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 YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

Results for the year ended 31 December

	2017 *(HK$M)*	2016 *(HK$M)*	Change
Turnover	**5,912.5**	4,265.7	38.6%
Gross profit	**824.7**	599.1	37.7%
Operating profit	**255.6**	192.8	32.6%
Profit for the year	**198.5**	151.7	30.9%
Profit attributable to owners of the parent	**198.6**	151.8	30.8%
Basic earnings per share *(HK cents)*	**78.96**	62.12	27.1%
Full year dividend per share *(HK cents)*			
– Proposed final dividend per share *(HK cents)*	**35.0**	25.0	40.0%

Highlights

For the year ended 31 December 2017, the Group recorded turnover of approximately HK$5,912.5 million, increased by 38.6% year-on-year. Gross profit amounted to approximately HK$824.7 million, increased by 37.7% year-on-year. Operating profit reached approximately HK$255.6 million, representing an increase of 32.6% year-on-year. Profit attributable to owners of the parent reached approximately HK$198.6 million, representing an increase of 30.8% year-on-year. The board of Directors proposed a final dividend of HK35.0 cents per share based on the number of shares as at 31 December 2017.

The overall sales revenue of audio products reached approximately HK$4,554.6 million, representing an increase of 60.3% year-on-year. The sales revenue of video products reached approximately HK$731.1 million, representing a decrease of 37.0% year-on-year. The sales revenue of smart and ancillary products reached approximately HK$464.1 million, representing an increase of approximately 5 times year-on-year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Twelve months ended 31 December	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
TURNOVER	3	**5,912,479**	4,265,667
Cost of sales		**(5,087,789)**	(3,666,526)
Gross profit		**824,690**	599,141
Other income and gains, net		**100,339**	106,316
Selling and distribution costs		**(174,908)**	(131,286)
Administrative expenses		**(270,249)**	(177,505)
Research and development costs		**(201,993)**	(197,962)
Other operating expenses, net		**(22,325)**	(5,893)
		255,554	192,811
Finance costs	4	**(7,405)**	(4,534)
Share of profits and losses of associates		**3,736**	4,422
PROFIT BEFORE TAX	5	**251,885**	192,699
Income tax expense	6	**(53,379)**	(41,008)
PROFIT FOR THE YEAR		**198,506**	151,691
OTHER COMPREHENSIVE INCOME/ (LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**46,492**	22,231
Reclassification adjustments for gains included in profit or loss		**(7,622)**	(1,598)
Income tax effect		**(6,059)**	–
		32,811	20,633
Exchange fluctuation reserve:			
Translation of foreign operations		**54,810**	(49,303)
Release upon disposal of a subsidiary		**(201)**	–
		54,609	(49,303)

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

		Twelve months ended 31 December	
		2017	2016
	Note	***HK$'000***	*HK$'000*
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**87,420**	(28,670)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**285,926**	123,021
Profit/(loss) attributable to:			
Owners of the parent		**198,648**	151,775
Non-controlling interests		**(142)**	(84)
		198,506	151,691
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**286,056**	123,114
Non-controlling interests		**(130)**	(93)
		285,926	123,021
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**HK78.96 cents**	HK62.12 cents
Diluted		**HK76.71 cents**	HK61.38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2017 HK$'000**	31 December 2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**562,992**	474,015
Prepaid land lease payments		**70,908**	67,655
Goodwill		**4,290**	4,009
Other intangible asset		**196**	303
Investment in an associate		**25,150**	20,008
Prepayments and other receivables		**9,690**	5,603
Deferred tax assets		**80,974**	73,933
Total non-current assets		**754,200**	645,526
CURRENT ASSETS			
Inventories		**958,638**	395,699
Trade receivables	9	**1,208,381**	1,253,314
Bills receivable		**–**	4,683
Prepayments, deposits and other receivables		**265,592**	135,941
Tax recoverable		**–**	2,506
Derivative financial instruments		**76,454**	–
Cash and cash equivalents		**849,787**	730,495
Total current assets		**3,358,852**	2,522,638
CURRENT LIABILITIES			
Trade payables	10	**1,472,949**	1,064,311
Bills payable		**–**	227
Other payables and accruals		**739,189**	622,049
Tax payable		**113,462**	89,367
Derivative financial instruments		**33,655**	2,907
Provision		**240,931**	216,787
Total current liabilities		**2,600,186**	1,995,648
NET CURRENT ASSETS		**758,666**	526,990
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,512,866**	1,172,516

