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 2018

FINANCIAL HIGHLIGHTS

Results for the year ended 31 December

	2018 *(HK$M)*	2017 *(HK$M)*	Change
Turnover	**7,303.0**	5,912.5	23.5%
Gross profit	**831.6**	824.7	0.8%
Operating profit	**297.7**	255.6	16.5%
Profit for the year	**221.2**	198.5	11.4%
Profit attributable to owners of the parent	**223.1**	198.6	12.3%
Basic earnings per share *(HK cents)*	**87.24**	78.96	10.5%
Full year dividend per share *(HK cents)*			
– Proposed final dividend per share *(HK cents)*	**30.0**	35.0	-14.3%

Highlights

For the year ended 31 December 2018, the Group recorded a turnover of approximately HK$7,303.0 million, increased by 23.5% year-on-year. Gross profit amounted to approximately HK$831.6 million, increased by 0.8% year-on-year. Operating profit reached approximately HK$297.7 million, representing an increase of 16.5% year-on-year. Profit attributable to owners of the parent reached approximately HK$223.1 million, representing an increase of 12.3% year-on-year. The board of Directors proposed a final dividend of HK30.0 cents per share based on the number of shares as at 31 December 2018.

The overall sales revenue of audio products reached approximately HK$5,543.2 million, representing an increase of 23.9% year-on-year. The sales revenue of headphones reached approximately HK$704.7 million, representing an increase of approximately 1.4 times year-on-year. The sales revenue of video products reached approximately HK$382.1 million, representing a decrease of 44.2% year-on-year. The sales revenue of IoT related products reached approximately HK$175.6 million, representing an increase of approximately 1.1 times year-on-year. The overall sales revenue of ancillary products reached approximately HK$462.5 million, representing an increase of 43.8% 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 2018 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Twelve months ended 31 December	
		2018	2017
	Notes	***HK$’000***	*HK$’000*
TURNOVER	*3*	**7,302,951**	5,912,479
Cost of sales		**(6,471,337)**	(5,087,789)
Gross profit		**831,614**	824,690
Other income and gains, net		**168,071**	100,339
Selling and distribution costs		**(149,755)**	(174,908)
Administrative expenses		**(279,834)**	(270,249)
Research and development costs		**(255,572)**	(201,993)
Other operating expenses, net		**(16,872)**	(22,325)
		297,652	255,554
Finance costs	*4*	**(20,705)**	(7,405)
Share of profits and losses of associates		**5,361**	3,736
PROFIT BEFORE TAX	*5*	**282,308**	251,885
Income tax expense	*6*	**(61,149)**	(53,379)
PROFIT FOR THE YEAR		**221,159**	198,506
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may 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		**1,897**	46,492
Reclassification adjustments for losses/(gains) included in profit or loss		**8,309**	(7,622)
Income tax effect		**5,913**	(6,059)
		16,119	32,811

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

		Twelve months ended 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Exchange fluctuation reserve:			
Translation of foreign operations		**(47,224)**	54,810
Release upon disposal of a subsidiary		**–**	(201)
		(47,224)	54,609
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(31,105)**	87,420
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**190,054**	285,926
Profit/(loss) attributable to:			
Owners of the parent		**223,135**	198,648
Non-controlling interests		**(1,976)**	(142)
		221,159	198,506
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**192,540**	286,056
Non-controlling interests		**(2,486)**	(130)
		190,054	285,926
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**HK87.24 cents**	HK78.96 cents
Diluted		**HK84.61 cents**	HK76.71 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**818,212**	562,992
Prepaid land lease payments		**66,305**	70,908
Goodwill		**4,091**	4,290
Other intangible asset		**65**	196
Investment in an associate		**–**	25,150
Prepayments and other receivables		**18,060**	9,690
Deferred tax assets		**79,296**	80,974
Total non-current assets		**986,029**	754,200
CURRENT ASSETS			
Inventories		**1,268,150**	958,638
Trade and bills receivables	*9*	**1,231,231**	1,208,381
Prepayments, other receivables and other assets		**399,833**	265,592
Tax recoverable		**4,695**	–
Derivative financial instruments		**65,489**	76,454
Cash and cash equivalents		**749,466**	849,787
Total current assets		**3,718,864**	3,358,852
CURRENT LIABILITIES			
Trade and bills payables	*10*	**1,860,556**	1,472,949
Other payables and accruals		**730,053**	739,189
Tax payable		**81,827**	113,462
Derivative financial instruments		**50,133**	33,655
Interest-bearing bank borrowings		**73,338**	–
Provision		**218,362**	240,931
Total current liabilities		**3,014,269**	2,600,186

