies have experienced less dynamic growth. With the outlook remaining unclear, consumer confidence has waned, particularly in the United States and Europe. For the Group, it has faced increasingly stiff competition, compounded by a rise in sales deduction on product warranty programme. Moreover, the unexpected decline of the Euro against the US dollar directly impacted on the Group's profit. Despite the Electronic Manufacturing Services ("EMS") business performing steadily, the distribution businesses experienced a decline, which in turn reduced the Group's profit growth momentum during the Year.

For the year ended 31 December 2014, the Group recorded revenue of HK$1,832.9 million (2013: HK$1,825.5 million). Gross profit amounted to HK$348.5 million, compared with HK$373.3 million in 2013. The Group recorded a profit attributable to owners of the Company of HK$0.6 million (2013: HK$28.6 million).

Adhering to the principle of prudent financial management, the Group has maintained a healthy financial position during the review period, with cash and cash equivalents amounting to HK$185.8 million (2013: HK$183.1 million). To reward shareholders for their ongoing support, the Board has recommended a final dividend of HK cents 1.5 per share for the Year.

Electronic Manufacturing Services Business

The first half year saw consumption sentiment remain weak; however, a modest upswing was experienced during the second half year. Consequently, the EMS business achieved turnover of HK$937.4 million (2013: HK$886.8 million) for the Year, thereby accounting for 51.1% of the Group's total turnover (2013: 48.6%).

With the market outlook remaining clouded during the financial year, and the aggressive movement of the US dollar against many major world currencies resulted in conservative ordering practices among the Group's customers, the management placed added attention towards optimising the Group's product portfolio, ensuring that both communications and non-communications products catered for the needs of renowned international consumer electronic brands. Production and labour costs were also under the close scrutiny of the management, which led to efforts to lower the cost per unit produced and protect the profit margin. Besides, the ongoing on-job-training provided to staff members and enhancement of automation boosted production efficiency. Aside from the review of internal operations, the Group sought to bolster relations with its raw material suppliers so as to ensure the availability of such materials.

Distribution Business

The total turnover of the distribution business amounted to HK$895.5 million (2013: HK$938.7 million), which was mainly due to weak consumption sentiment in Europe and the United States, where the Group also faced fierce competition despite building increasingly comprehensive distribution networks. Apart from cut-throat competition, a rise in sales deduction on product warranty programme, and higher costs of advertising and marketing, as well as the unexpected depreciation of the Euro all led to a lower profit margin.

i. Communications Products

The communications business principally involves the distribution of small and medium business phone systems ("SMB phone systems") in the United States and wireless communication products via Fargo Telecom. Revenue generated from this segment amounted to HK$250.6 million (2013: HK$252.3 million) for the Year.

ii. Multimedia Products & Computer Accessories

The multimedia products and computer accessories business achieved turnover of HK$557.7 million (2013: HK$594.4 million). Among the new products that stood out during the Year included the Volks-tablet PC, tablet PC with Microsoft Windows 8.1 Pro and other tablet PC designed specifically for a renowned German telephone service provider. Given that the introduction of new products featuring 4G operations and the launch of a new operating system in the second half year have received favourable response from the market, the Group has continued to maintain a top position in the tablet PC market in Germany. Owing to effective marketing strategies that are complemented by an efficient distribution network, the management aims to encourage further growth of the business by expanding the distribution network to include emerging markets.

iii. Gaming Products and Toys

To spur the growth of the gaming products and toys distribution business, the Group expanded its distribution channels through leveraging its long-standing partnership with a video game and entertainment products retailer in the United States. However, the delayed launch of a new series of GAEMS products affected the performance of this segment. Nonetheless, the Group believes that when the new series is introduced, it will be warmly received by the market, help raise brand awareness of GAEMS products and deliver respectable sales contribution to this segment within 2015.

