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 SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2019 *(HK$M)*	2018 *(HK$M)*	**Change**
Turnover	**3,518.2**	2,802.2	25.6%
Gross profit	**457.2**	342.0	33.7%
Operating profit	**133.0**	116.4	14.2%
Profit for the period	**98.7**	83.3	18.5%
Profit attributable to owners of the parent	**98.3**	85.4	15.1%
Basic earnings per share *(HK cents)*	**37.68**	32.82	14.8%

HIGHLIGHTS

For the six months ended 30 June 2019, the Group recorded turnover of approximately HK$3,518.2 million, up by 25.6% year-on-year. The sales revenue of audio products reached approximately HK$2,502.6 million, representing an increase of 24.3% year-on-year. The sales revenue of video products reached approximately HK$137.1 million, representing a decrease of 47.8% year-on-year. The sales revenue of headphones reached approximately HK$421.5 million, representing an increase of approximately 71.2% year on-year. The sales revenue of IoT related products reached approximately HK$77.7 million, representing a slight decrease of 2.4% year-on-year. Sales revenue of ancillary products rose by 63.6% year-on-year to approximately HK$304.9 million.

Gross profit amounted to approximately HK$457.2 million, increased by 33.7% year-on-year. Operating profit reached approximately HK$133.0 million, increased by 14.2% year-on-year. Profit attributable to owners of the parent reached approximately HK$98.3 million, representing an increase of 15.1% year-on-year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 with comparative figures for the said period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee ("Audit Committee"):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2019	2018
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**3,518,176**	2,802,195
Cost of sales		**(3,060,996)**	(2,460,195)
Gross profit		**457,180**	342,000
Other income and gains, net		**48,610**	105,067
Selling and distribution costs		**(60,572)**	(67,774)
Administrative expenses		**(140,637)**	(132,385)
Research and development costs		**(169,464)**	(130,738)
Other operating expenses, net		**(2,103)**	273
		133,014	116,443
Finance costs	*4*	**(17,897)**	(7,458)
Share of profits and losses of an associate		**–**	1,043
PROFIT BEFORE TAX	*5*	**115,117**	110,028
Income tax expense	*6*	**(16,445)**	(26,749)
PROFIT FOR THE PERIOD		**98,672**	83,279
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) 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 period		**2,526**	(65,902)
Reclassification adjustments for losses included in profit or loss		**(10,416)**	(9,815)
Income tax effect		**(1,585)**	12,128
		(9,475)	(63,589)
Exchange fluctuation reserve: Translation of foreign operations		**(6,493)**	(5,543)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**(15,968)**	(69,132)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**82,704**	14,147

	Notes	Six months ended 30 June 2019 (unaudited) HK$'000	2018 (unaudited) HK$'000
Profit/(loss) attributable to:			
Owners of the parent		**98,295**	85,383
Non-controlling interests		**377**	(2,104)
		98,672	83,279
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**82,629**	16,484
Non-controlling interests		**75**	(2,337)
		82,704	14,147
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**HK37.68 cents**	HK32.82 cents
Diluted		**HK36.55 cents**	HK31.48 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 (unaudited)** ***HK$'000***	31 December 2018 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**935,080**	818,212
Right-of-use assets		**135,776**	–
Prepaid land lease payments		**–**	66,305
Goodwill		**4,075**	4,091
Other intangible asset		**4**	65
Prepayments and other receivables		**73,990**	18,060
Deferred tax assets		**75,117**	79,296
Total non-current assets		**1,224,042**	986,029
CURRENT ASSETS			
Inventories		**1,133,649**	1,268,150
Trade and bills receivables	*9*	**1,413,680**	1,231,231
Prepayments, other receivables and other assets		**291,084**	399,833
Tax recoverable		**5,288**	4,695
Derivative financial instruments		**22,353**	65,489
Cash and cash equivalents		**704,165**	749,466
Total current assets		**3,570,219**	3,718,864
CURRENT LIABILITIES			
Trade and bills payables	*10*	**1,756,495**	1,860,556
Other payables and accruals	*11*	**671,118**	730,053
Tax payable		**92,578**	81,827
Derivative financial instruments		**18,242**	50,133
Interest-bearing bank and other borrowings	*12*	**317,993**	73,338
Provision		**193,652**	218,362
Total current liabilities		**3,050,078**	3,014,269
NET CURRENT ASSETS		**520,141**	704,595
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,744,183**	1,690,624