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
NET CURRENT ASSETS		**704,595**	758,666
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,690,624**	1,512,866
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**15,350**	17,667
Net assets		**1,675,274**	1,495,199
EQUITY			
Equity attributable to owners of the parent			
Share capital	*11*	**268,474**	268,192
Reserves		**1,330,301**	1,227,007
		1,598,775	1,495,199
Non-controlling interests		**76,499**	–
Total equity		**1,675,274**	1,495,199

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 2018. 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in the Group's consolidated financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

Except for the impairment of trade receivables and financial assets included in prepayments, other receivables and other assets in the notes below, the adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

Hedge accounting

Other than the cash flow hedges of forecast purchases of non-financial assets, the adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements.

Impairment

HKFRS 9 requires an impairment on trades receivables and financial assets included in prepayments, other receivables and other assets that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss ("ECL") model rather than incurred losses as is the case under HKAS 39.

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 as 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills receivables	9,429	3,471	12,900

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 9:

	Increase/ (decrease) *HK$'000*
Assets	
Trade and bills receivables	(3,471)
Deferred tax assets	509
Total assets	(2,962)
Equity	
Retained profits	(2,962)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	**Increase/ (decrease)** *HK$'000*
Assets		
Prepayments, other receivables and other assets	*(i)*	9,196
Deferred tax assets	*(ii),(iii)*	599
Total assets		9,795
Liabilities		
Other payables and accruals	*(i),(ii)*	11,348
Total liabilities		11,348
Equity		
Retained profits	*(i),(ii),(iii)*	(1,553)
		(1,553)

(i) Rights of return

For a contract that provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns based on the average historical return rate.

Upon adoption of HKFRS 15, the Group recognise a right-of-return asset which is included in prepayments, other receivables and other assets and is measured at the former carrying amount of the goods to be returned less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. In addition, a refund liability was recognised based on the amount that the Group expects to return to the customers using the expected value method. Accordingly, the Group recognised refund liabilities of HK$11,348,000 as included in other payables and accruals and recognised right-of-return assets of HK$9,196,000 as included in prepayments, other receivables and other assets and deferred tax assets of HK$599,000 as a result of the remeasurement under HKFRS 15, which resulted in a decrease in retained profits of HK$1,553,000 as at 1 January 2018.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$87,742,000 from other payables to contract liabilities within other payables and accruals as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

(iii) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax were adjusted as necessary. Retained profits were adjusted accordingly.

3. SEGMENT INFORMATION

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

4. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**296**	–
Interest on a finance lease	**13**	–
Interest on factored trade receivables	**20,396**	7,405
	20,705	7,405

5. PROFIT BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold*	**6,436,898**	5,043,896
Cost of services rendered*	**24,373**	34,885
Depreciation	**94,350**	82,763
Amortisation of other intangible asset	**130**	130
Research and development costs – current year expenditure	**255,572**	201,993
Amortisation of prepaid land lease payments	**1,423**	1,390
Ineffectiveness of cash flow hedges recorded in other income and gains	**497**	1,362
Minimum lease payments under operating leases	**51,695**	34,822
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**951,435**	689,905
Equity-settled share option expense	**25,320**	11,661
Employee share-based compensation benefits under the Award Scheme	**30,020**	25,514
Defined contribution expense	**60,075**	49,899
	1,066,850	776,979
Impairment of financial assets, net		
Impairment of trade receivables**	**732**	3,745
Impairment of financial assets included in prepayment, other receivables and other assets**	**5,129**	–
	5,861	3,745

	2018	2017
	HK$'000	*HK$'000*
Product warranty provision:		
Additional provision	**39,687**	39,912
Reversal of unutilised provision	**(30,533)**	(16,959)
	9,154	22,953
Loss on disposal of items of property, plant and equipment**	**–**	290
Loss on write-off of items of property, plant and equipment**	**620**	6,957
Loss on re-measurement of pre-existing interest in Guangdong Regency to acquisition date fair value**	**6,875**	–
Write-off of damaged inventories*	**10,066**	9,008
(Reversal of)/One-off compensation and other losses on the fire accident**	**(1,077)**	5,767
Loss on disposal of a subsidiary**	**–**	5,566

* *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% (2017: 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.