Geographical Analysis

In respect of revenue based on geographical region, total revenue from major European countries (Germany, United Kingdom, Switzerland, France, Poland and Italy) amounted to HK$935.6 million (2013: HK$876.2 million), thus accounting for 51.0% of the Group's overall turnover. PRC (mainly Hong Kong) represented the second largest market for the Group, with HK$351.3 million (2013: HK$351.3 million) in revenue generated during the Year, accounting for 19.2% of the Group's total turnover. The United States and other countries recorded revenue of HK$278.9 million (2013: HK$294.8 million) and HK$267.1 million (2013: HK$303.2 million) respectively, representing 15.2% and 14.6% of the Group's overall turnover.

FINANCIAL INFORMATION

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2014, the Group recorded total revenue of HK$1,832.9 million (2013: HK$1,825.5 million). The Group managed to maintain a steady level of revenue as a result of the increase in EMS business despite the declined contribution of the distribution businesses.

The Group's reporting segments are strategic business units that offer different products and services. There are two broad groups of business units for segment accounting purpose, EMS and Distribution whereas the latter can be subdivided into communications products, multimedia products and computer accessories, gaming products and toys.

For the year ended 31 December 2014, the revenue from EMS increased by 5.7% to HK$937.4 million (2013: HK$886.8 million), whereas the revenue from Distribution segment decreased by 4.6% to HK$895.5 million (2013: HK$938.7 million).

The major growth driver of the total revenue was the non-communications products in EMS which mainly include appliances and appliances control products and beauty care equipment. The growth momentum of the revenue generated from EMS had been reduced by the decline of revenue in distribution businesses which include both communications and non-communications products.

The growth in the overall revenue was mainly attributable to the following factors:

The revenue generated from EMS has been increased from HK$886.8 million for the year 2013 to HK$937.4 million for the Year which in turn bolstered by the increase resulting from appliances & appliances control of HK$5.1 million and the increase in revenue from beauty care equipment of HK$27.4 million,

The revenue generated from multimedia products and computer accessories of Distribution Businesses of HK$557.7 million (2013: HK$594.4 million) representing a decrease of HK$36.7 million. The revenue generated from communications products of Distribution Businesses of HK$250.6 million (2013: HK$252.3 million) representing a decrease of HK$1.7 million, and

The continuing revenue generated from the gaming products and toys of HK$87.2 million (2013: HK$92.1 million) and the revenue also accounted for approximately 4.8% (2013: 5.0%) of the Group's total revenue for the year ended 31 December 2014.

Cost of Sales

Cost of sales increased relatively by 2.2% from HK$1,452.3 million in 2013 to HK$1,484.4 million in 2014 as a result of the drop in gross margin rate under stiff market competition.

Gross Profit

Gross profit decreased by 6.6% from HK$373.3 million to HK$348.5 million, while the gross profit margin slightly reduced to 19.0% (2013: 20.4%). The gross profit was contributed by the EMS segment of 53.6% (2013: 41.3%) and distribution businesses of 46.4% (2013: 58.7%). The decrease in gross profit was primarily attributable to the net effect of following causes:

(i) The distribution segment of the Group experienced declining activities both in volume and gross profit in the year. The volume decreased by 4.6% and the gross profit of the segment decreased by 26.2% to HK$161.8 million (2013: HK$219.2 million) mainly causing by:

   a. a rise in sales deduction on product warranty programme and the depreciation of Euro with a fixed Euro selling price against the purchase cost in US dollars to the distribution of multimedia products and computer accessories under the brand "TrekStor" and;

   b. the decreasing gross margin rate of the multimedia products and computer accessories

(ii) The continuing expansion into the EMS business gives the increasing level of gross profit for the year 2014. An increasing portion of the gross profit is now derived from EMS businesses 53.6% (2013: 41.3%) during the year.

Other income

Other income increased by 175.7% from HK$23.9 million in 2013 to HK$65.9 million in 2014. The increase is mainly representing the promotion contribution of HK$15.9 million, the reversal of the overprovided license fee provisions of HK$5.9 million, gain on derivative financial assets or liabilities of HK$9.1 million, gain on financial liabilities at fair value through profit & loss of HK$6.0 million, compensation from suppliers of HK$4.0 million and the discount on acquisition of HK$1.9 million.