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**31 December 2017** *HK$'000*	31 December 2016 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,512,866**	1,172,516
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**17,667**	7,820
Net assets		**1,495,199**	1,164,696
EQUITY			
Equity attributable to owners of the parent			
Share capital	11	**268,192**	249,163
Reserves		**1,227,007**	915,368
		1,495,199	1,164,531
Non-controlling interests		**–**	165
Total equity		**1,495,199**	1,164,696

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has assessed and adopted, to the extent that is applicable to the Group, the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a material impact on the financial performance and financial positions for the periods presented in these financial statements. While the amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, these amendments have no impact to the disclosure in these financial statements as the Group has no changes in liabilities arising from financing activities.

3. SEGMENT INFORMATION

For management purposes, 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.

4. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on factored trade receivables	**7,405**	4,534

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2017	2016
	HK$'000	*HK$'000*
Cost of inventories sold*	**5,043,896**	3,651,767
Cost of services rendered*	**34,885**	14,759
Depreciation	**82,763**	74,376
Amortisation of other intangible asset	**130**	162
Research and development costs		
– current year expenditure	**201,993**	197,962
Amortisation of prepaid land lease payments	**1,390**	1,403
Ineffectiveness of cash flow hedges	**1,362**	(1,533)
Minimum lease payments under operating leases	**34,822**	26,991
Auditor's remuneration	**2,180**	2,073
Employee benefit expense		
(including directors' remuneration):		
Wages and salaries	**689,905**	518,829
Equity-settled share option expense	**11,661**	1,624
Employee share-based compensation benefits		
under the Award Scheme	**25,514**	11,134
Defined contribution expense	**49,899**	38,306
	776,979	569,893
Product warranty provision:		
Additional provision	**39,912**	63,200
Reversal of unutilised provision	**(16,959)**	(33,512)
	22,953	29,688
Loss on sale of scrap materials**	**–**	9,136
Loss on disposal of items of		
property, plant and equipment**	**290**	742
Loss on write-off of items of property, plant and equipment**	**6,957**	–
Write-off of damaged inventories*	**9,008**	–
One-off compensation and other losses on the fire accident**	**5,767**	–
Loss on disposal of a subsidiary**	**5,566**	–
Impairment/(reversal of impairment) of trade receivables, net**	**3,745**	(3,985)

* These amounts are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

** These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2017	2016
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**6,881**	1,613
Overprovision in prior years	**(734)**	(208)
Current – Elsewhere		
Charge for the year	**47,668**	30,445
Overprovision in prior years	**(2,274)**	–
Deferred	**1,838**	9,158
Total tax charge for the year	**53,379**	41,008

7. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Proposed final dividend – HK35.0 cents (2016: HK25.0 cents) per ordinary share	**93,867**	62,291

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**198,648**	151,775

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue less shares held for the Award Scheme during the year used in the basic earnings per share calculation	**251,568,362**	244,322,509
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	**2,731,117**	–
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	**4,656,347**	2,934,006
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**258,955,826**	247,256,515

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding during that year had no dilutive effect on the basic earnings per share amount presented.

9. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Due from third parties	**1,084,746**	1,211,354
Provision for impairment	**(9,429)**	(5,222)
	1,075,317	1,206,132
Due from TCL Corporation and its affiliates *(note)*	**133,064**	47,182
	1,208,381	1,253,314

Note: The amounts are unsecured, non-interest-bearing and repayable within one year.