	Notes	30 June 2019 (unaudited) HK$'000	31 December 2018 (audited) HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,614**	15,350
Interest-bearing other borrowings	*12*	**29,331**	–
Total non-current liabilities		**38,945**	15,350
Net assets		**1,705,238**	1,675,274
EQUITY			
Equity attributable to owners of the parent			
Share capital	*13*	**268,648**	268,474
Reserves		**1,360,016**	1,330,301
		1,628,664	1,598,775
Non-controlling interests		**76,574**	76,499
Total equity		**1,705,238**	1,675,274

Notes:

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

These unaudited interim condensed consolidated financial information have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial information are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's unaudited interim condensed financial information. The nature and impact of the new and revised HKFRSs are described below:

HKFRS 16 *Leases*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *HK$'000* (unaudited)
Assets	
Increase in right-of-use assets	105,431
Decrease in prepaid land lease payments	(66,305)
Decrease in prepayments, other receivables and other assets	(1,372)
Increase in total assets	37,754
Liabilities	
Increase in interest-bearing bank and other borrowings	38,975
Decrease in other payables and accruals	(1,221)
Increase in total liabilities	37,754

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK$'000 (unaudited)
Operating lease commitments as at 31 December 2018	59,304
Weighted average incremental borrowing rate as at 1 January 2019	4.6%
Discounted operating lease commitments as at 1 January 2019	54,061
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(15,086)
Lease liabilities as at 1 January 2019	38,975

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

The Group has not adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. REVENUE AND SEGMENT INFORMATION

Revenue

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of goods	**3,496,304**	2,787,214
Rendering of services	**21,872**	14,981
	3,518,176	2,802,195

Revenue from contracts with customers

Disaggregated revenue information

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Type of goods or services	***HK$'000***	*HK$'000*
Sale of goods	**3,496,304**	2,787,214
Research and development services	**21,872**	14,981
Total revenue from contracts with customers	**3,518,176**	2,802,195
Geographical markets		
United States	**227,743**	203,710
Japan	**657,833**	722,147
Europe	**1,446,130**	863,071
PRC	**1,022,829**	841,741
Korea	**111,869**	145,907
Others	**51,772**	25,619
Total revenue from contracts with customers	**3,518,176**	2,802,195
Timing of revenue recognition		
Goods or services transferred at a point in time	**3,518,176**	2,802,195
Total revenue from contracts with customers	**3,518,176**	2,802,195

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on factored trade receivables	**11,957**	7,458
Interest on bank loans	**4,657**	–
Interest on lease liabilities	**1,283**	–
	17,897	7,458

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**3,035,365**	2,449,619
Cost of services rendered	**15,311**	10,576
Depreciation of property, plant and equipment	**64,673**	44,116
Employee share-based compensation benefits under the Award Scheme	**13,847**	16,677
Equity-settled share option expense	**11,913**	15,260
Impairment of trade receivables, net	**5,539**	–
Loss/(gain) on disposal/write-off of items of property, plant and equipment	**1,502**	(212)
Provision on obsoleted inventories	**10,320**	–
Foreign exchange losses/(gains), net	**(7,889)**	7,577

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**1,922**	11,925
Current – Elsewhere		
Charge for the period	**18,093**	21,183
Deferred	**(3,570)**	(6,359)
Total tax charge for the period	**16,445**	26,749

7. DIVIDENDS

The Board has resolved not to pay any dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

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:

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**98,295**	85,383

	Number of shares	
	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**260,901,683**	260,126,889
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	**1,872,244**	3,293,747
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the period	**6,158,340**	7,783,952
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**268,932,267**	271,204,588

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2019	2018
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Trade receivables	**1,390,985**	1,207,036
Bills receivable	**22,695**	24,195
	1,413,680	1,231,231

The majority of the Group's sales in the PRC were mainly made on a 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 also made on open-account basis with average credit terms of no more than 180 days.