Selling and distribution expenses

Selling and distribution expenses accounted for approximately 6.9% in 2013 and 8.8% in 2014 of the Group's revenue respectively. The increase is mainly caused by the increase in advertising campaign and marketing expenses.

Administration expenses

Administration expenses accounted for approximately 8.4% in 2013 and 10.3% in 2014 of the Group's revenue respectively. The increase in expenditure of HK$35.5 million is mainly caused by the increase in salary of HK$14.1 million, the increase in rent and rate of HK$1.4 million, the increase in net exchange loss of HK$7.2 million, the increase in travelling of HK$2.7 million and the additional expenses recorded for the newly acquired subsidiary joined in late first half of 2014 by HK$4.4 million.

Other operating expenses

Other operating expenses increased by 24.9% from HK$67.0 million in 2013 to HK$83.7 million in 2014. The increase was mainly attributable to the net effect of the increase in bad debt provision of HK$24.3 million, and the additional research and development cost of HK$1.8 million expended by the Group to enhance its design and manufacturing ability, offsetting by the favorable impact of the absence of loss in fair value change in financial liabilities.

Finance costs

The Group's finance costs mainly comprise interest payments for the Group's bank loans, import/export loans, factoring charges and implicit interest on financial liabilities. The Group's finance costs were approximately HK$15.9 million in 2014 and HK$13.3 million in 2013, represented approximately 0.9% and 0.7% of the revenue in 2014 and 2013 respectively.

Income tax expenses

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, PRC, Japan, the US, India, Italy, Luxemburg and Germany. The Group had no tax payable in other jurisdictions during the years ended 31 December 2013 and 2014.

The Group's effective income tax rates for the years ended 31 December 2013 and 2014 were approximately 16.3% and 12.9%, respectively. The reduction in the Group's effective tax rate during the year 2014 was primarily attributable to the increase in tax losses of individual subsidiaries in the Group comparing with 2013.

Profit attributable to owners of the Company

The profit attributable to owners of the Company decreased by approximately 97.9% from approximately HK$28.6 million for the year ended 31 December 2013 to approximately HK$0.6 million for the year ended 31 December 2014. The Group's net profit margin attributable to owners of the Company for the year ended 31 December 2014 was 0.03% (2013: 1.56%).

Loss for the year attributable to non-controlling interests

Loss for the year attributable to non-controlling interests amounts to the loss of HK$42.9 million for the year ended 31 December 2014 (2013: profit of HK$2.8 million). The increase in the loss was primarily caused by the unsatisfactory performance of the distribution businesses.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operations and capital expenditure by internally generated cashflows and the proceeds from the Company's initial public offering in January 2011.

As at 31 December 2014, the cash and cash equivalents amounted to HK$185.8 million, representing an increase of HK$2.7 million from 2013. Respective sum of 39.7%, 29.8% and 22.0% of the cash and cash equivalents was denominated in RMB, US dollars and HK dollars and others 8.5% was denominated in various currencies.

The Group's current ratio remains in a healthy position at 1.3 times (2013: 1.41 times).

As at 31 December 2014, the total interest-bearing bank borrowings were HK$117.1 million (2013: HK$111.8 million), comprised primarily of bank loans and overdrafts and import/export loans. These borrowings are all repayable within one year. The majority of these borrowings were denominated in US dollars, Hong Kong dollars and Euro and the interest rates applied were primarily subject to floating rate terms.

The Group was in a net cash position (cash and cash equivalents less total bank borrowings) of HK$68.7 million such that no gearing ratio applies.

Cash flow

In 2014, HK$52.6 million was generated from the operating activities, whilst HK$5.5 million were spent on financing activities and HK$43.4 million were spent on investing activities respectively. Net cash inflow from financing activities was mainly related to the net bank borrowings raised of HK$5.3 million offset by the dividend paid of HK$16.4 million.