	2018	2017
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**13,730**	6,881
Overprovision in prior years	**–**	(734)
Current – Elsewhere		
Charge for the year	**57,136**	47,668
Overprovision in prior years	**(11,379)**	(2,274)
Deferred	**1,662**	1,838
Total tax charge for the year	**61,149**	53,379

7. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Proposed final dividend – HK30.0 cents (2017: HK35.0 cents) per ordinary share	**80,542**	93,867

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:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**223,135**	198,648

	Number of shares	
	2018	2017
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	**255,768,203**	251,568,362
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	**2,611,221**	2,731,117
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	**5,332,850**	4,656,347
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**263,712,274**	258,955,826

9. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Due from third parties	**1,135,926**	1,084,746
Provision for impairment	**(13,114)**	(9,429)
	1,122,812	1,075,317
Due from TCL Corporation and its affiliates *(note)*	**84,224**	133,064
Trade receivables	**1,207,036**	1,208,381
Bills receivables	**24,195**	–
	1,231,231	1,208,381

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:

	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**961,586**	1,023,690
91 to 180 days	**128,570**	73,289
181 to 365 days	**66,335**	31,434
Over 365 days	**50,545**	79,968
	1,207,036	1,208,381

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 2018, trade receivables factored to banks aggregated to HK$921,886,000 (2017: HK$833,592,000), 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 AND BILLS PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Due to third parties	**1,756,302**	1,465,732
Due to TCL Corporation and its affiliates	**85,381**	7,217
Due to a non-controlling shareholder of a subsidiary	**17,161**	–
Trade payables	**1,858,844**	1,472,949
Bills payable	**1,712**	–
	1,860,556	1,472,949

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

	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**1,726,307**	1,434,839
91 to 180 days	**45,583**	30,304
181 to 365 days	**83,699**	4,403
Over 365 days	**3,255**	3,403
	1,858,844	1,472,949

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

11. SHARE CAPITAL

Shares

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
268,474,420 (2017: 268,192,071) ordinary shares of HK$1.00 each	**268,474**	268,192

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

The subscription rights attaching to 282,349 share options were exercised at the subscription prices of HK$4.05 per share respectively, resulting in the issue of 282,349 shares for a total cash consideration, before expenses, of HK$1,143,513. An amount of HK$237,331 was transferred from the share option reserve to share premium upon the exercise of the share options.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Overview

In 2018, the tightening of global monetary policies, spread of trade protectionist sentiments, Sino-US trade frictions, and escalating geopolitical tensions brought challenges to the recovery of the global economy. In the past year, the economic growth in the PRC also reached a new low for 28 years. According to the data of the National Bureau of Statistics of China, the Gross Domestic Product (GDP) of the PRC in 2018 increased by 6.6%, representing a decline of 0.2% as compared to the growth speed of last year. In addition, there were significant two-way fluctuations in the exchange rate of Renminbi in 2018, together with the rising costs of raw material and labour, exerted operating pressure on the export-oriented enterprises in the PRC.

In spite of the unfavourable global economic environment in 2018, the smart speaker market achieved a relatively significant growth by virtue of the convenient and natural voice interaction technology and the product feature of diverse applications. According to the data of Strategy Analytics, a market research company, smart speakers continued to sell quite well. In the fourth quarter of 2018, the shipment units of smart speakers increased from 22.6 million of the third quarter to 38.5 million, up by 95%, which exceeded all the full year shipments of 2017. At the end of 2018, the total sales of smart speakers for the whole year reached 86.2 million.

Business Review

For the year ended 31 December 2018 (the "period under review"), the Group recorded a turnover of approximately HK$7,303.0 million, representing a year-on-year growth of 23.5% which was primarily due to the growth in the new audio, smart audio speaker, headphones and ancillary product businesses. Gross profit amounted to approximately HK$831.6 million, representing a year-on-year growth of 0.8%. Gross profit margin decreased by 2.5% from 13.9% in the same period last year to 11.4% which was mainly due to factors such as the fluctuations in the exchange rate of Renminbi during the period under review, for which the Group adopted a series of measures to lower the risk of exchange rate during the period under review, as well as the rising costs of labour and certain raw materials. Profit attributable to the owners of the holding company during the period under review still increased by 12.3% year-on-year to HK$223.1 million despite the impacts of the rising costs of labour (including options/the amortisation of incentive share costs) and certain raw materials as well as the exchange rate.