Sales to third party customers

The majority of the Group's sales in the PRC were mainly made on the cash-on-delivery basis or on commercial bills guaranteed by banks with credit periods ranging from 60 to 180 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 15 to 120 days. Sales to certain long term strategic customers were made on an open-account basis with credit terms of no more than 180 days.

Sales to related parties

Sales to related parties were made on an open-account basis.

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

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current to 90 days	**1,023,690**	950,355
91 to 180 days	**73,289**	204,564
181 to 365 days	**31,434**	64,112
Over 365 days	**79,968**	34,283
	1,208,381	1,253,314

A subsidiary of the Group has entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 31 December 2017, trade receivables factored to banks aggregated to HK$833,592,000 (2016: HK$293,513,000), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

10. TRADE PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Due to third parties	**1,465,732**	1,003,725
Due to TCL Corporation and its affiliates	**7,217**	60,586
	1,472,949	1,064,311

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

	2017	2016
	HK$'000	*HK$'000*
Current to 90 days	**1,434,839**	1,001,490
91 to 180 days	**30,304**	49,402
181 to 365 days	**4,403**	2,297
Over 365 days	**3,403**	11,122
	1,472,949	1,064,311

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

11. SHARE CAPITAL

Shares

	2017	2016
	HK$'000	*HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
268,192,071 (2016: 249,162,626) shares of HK$1.00 each	**268,192**	249,163

During the year, the movements in the Company's issued share capital account were as follows:

(a) The subscription rights attaching to 11,537,040 and 1,786,601 share options were exercised at the subscription prices of HK$6.02 and HK$4.05 per share respectively, resulting in the issue of 13,323,641 shares for a total cash consideration, before expenses, of HK$76,689,000. An amount of HK$16,770,000 was transferred from the share option reserve to share premium upon the exercise of the share options.

(b) The Company allotted and issued 5,705,804 shares at par value to the trustee who would hold new shares for the benefits of the relevant grantees and no new fund was raised.

MANAGEMENT DISCUSSION & ANALYSIS

In 2017, the pace of global economic recovery speeded up and China's economy grew steadily, with its GDP increasing by approximately 6.9% as compared to that of the previous year. It was the first time that China has reversed the slowdown of its economic growth since 2011 showing an upswing. According to figures from the General Administration of Customs of the PRC, the import and export of the trade of goods in 2017 rebounded after having been declining for two years, with the total volume reached approximately RMB27.79 trillion, growing by approximately 14.2% as compared to that of the previous year. The latest "World Economic Outlook" released by the International Monetary Fund ("IMF") also pointed out that, due to the increased global growth momentum and the recent changes in U.S. tax policies, global output rose by approximately 3.7% in 2017, representing a 0.5 percentage point higher than that in 2016. A sound economic environment will be conductive to the growth of the Group's export business of electronic products, as well as the continuous exploration of relevant markets for smart speakers etc., tapping into development opportunities of smart products, and expansion of its market share.

Under the prevailing trend of artificial intelligence, the market demand for smart speakers has been on an upward trend. In 2017, the market scale of smart speakers showed rapid growth and the adoption rate of smart speakers in the market far exceeded expectations. The entire industry chain has progressed from infancy towards maturity. International and domestic Internet and hardware industry leaders have seized the market opportunities, kicking off a new wave of market boom of smart voice speakers. Amazon is still in the significant leading position in view of the current market competition of smart voice speaker. Meanwhile, according to Strategy Analytics, the sales volume of smart speakers will exceed US$1.5 billion dollars in 2017 and is expected to reach US$5.5 billion by 2022 at a CAGR of 29.7%.

Business Overview

For the year ended 31 December 2017 ("the year under review"), the Group recorded a turnover of approximately HK$5,912.5 million, representing an increase of 38.6% over the corresponding period of last year, and a gross profit of approximately HK$824.7 million, representing a rise of 37.7% year-on-year. Gross profit margin slightly decreased by 0.1% from 14% for the corresponding period last year. Operating profit amounted to approximately HK$255.6 million, representing an increase of 32.6% year-on-year. Profit attributable to owners of the parent for the year under review rose by 30.8% year-on-year to approximately HK$198.6 million.