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

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

	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Current to 90 days	**1,281,907**	961,586
91 to 180 days	**41,329**	128,570
181 to 365 days	**19,817**	66,335
Over 365 days	**47,932**	50,545
	1,390,985	1,207,036

A subsidiary of the Group has entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2019, trade receivables factored to banks aggregated to HK$557,702,000 (31 December 2018: HK$921,886,000), 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

	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Trade payables	**1,756,495**	1,858,844
Bills payable	**–**	1,712
	1,756,495	1,860,556

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

	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Current to 90 days	**1,697,185**	1,726,307
91 to 180 days	**42,827**	45,583
181 to 365 days	**13,973**	83,699
Over 365 days	**2,510**	3,255
	1,756,495	1,858,844

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

11. OTHER PAYABLES AND ACCRUALS

	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Other payables	**222,824**	241,742
Patent fees accruals	**160,293**	182,667
Accruals	**193,535**	135,207
Contract liabilities	**82,683**	150,767
Refund liabilities	**8,050**	9,413
Due to related parties:		
TCL Corporation and its affiliates	**–**	10,257
TCL Industries Holdings Co., Ltd. and its affiliates	**34**	–
Coxon Industry (Changshu) Co., Ltd. and its affiliates	**3,699**	–
	671,118	730,053

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Bank loans – unsecured	**–**	4,872
Bank loans – secured	**295,517**	68,466
Lease liabilities	**51,807**	–
	347,324	73,338
Less: Interest-bearing other borrowings classified as non-current liabilities	**(29,331)**	–
	317,993	73,338

13. SHARE CAPITAL

Shares

	30 June 2019 (unaudited) *HK$'000*	31 December 2018 (audited) *HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
268,648,369 (31 December 2018: 268,474,420) ordinary shares of HK$1.00 each	**268,648**	268,474

During the six months ended 30 June 2019, the subscription rights attaching to 173,949 share options were exercised at the subscription prices of HK$4.05 per share, resulting in the issue of an aggregate of 173,949 shares of HK$1.00 each for a total cash consideration of approximately HK$705,000 before expenses.

14. EVENTS AFTER THE REPORTING PERIOD

On 20 June 2019, the Group entered into an equity transfer agreement with certain parties to acquire the remaining 49% equity interest in Huizhou Nikko Optoelectronics Co., Ltd., a non-wholly owned subsidiary of the Group, at a consideration of RMB32,590,000 (equivalent to approximately HK$37,042,000), out of which RMB25,590,000 (equivalent to approximately HK$29,086,000) was satisfied by allotment and issuance of 10,680,000 new ordinary shares of a subsidiary of the Company. The transaction was completed on 10 July 2019. Please refer to the announcements of the Company published on the websites of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company dated 20 June 2019 and 10 July 2019.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Overview

In the first half of 2019, along with the intensifying trade dispute between the PRC and the U.S. and the rising of trade barriers around the world, the tension in trading was escalating which posed significant challenges to the global economy. While the prospect of global economy was highly uncertain, the gross domestic product (GDP) of the PRC reached a growth rate of 6.3% in the first half of the year whereas the disposable income per capita of the PRC reached a year-on-year nominal growth of 8.8% and an actual growth of 6.5% after eliminating price factors. It shows that the overall economy of the PRC was relatively stable.

With regard to the market, according to the market data report for the first quarter of 2019 issued by IDC, a market research institution, in terms of smart home equipment, smart speakers (screen-equipped smart speaker included) had the highest growth rate in shipments and reached 23.20 million units in the first quarter, among which the shipments of Amazon smart speakers were 5.10 million units with a market share of 22%, followed by Google which had shipments of 4.10 million units. The shipment of smart speakers in the PRC market exceeded 10 million units in a single quarter, reaching 11.22 million units, in which three brands, namely, Tmall Genie, Baidu and Xiaomi had the largest market share in the smart speaker market in the PRC. The market layout was basically fixed.

Business Overview

For the six months ended 30 June 2019 (the "period under review"), the Group recorded a turnover of approximately HK$3,518.2 million, representing a year-on-year growth of 25.6% which was mainly driven by audio products, headphones and ancillary products businesses. Gross profit was approximately HK$457.2 million, representing a year-on-year growth of 33.7%. Gross profit margin increased from 12.2% for the same period last year to 13.0%, which was attributable to the improvement of production layout and efficiency as well as the decrease in cost of certain raw materials. Operating revenue amounted to approximately HK$133.0 million, representing a year-on-year growth of 14.2% which was attributable to the increase in turnover and gross profit margin. Profit attributable to the owners of the holding company of the Group for the period under review increased year-on-year by 15.1% to HK$98.3 million.