During the period under review, the Group endeavoured in developing its audio product, smart product and ancillary product businesses, among which the sales of products including smart speakers, headphones and soundbars grew rapidly. Based on the analysis by product category, the turnover of the Group's audio products, headphones, video products, IoT related products, ancillary products and other businesses amounted to approximately HK$5,543.2 million, HK$704.7 million, HK$382.1 million, HK$175.6 million, HK$462.5 million and HK$34.8 million respectively, representing an increase of 23.9% and 135.0%, a decrease of 44.2%, an increase of 110.4% and 43.8%, and a decrease of 27.5% respectively. The Group's turnover breakdown by product is set out bellow:

	2018	2017	Change
	(HK$'000)	*(HK$'000)*	
Audio Products [(1)]	**5,543,219**	4,474,557	23.9%
Headphones	**704,688**	299,824	135.0%
Video Products [(2)]	**382,102**	684,965	-44.2%
IoT Related Products [(3)]	**175,589**	83,458	110.4%
Ancillary products [(4)]	**462,534**	321,654	43.8%
Other Businesses	**34,819**	48,021	-27.5%
Total	**7,302,951**	5,912,479	23.5%

(1) Mainly include smart voice speakers, wireless speakers, soundbars, home theatres, and mini speakers

(2) Mainly include DVD players, BD players, OTT set top boxes (STB), and other products

(3) Mainly include smart plugs, smart gateways and other IoT products

(4) Mainly include fabric covering for external sales, plastic injection structural parts, speakers, wireless modules, and other components

During the period under review, benefiting from the rapid growth in the global market of smart products and the advantage of leading product technology and the initial market layout, the smart audio speaker business of the Group maintained a relatively rapid growth and the proportion of the revenue generated by it to the total turnover of the Group also increased to 16.2%. Meanwhile, the ancillary product business which is ancillary to the smart product business also benefited from the overall market growth and entered into the supply chain of one mainstream customer in the voice recognition field, especially in respect of precision plastic injection, structural parts with new form and speaker units which acquired remarkable results. In addition, the shipments of Bluetooth headphones of the Group maintained a rapid growth during the period under review. The Group has enhanced its development of True Wireless Stereo (TWS) earphones and voice interaction function of earphones and continued to consolidate its leading position of Bluetooth speakers, while at the same time the Group has also enhanced its market share of soundbars.

Product Research and Development (R&D) and Innovation

The Group has been committed to product R&D and innovation. During the period under review, the Group's R&D expenses amounted to HK$255.6 million, accounting for 3.5% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an with approximately 900 staff members in total. In addition to developing and introducing new products in response to customers' specific requirements, the Group also carries out visionary R&D on fundamental product technologies. In recent years, the Group devoted more R&D resources to smart products epitomised by smart voice speakers (including educational and display-related smart products centred around smart voice) and gradually established the development capability for ancillary products which is ancillary to the smart products.

In respect of the smart voice eco-platform, the Group maintained close cooperation with internet enterprises with global mainstream voice platforms and continued to carry out development for latest technologies and product coordinating on the basis of mainstream voice platforms. In respect of hardware solution, the Group continued to keep up with the hardware technology trend of audio solution and, based on the product development in respect of solutions, provide internet customers or its eco-customers with various choices of platforms among global mainstream solution providers such as MediaTek, Qualqomm and Allwinner Technology. In respect of the transformation of technology and interaction method, smart audio speaker is gradually transforming from sole-audio interaction to "audio + visual" diversified interaction. Screen-equipped smart speaker breaks the limitation in respect of audio interaction function and content display and allows smart products to acquire audio and visual abilities. The Group has also been actively developing display-related smart products to secure more new customers.

The Group constantly develops diversified smart products and, by leveraging on its extensive experience in professional electro-acoustic design and pioneer advantages in smart speakers, the Group constantly innovates in product development to enhance the overall competitiveness of the Group and capture potential market opportunities. The Group also believes that future voice technologies will not be limited to smart speaker products, but may also be utilised 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 cross-field utilisation of smart voice, for instance, products in educational and industrial application field. Apart from outstanding design and R&D, smart products that provide user-friendly experiences also require comprehensive automated testing capabilities. The Group has also established a number of automated test laboratories for smart products to better meet customer needs.