For the year ended 31 December 2017, turnover from the Group's audio product business increased by 60.3% year-on-year to approximately HK$4,554.6 million; turnover from video product business decreased by 37.0% year-on-year to approximately HK$731.1 million; turnover from the smart and ancillary products increased by approximately 5 times year-on-year to approximately HK$464.1 million; turnover from other business decreased by 13.9% year-on-year to approximately HK$162.7 million. The Group's turnover breakdown by product[(1)]:

	2017 **(HK$'000)**	2016 *(HK$'000)*	Change
Audio Products[2]	**4,554,612**	2,840,803	60.3%
Video Products[3]	**731,059**	1,159,791	-37.0%
Smart and Ancillary Products[4]	**464,096**	76,001	510.7%
Other Businesses	**162,712**	189,072	-13.9%
Total	**5,912,479**	4,265,667	38.6%

(1) Partial smart ancillary products sales in 2016 were reclassified to smart and ancillary products for the reason of product form adjustment.

(2) Mainly include wireless bluetooth speakers, soundbar, headphones, home theater, mini speakers, and other products.

(3) Mainly include DVD player and BD player, OTT set top box (STB) and other products.

(4) Mainly include smart voice speakers and ancillary products, smart voice modules, smart gateways, and other products.

During the year under review, the Group devoted its effort in developing its audio product and smart product businesses. Among them, the growth of new audio products was substantial. Products of new customers started to be delivered in the second quarter of 2017, and at the same time smart voice speakers and ancillary products proceeded to bulk shipment in particular there was a rapid growth of bulk shipping of smart voice speakers of a specific customer on the 11 November shopping day, which drove the Group's turnover of smart and ancillary products to increase approximately 5 times year-on-year during the year under review. Meanwhile, the Group expanded well in relation to its new customer base and new business, but the progress of the international video business was below expectation, and the Group has closed this business during the period. In 2017, despite the continuous optimisation of the product mix of the Group, the gross profit margin slightly decreased by 0.1% compared with the corresponding period in 2016 due to the impact of rising raw material and labour costs, and the appreciation of the RMB.

Research and Development (R&D) and Product Innovation

The Group has been committed to develop new products. During the year under review, the Group's R&D expenses were approximately HK$202.0 million, representing 3.4% of its total turnover. The Group has its own R&D bases in Huizhou, Shenzhen, and Xi'an with more than 800 staff members. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team carries out visionary research and development on fundamental product technologies. The Group will devote more R&D resources to smart products, epitomised by smart voice speakers, to strive for pioneer advantages of product research and development in this field.

In contrast with the other products of the Group, smart products demand more complex R&D and more components, and require professional R&D personnel to follow up on the solutions and evolution of the respective master control chip platforms. At the same time, in upstream applications, the various global mainstream voice eco-platforms have their own voice accesses, which need to be implemented in different products according to customer needs. The future of voice interaction technology will be a crucial part of human-machine interaction. Benefiting from the continuous improvement of far-field voice technology, the sales volume of smart speaker products with voice access and voice feedback grows swiftly in the global market. With years of professional experience in electro-acoustic design and pioneer advantages in smart speakers, the Group constantly innovates in product development to capture potential market opportunities.

However, the Group also believes that future voice technologies will not be limited to smart speaker products, but may also be ultilized by various types of products that require voice accesses. Therefore, in addition to strengthening the R&D and innovation of smart voice speakers, the Group also actively explores and applies the R&D process on the cross-field ultilisation of smart voice. Apart from outstanding design and R&D, smart products that provide user-friendly experiences also require comprehensive automated testing capabilities. Thus the Group has accordingly established a number of automated test laboratories for smart products to better meet customer needs.