Exchange risk exposure

The Group mitigates its foreign exchange rate risk through the use of derivative financial instruments. The Group primarily enters into foreign currency forward contracts to reduce the effects of fluctuating foreign currency exchange rates, in particular, the exchange rate between Euro and US dollars as well as exchange rate between US dollars and RMB. The Group categorises these instruments as being entered into for purposes other than trading.

As at 31 December 2014, the Group had forward contacts and currency options of fair value of approximately of HK$0.1 million and HK$4.8 million respectively. The contract amount of the forward contracts and currency options is equivalent of HK$15.5 million and HK$37.7 million.

Capital expenditure

Capital expenditure for 2014 amounted to HK$26.2 million and capital commitments as at 31 December 2014 amounted to HK$15.3 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and machinery to cope with the increase in business volume.

Pledge of assets

As at 31 December 2013 and 2014, none of the Group's assets was pledged.

Contingent liabilities

As at 31 December 2014, the Group has three (2013: three) patent infringement claims lodged by E-Ink Corp. against one of its subsidiaries, seeking for an injunction against the sale of ebook reader and for a compensation of approximately HK$9.4 million (2013: HK$10.7 million). The management considers E-Ink Corp.'s allegations are without merits and thus no provision for loss had been provided. Subsequent to the reporting period, two out of the three patents infringement claims were suspended by the Mannheim Court resulting from the favorable judgement to the Group in parallel nullity action counter claim lodged by the Group with the Federal Patent Court in Germany, whilst the third patent claim was currently subject to the review of expert appointed by the Mannheim Court in regard to its validity.

A copyright collecting agency has unilaterally announced copyright fees for certain storage products and multimedia products of the Group sold in Germany. Management estimated that the alleged claims from the copyright collecting agency at the end of the reporting period are approximately HK$44.6 million (2013: HK$53.9 million) and HK$95.7 million (2013: HK$ 57.7 million) respectively. The directors consider that the unilaterally announced copyright rates are either non applicable or excessive for these products and respective provision, if required, has been duly made by the Group to cover the expected maximum liabilities pursuant to the best knowledge of the directors.

Acquisitions, disposals and significant investment

During the year ended 31 December 2014, the Group obtained 83% control of Falcom GmbH ("Falcom") by subscribing newly allotted ordinary shares of Falcom and acquiring existing shareholders at a total cash consideration of HK$4.4 million. Falcom was engaged in design, development and production of automatic vehicle location tracking system and asset tracking products during the year.

Furthermore, the Group acquired the 10.575 % equity interest of Fargo Telecom Holdings Limited ("Fargo Telecom"), a company incorporated in the British Virgin Islands, at a cash consideration of HK$0.6 million pursuant to a share subscription agreement.

As at 31 December 2014, the Group also undertakes to further acquire, by stages but not later than 30 April 2017, up to 31.725% the equity interests of Fargo Telecom currently held by the non-controlling parties of Fargo Telecom. The consideration of the shares is determined by reference to 5 times of the net profits after tax of Fargo Telecom for the years as agreed by the parties (refer to our announcement dated 14 September 2012).

In addition, the Group also acquired 51% interests in a land and building in India upon the purchase of 51% equity share interests of Lucky Century International Limited (refer to our announcement dated 14 January 2014) at a total cash consideration of HK$12.4 million.

Apart from the aforesaid transaction, there was no material acquisition, disposal or investment by the Group.

Human resources

As at 31 December 2014, the Group had approximately 2,550 employees in various operating units located Hong Kong, USA, Germany and PRC. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

Nevertheless, there is no share option scheme put in place as at 31 December 2014.

PROSPECTS

In view of the slow global economic recovery and volatile currency exchange rates, the management remains cautious about the upcoming financial year. It will therefore adjust its business strategies in line with market expectations and in the best interest of the Group.

To minimize its exposure to currency exchange risk, the Group will reinforce relevant safeguards and employ hedging activities when practicable. From a retail perspective, the Group will consider adjusting the selling price of products upwards even though this might affect revenue in the short term. Nevertheless, given the technological advantage that the Group's products enjoy, the management trusts that such an adjustment will be accepted in the market and will result in greater profit contributions to the Group. With regards to the supply chain, the Group will negotiate with suppliers for more favourable payment terms given its long-held ties with such parities, and thereby minimise currency fluctuation risk.