Customer and market expansion

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 customers during the process of cooperation with customers towards mutual benefits. 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 together with its customers.

In the meantime, the Group will also eagerly expand its Internet customer base and strive for more business cooperation opportunities to facilitate speedy development of smart voice eco-platform of internet customers. As global voice eco-platform advances and matures, more brands have launched or will soon launch smart products with audio interaction (including but not limited to smart speakers), and the Group will also leverage on its pioneer advantages in smart voice technologies and 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

The Group is not only equipped with R&D and production abilities, but also possesses 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. ("Coxon Precise") for the establishment of a joint venture company in China to further strengthen the Group's capabilities in precision plastic injection and structural parts with new forms, in order to satisfy the diverse needs of more customers with structural parts. 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.

The Group completed the renewable energy (solar) power generation project during the period under review which made use of idle roofs of its own factories in order to reduce its carbon emissions, and built a decentralised roof photovoltaic power generation system which utilised advanced solar panels (with photoelectric conversion efficiency of over 16.0%) to generate power for factory use. The annual power generation in 2018 was expected to be 1.3 million KW·h, representing an annual saving of 420 tons of standard coal and an annual carbon reduction of approximately 1,200 tons. The actual annual power generation was 1.369 million KW·h and the actual performance was better than expected. Water storage for cooling project was completed in June 2018 and has commenced operation, which aims to reduce the overall power consumption of the factories. The project reduced overall power consumption by approximately 516,000 KW·h in 2018 through improving the power generation utilisation rate of the balanced grid at night.

The Group continued the expansion of its existing production base in Huizhou. Phase two of Huizhou Zhongkai Second Plant project officially commenced in April 2018 and is expected to be completed by the end of March 2019. Completion of this project will allow the Group to expand its product line and integrate its supply chain. In June 2018, the Group's Huizhou Puli Electroacoustic Tongqiao Industrial Park was also completed, which will form a comprehensive industrial chain integrating carpentry, speaker assembly, high-end wooden boxes, speakers, and plastic injection. Meanwhile, in order to alleviate the labour shortage and diversify employment needs in the Huizhou factory, the Group established Tonly Factory in Beihai City, Guangxi province to engage in the assembly business and it commenced production during the period under review.

To tackle the labour shortage and salary increase problems in the PRC in a proactive manner, the Group continued to optimise its human resources system. During the period 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 a streamlined, automated, and informationised production and self-developed MES and WMS systems to improve operational efficiency and quality. The Group is also dedicated to optimising the equipment and management system of its production plant. 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 while enhancing the actual production capacity of the Huizhou production base.

Future Plans and Outlook

As affected by the outcome of trading negotiation between the PRC and the United States and change of global financial environment, there will possibly be a slowdown in global economic growth in 2019. In the World Economic Outlook report which was updated in January 2019, the International Monetary Fund (IMF) revised the estimated growth speed of global economy in the year of 2019 from 3.7% of the estimation in October last year to 3.5%, reaching the lowest level in the past three years. It was also the second time that the IMF downward adjusted the estimation of the growth speed of global economy in 2019. Meanwhile, along with the increasing complexity of domestic and overseas situations, the prospect of Chinese economic growth in 2019 is also gloomy and greater challenge will be imposed on corporate development.

Although the overall economic development is rather unpromising, the Group will proactively respond to market changes. After years of continuous investment and development, audio product business has now become the major business segment of the Group, especially in view of the rapid growth of smart speakers and new audio business. The Group will continue to consolidate and strengthen its position in the new audio market, focusing on the development of soundbar and headphone product businesses, striving for more business opportunities and exploring more new customers. For the video and traditional audio business, the Group will keep on adjusting its resource structure and adopt a small-team and asset-light operation strategy.

The Group will continue to devote great effort on the development of its smart and ancillary product businesses, in particular smart voice speakers and other voice-related smart products. The Group will continue strengthening its technological advantages in smart voice, while focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly explore 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 corporate voice ecosystem, the Group will achieve mutual growth with voice ecosystem development and strive to provide more users with the experience of a new generation of human-machine interaction.