The Group is not only equipped with R&D and production abilities, but also possesses the vertical integration capability of the supply chain, which enables the Group to provide customers with speaker units and structural parts. In order to further meet the demand for smart products, the Group continuously enhances its capabilities in speaker units and structural components, especially those with new forms. On 15 January 2018, a subsidiary of the Group entered into a joint venture agreement with a subsidiary of Coxon Precise Industrial Co., Ltd (a Taiwan company whose shares are listed on the Taiwan Stock Exchange, "Coxon Precise") for the establishment of a joint venture company in China to further strengthen its capabilities in precision plastic injection and structural parts with new forms, in order to serve the diverse needs of more customers. Please refer to the announcement of the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 15 January 2018.

Customer and Market Development

The Group continues to uphold the philosophy of innovation in R&D, swift customer response, and strict quality control. The Group received high recognition from the customers during the process of cooperation. The Group has collaborated with many well-known audio and video brands all over the world for years, and has built a strong customer base. With the rapid growth of the smart voice market, the Group can leverage on its R&D strengths in this field to better serve its customers and capture market growth opportunities with its customers.

In the meantime, the Group will also eagerly expand its Internet customer base and strive for more business opportunities for cooperation to help the speedy development of the smart voice eco-platform of internet customers. As the global voice ecosystem advances and matures, more and more brands have launched or will soon launch voice-enabled smart products (including but not limited to smart speakers), and the Group will also leverage on its pioneer advantages in smart voice technologies, as well as the foundation for cooperation in each voice eco-platform to exploit more business opportunities of smart products from brand customers across the smart speaker industry.

Production and Supply Chain Management

In the face of China's labour shortage problems and rising wages, the Group is committed to enhance its human resources system. During the year under review, the Group continued to increase the proportion of automated equipment and strengthened the stability of skilled workers to boost its per capita production efficiency steadily. The Group has introduced automatic test systems and automatic packaging systems to facilitate lean, automated, and informationised production and independently developed MES and WMS systems to improve operational efficiency and quality. The Group completed the renewable energy (solar) power generation project during the period which made use of the idle roofs of its factories and reduced its carbon emissions; by building a decentralised roof photovoltaic power generation system and deploying advanced solar panels (photoelectric conversion efficiency of 16.0% and above) to generate power for factory use. Chilled water storage is currently under construction, which aims to reduce the overall power consumption of the factories.

The Group is also dedicated to optimising the equipment and management system of its production plant. On the one hand, the Group implemented smart warehouse logistics management based on an industrial intelligence system, to closely integrate all aspects of supply chain, production, and logistics, in order to set a solid foundation for Industry 4.0 and to increase the actual production capacity of the Huizhou production base. Currently, phase one of the extension of the production base has been completed and the base has been put into operation in the first quarter of 2017. Phase two of the project has commenced, which allows the Group to promote centralised management of the production capacity as well as to expand its product line, integrate its supply chain effectively and increase production efficiency. Since the total orders received and expected to receive in the second half of the year increase, in order to satisfy product manufacturing and delivery needs, the Group has signed a production plant lease agreement with TCL Communication during the year under review. Please refer to the announcement the Company published on the website of the Stock Exchange of Hong Kong Limited and the Company on 31 May 2017.

In June 2017, a fire accident occurred in the warehouse for materials and the secondary workshop of the factory area located at Dongguan City, Guangdong Province, China, which is operated by FP Group (Dongguan) Limited, a wholly-owned subsidiary of the Company. As a result of the fire accident, some of the raw material, semi-finished goods, finished goods, part of the plant and production facilities in the factory area have been damaged. Whilst the fire accident may have a temporary adverse impact on the short term financial position of the Group and the products delivery schedule, the Group had made sufficient property insurance arrangements. Please refer to the announcement the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 12 June 2017.

Future Plans and Outlook

According to the "2018 Economic and Financial Outlook Report" released by the Institute of International Finance at the Bank of China, following the introduction of the fiscal and taxation released by the U.S. government, the major banking businesses in Europe and the U.S. have become more robust and the stability in emerging markets has been further enhanced. It is estimated that in 2018 the global economy will continue to show sound growth momentum. In the "World Economic Outlook", the IMF raised global economic growth projections for 2018 and 2019 to 3.9% and adjusted its forecast for China's economic growth in 2018 to 6.6%. Although the pace of global economic recovery is accelerating and there are still changes and risks in the world economy and finance, the Group will continue to adopt a prudent and cautious strategy to optimise its product mix and diversify its business, in line with the general trend in smart technology.