As for the gaming products and toys business, the launch of new GAEMS product series in the first half of 2015 is expected to provide fresh impetus to the Group's growth in the coming year. The GAEMS brand will encompass an expanded range of products, including new devices that have already garnered encouraging market response. The management trusts that the unique design and functionality of products in the pipeline will spark interest among leading distributors in the United States, and provide the catalyst for sales network expansion to regions including Australia and parts of Europe. Further, the Group's ongoing participation in gaming exhibitions will raise awareness among target customers of the full breadth of GAEMS products, leading to greater brand recognition.

To address the issues of production cost and enhance profitability, which are concerns that many manufacturers share, the Group will implement strict cost control measures and cautiously manage inventory to exploit economies of scale. The Group will also continue to develop the EMS and Distribution Businesses, with the objective of generating synergies among relevant operations. Such efforts will go towards improving the Group's overall profitability.

Increasing market penetration for all of its businesses will continue to be an important pursuit of the management as well. While extensive business networks have already been established, specifically in the United States, Germany, and other European and Asian countries, there remain new markets to penetrate. In the PRC, for example, the Group will continue to bolster its online and retail presence. And in the coming year, the Group will also seek to strengthen existing ties while forging new alliances with regional distributors to encourage growth.

Though many of the challenges confronted by the Group will continue to persist in the new financial year, the management remains optimistic about the Group's well being. Such optimism is based on the awareness that the Group possesses, sound fundamentals, distinctive products, strong business ties, clear strategies and an extensive business network, all of which will be the building blocks for long-term growth.

OTHER INFORMATION

Dividends

The Board recommended the payment of a final dividend of HK cents 1.5 per ordinary share in respect of the year to shareholders on the register of members of the Company on 10 June 2015. Subject to the approval of the shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 26 June 2015. The recommendation of the final dividend has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 8 June 2015 to Wednesday, 10 June 2015 (both days inclusive), during such period no transfer of shares will be registered. To ensure the entitlement to the final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong, no later than 4:30 pm on Friday, 5 June 2015.

Purchase, Sale or Redemption of Listed Securities of the Company

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of the subsidiaries during the year ended 31 December 2014.

Code on Corporate Governance Practices

The Company is incorporated in the Cayman Islands and has its shares listing on the Hong Kong Stock Exchange on 27 January 2011 (the "Listing Date"). The corporate governance practices are based on the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2014, the Company has applied the principles and complied with all the applicable code provisions set out in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer" and this is deviated from the code provision A.2.1 of the Code.

Mr. Cheng Han Ngok Steve, who acts as the Chairman and the Executive Director of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply with the said code provision. If compliance with the said provision is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive officer.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by the directors. All directors, after specific enquiries by the Company, confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

Audit Committee and Review of Accounts

The Audit Committee currently has three members comprising Dr. Kwan Pun Fong Vincent (Chairman), Mr. Au-Yang Cheong Yan Peter and Dr. Xue Quan, all being independent non-executive directors. The primary duties of the Audit Committee are mainly to review and supervise the financial reporting process and internal control system of the Group.

The annual results of the Company have been reviewed by the Audit Committee.

Publication of Results Announcement

This annual results announcement is available for viewing on the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at www.telefieldgroup.com.hk.

By Order of the Board
TELEFIELD INTERNATIONAL (HOLDINGS) LIMITED
Cheng Han Ngok Steve
Chairman

Hong Kong, 27 March 2015

As at the date of this announcement, the executive directors are Cheng Han Ngok Steve, Poon Ka Lee Barry, Ng Kim Yuen, Fok Pui Yin and Lee Kai Bon, and the independent non-executive directors are Au-Yang Cheong Yan Peter, Kwan Pun Fong Vincent and Xue Quan.