In terms of vertical integration of 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 implement streamlined 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, streamlined management is a necessary process for the Group, during which it will adopt a series of measures to improve its administrative efficiency and internal operation process. With the streamlined management and improvement of product testing and assembled infrastructure, the Group will be able to ensure product quality and control production cost. In addition, the Group will actively deploy and enhance its overseas production capacity in order to strive for more business orders, alleviate the current domestic labour shortage situation, and reduce its labour cost.

In conclusion, the Group will provide brand companies and customers with outstanding quality products and services by expanding new businesses, exploring new technologies and products, and enhancing its productivity. As the smart and ancillary product business is becoming more mature, the management estimates that the smart products and ancillary products of the Group will account for an increasing proportion to its turnover in 2019 and is confident of the Group's future business growth. Meanwhile, along with the continuous development of smart audio products, more enterprises will enter this field in the future and the market competition will become fiercer. As risks and opportunities co-exist, it will pose challenges to the future business development of the Group. The Group will, as always, keep on looking for opportunities and actively seeking viable business expansion opportunities, which, coupled with its own strengths, will enlarge its business portfolio, enhance the long-term value of the Group, and proactively generate more return for its shareholders.

Financial Review

Significant Investments, Acquisitions and Disposals

There were no significant investments, nor other material acquisitions and disposals of subsidiaries, associates and/or joint ventures during the period under review, save as the followings:

(i) On 15 January 2018 a subsidiary of the Company entered into a joint venture agreement with a subsidiary of Coxon Precise for the establishment of a joint venture company in the PRC, 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.

(ii) On 9 November 2018, a subsidiary of the Company entered into a share transfer agreement pursuant to which the Company agreed to acquire from a third party approximately 30.08% of the equity interest in Guangdong Regency Optics-electron Co., Ltd. (the "Target Company"), a company established in the PRC with limited liability at a consideration of approximately RMB29 million, after which the Group held approximately 56.40% of the equity interest in the Target Company and therefore the Target Company became a subsidiary of the 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 9 November 2018 for details.

Liquidity and Financial Resources

The Group's principal financial instruments comprise 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 2018 amounted to approximately HK$749,466,000 of which 1% was maintained in Hong Kong dollars, 50% in US dollars and 49% in Renminbi.

There was no material change in available credit facilities when compared with the year ended 31 December 2017 and there was no asset held under finance lease as at 31 December 2018.

The Group monitors capital using a gearing ratio, which is debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Debt is calculated as a total of interest-bearing bank borrowings. Total capital refers to equity attributable to owners of the parent. The gearing ratio as at the end of the reporting period was 4.6%.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2018.

Capital Commitments and Contingent Liabilities

As at 31 December 2018, the Group had capital commitments of approximately HK$48,070,000 (31 December 2017: HK$6,791,000). The Group did not have any material contingent liabilities as at 31 December 2018.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2018.

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 9,188 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 37,580,651 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 1,012,000 existing shares being the awarded shares for the Award Scheme during the year ended 31 December 2018. The total amount paid by the Company to the trustee to acquire such existing shares was approximately HK$7,988,000.

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 2018, of HK30.0 cents (2017: HK35.0 cents) in cash per share.

Subject to approval at the forthcoming annual general meeting on 9 May 2019, Thursday the said final dividend will be payable on or about 17 June 2019, Monday to shareholders whose names appear on the register of members of the Company on 27 May 2019, Monday.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2019, Monday to 9 May 2019, Thursday, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the shares of the Company ("Shares") may be registered during the said period. 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 3 May 2019, Friday.

The register of members of the Company will be closed from 23 May 2019, Thursday to 27 May 2019, Monday (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 22 May 2019, Wednesday.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 9 May 2019, Thursday. 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 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 Code Provision F.1.1. The reasons for the deviation from Code Provision F.1.1 remain substantially the same as those set out in the Company's 2017 annual report.

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.

Ms. CHOY Fung Yee ("Ms. CHOY"), the company secretary of the Company is not an employee of the Company. 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 contact person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors and the Group, Ms. CHOY is very familiar with the operations of the Group and has in-depth knowledge of the management of the Group. Having in place a mechanism that 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 Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant Board procedures, applicable laws, rules and regulations.

SCOPE OF WORK OF THE COMPANY'S AUDITOR ERNST AND YOUNG ("EY")

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit and loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by EY to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on this announcement.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, 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 2018.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 15 March 2019

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.