After years of continuous investment and development, the audio business has now become the major business segment of the Group, especially in view of the rapid growth of new audio business. The Group will continue to consolidate and strengthen its position in the new audio market, focusing on the development of the business of soundbar and headphone products, striving for more business opportunities and exploring more new customers. For video and traditional audio business, the Group will keep on adjusting its resource structure and adopt small-team and asset-light operation strategy.

The Group will continue to emphasise on its development on the smart and ancillary products business, in particular the smart voice speakers and voice-related smart products. The Group will keep on strengthening its technological advantages in smart voice, focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly tap into more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology. As a core partner of the global Internet enterprise voice ecosystem, the Group will grow together with the voice ecosystem and persist in its efforts to bring the experience of a new generation of human-machine interaction to more users.

In terms of the vertical integration of the supply chain, the Group consolidated the moulding and plastic parts manufacturing and electro-acoustic units of its subsidiaries to achieve synergy and reduce production costs. The Group will further promote delicacy management to enhance overall operational efficiency and control overall costs. In view of the continuous growth of the Group's business, especially in the smart product business, delicacy management is a necessary process for the Group, during which it will adopt a series of measures to improve the administrative efficiency and internal operation process. With delicacy management and improvement of product testing and assembled infrastructure, the Group will be able to ensure product quality and control production cost.

In conclusion, the Group will provide the highest quality products and services to brand companies and customers through expanding new businesses, exploring new technologies and new products, and enhancing its productivity. Following the gradual maturity of its smart and ancillary products business, the management expects that the Group's proportion of turnover from its smart and ancillary products will continue to grow in 2018 and is confident of the Group's future business growth. The Group will, as always, keep on looking for opportunities and actively seeking viable business expansion opportunities, which, coupled with its owns strengths, will enlarge its business portfolio, elevate the long-term value of the Group, and proactively generate more returns for its shareholders.

Financial Review

Significant Investments, Acquisitions and Disposals

There is no significant investments, nor other material acquisitions and disposals of subsidiaries during the period under review. Thereafter, on 15 January 2018 a subsidiary of the Group entered into a joint venture agreement with a subsidiary of Coxon Precise for the establishment of a joint venture company in China, in which the parties invested RMB14 million and RMB6 million in cash respectively and the Group and Coxon Precise were respectively interested in 70% and 30% of the equity interest of that company. Please refer to the announcement of the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 15 January 2018.

Liquidity and Financial Resources

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

The cash and bank balance of the Group as at 31 December 2017 amounted to approximately HK$849,787,000 of which 1.4% was maintained in Hong Kong dollars, 93.7% in US dollars, 4.8% in Renminbi and 0.1% in Euros.

There was no material change in available credit facilities when compared with the year ended 31 December 2016 and there was no asset held under finance lease as at 31 December 2017.

As at 31 December 2017, the Group's gearing ratio was nil since the Group had cash and bank balances of approximately HK$849,787,000 and without interest-bearing bank borrowings.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2017.

Capital Commitments and Contingent Liabilities

As at 31 December 2017, the Group had capital commitments of approximately HK$6,791,000 (31 December 2016: HK$15,367,000). The Group did not have any material contingent liabilities as at 31 December 2017.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2017.

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 7,959 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. In order to align the interests of staff with those of shareholders, share options were granted to selected employees under the Company's share option schemes. Options for subscribing a total of 17,532,116 shares remained outstanding at the end of the reporting period.

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 28 August 2014 as amended on 8 August and 7 September 2017 pursuant to which existing shares may be purchased by the trustee from the market or new shares may be subscribed for out of cash contributed by the Group and be held on trust by the trustee of the Award Scheme for the relevant selected persons until such shares are vested with the relevant selected persons in accordance with the rules of the Award Scheme.

PURCHASES, SALES OR REDEMPTION OF SHARES

Pursuant to the rules of the Award Scheme adopted by the Company on 28 August 2014 as amended on 8 August and 7 September 2017, the trustee for the Award Scheme purchased from the market a total of 1,390,000 existing shares and allotted for a total of 5,705,804 new shares, all being the awarded shares for the Award Scheme during the year. The total amount paid by the Company to the trustee to acquire such existing and new shares was approximately HK$8,939,000 and HK$5,705,804 respectively.

Save as disclosed above, during the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board has proposed a final dividend, for the year ended 31 December 2017, of HK35.0 cents (2016: HK25.0 cents) in cash per share.

Subject to approval at the forthcoming annual general meeting on 24 April 2018, Tuesday the said final dividend will be payable on or about 28 May 2018, Monday to shareholders whose names appear on the register of members of the Company on 18 May 2018, Friday.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 April 2018, Thursday to 24 April 2018, Tuesday, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the Shares may be registered during the said. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 18 April 2018, Wednesday.

The register of members of the Company will be closed from 16 May 2018, Wednesday to 18 May 2018, Friday (both dates inclusive), for the purposes of determining the entitlements of the shareholders to the proposed final dividend upon the passing of relevant resolution. No transfer of the Shares may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 15 May 2018, Tuesday.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 24 April 2018, Tuesday. The notice of annual general meeting will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited and despatched to the shareholders of the Company in due course.

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 year ended 31 December 2018, 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 substantially the same as those set out in the Company's 2016 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 each of them:

(1) Mr. LI Qi, being independent non-executive director of the Company, was not present at the annual general meeting ("AGM") of the Company held on 23 May 2017 and the extraordinary general meeting ("EGM") of the Company held on 27 September 2017; and

(2) Mr. LIAO Qian, being non-executive director and Chairman of the board of directors of the Company, and Mr. LEONG Yue Wing, being independent non-executive director of the Company, were not present at the EGM of the Company held on 27 September 2017.

However, (i) Mr. LIAO Qian, non-executive director and Chairman of the board of directors of the Company, Mr. POON Chiu Kwok and Mr. LEONG Yue Wing, both being independent non-executive director of the Company were present at the aforesaid AGM held on 23 May 2017, and (ii) Mr. POON Chiu Kwok being independent non-executive director of the Company was present at the aforesaid EGM held on 27 September 2017, to ensure an effective communication with the shareholders thereat.

Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs.

Mr. TSUI Kwok Ho ("Mr. TSUI"), the company secretary of the Company until his resignation which took effect on 25 April 2017, and Ms. CHOY Fung Yee ("Ms. CHOY"), the current company secretary of the Company appointed with effect from 25 April 2017, are not employees of the Company. Mr. TSUI was a solicitor of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors. Mr. TSUI had been appointed as the company secretary of the Company since 19 August 2016 until his resignation. Ms. CHOY is a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors.

The Company has assigned Mr. REN Xuenong, an executive director of the Company, as the contract person with Mr. TSUI (during his office) and Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. TSUI (during his office) and Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors and the Group, each of Mr. TSUI (during his office) and Ms. CHOY is both familiar with the operations of the Group and has in-depth knowledge of the management of the Group. Having in place a mechanism that Mr. TSUI (during his office) and Ms. CHOY will get hold of the Group's development promptly without material delay and with their expertise and experience, the Board is confident that having Mr. TSUI (during his office) and Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant Board procedures, applicable laws, rules and regulations.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2017, 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. LEONG Yue Wing, 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 year ended 31 December 2017.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 9 March 2018

As at the date of this announcement, the Board comprises YU Guanghui, SONG Yonghong and REN Xuenong as executive directors, LIAO Qian (Chairman) as non-executive director and POON Chiu Kwok, LI Qi and LEONG Yue Wing as independent non-executive directors.