In the first half of the year, the Group implemented cost reduction and efficiency enhancement measure at all departments and centres in order to enhance inter-department synergy and maximise the productivity of production lines and equipment. Despite the year-on-year decrease in total staff number in the first half of the year, the Group still achieved a year-on-year growth of 25.6% in turnover and the sales volume per capita achieved a year-on-year increase, indicating the initial success of the cost reduction and efficiency enhancement measure. Meanwhile, the production system personnel were enhanced. An asset shared-management mechanism was established to enhance the reusability of assets and reasonably eliminate obsolete equipment and equipment with outdated technology, which enhanced the utilisation rate of assets. In the first half of the year, the Group prepared to establish a subsidiary in Vietnam to construct its own overseas plant, so as to continuously enhance the overseas supply chain capacity and to extend its vertical integration capability overseas. In order to further improve the productivity, the Group also continued to enhance production automation and its digitisation capability.

During the period under review, the Group endeavoured in developing its audio product, headphone product and ancillary product businesses, among which products including smart speakers, headphones and ancillary grew rapidly. The TWS earphones also achieved a breakthrough from zero and realised bulk shipment in the first half of the year. 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$2,502.6 million, HK$421.5 million, HK$137.1 million, HK$77.7 million, HK$304.9 million and HK$74.5 million respectively, representing an increase of 24.3% and 71.2%, a decrease of 47.8%, a slight decrease of 2.4%, and an increase of 63.6% and 397.3% respectively. The Group's turnover breakdown by product is set out below:

	For the six months ended 30 June		
	2019	2018	**Change**
	(unaudited)	(unaudited)	
	(HK$'000)	*(HK$'000)*	
Audio Products [(1)]	**2,502,579**	2,012,758	24.3%
Headphones	**421,474**	246,131	71.2%
Video Products [(2)]	**137,077**	262,387	-47.8%
IoT Related Products [(3)]	**77,677**	79,623	-2.4%
Ancillary Products [(4)]	**304,866**	186,315	63.6%
Other Businesses	**74,503**	14,981	397.3%
Total	**3,518,176**	2,802,195	25.6%

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

(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. The ancillary products of Regency Optics-Electron, a subsidiary of the Group, began to be consolidated into the revenue of ancillary products of the Group in the first quarter of 2019.

* *The revenue breakdown for the six months ended 30 June 2018 were reclassified for the reason of product form adjustment.*

During the period under review, benefiting from the rapid growth in the global market of smart products and the Group's advantage in product technology, the smart audio speaker business of the Group maintained a relatively rapid growth while the new audio business maintained its advantage in scale and maintained continuous growth in the first half of the year. 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 an overseas mainstream internet corporation, 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 technology development of True Wireless Stereo (TWS) earphones and voice interaction function of earphones. With regard to the video product business, it was mainly affected by the overall decline in video disc player industry, in response to which the Group implemented a small team asset-light model to operate this business.

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$169.5 million, accounting for 4.8% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an. In addition to developing and introducing new products by the R&D team 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 screen-equipped smart products centring smart voice and all kinds of smart voice eco-ancillary products) 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 corporations equipped with global mainstream voice platforms and continued to carry out development for latest technologies and product compatibilities 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 its internet customers and eco-customers with the most suitable smart voice product solution. In respect of the transformation of technology and interaction method, smart voice speaker is gradually transforming from sole-audio interaction to "audio + visual" diversified interaction. Screen-equipped smart speaker breaks the existing 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 smart voice eco-ancillary products to secure more new customers and explore new fields.

The Group constantly develops diversified smart voice eco-ancillary products and, by leveraging on its extensive experience in professional electro-acoustic design and pioneer advantages in smart voice 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. 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 R&D and innovation, 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. By virtue of the rapid development of the smart voice speaker industry in these years, an increasing number of existing users in the market focused on corporations with internet platform through adequate industrial competition as compared to the initial stage when thousands of corporations entered this industry. Meanwhile, the voice ecology of internet corporations also constantly expanded their technologies and services in order to attract users to use the smart products on their platforms more frequently. In addition, the Group will 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

Not only is the Group equipped with comprehensive R&D and production abilities, it 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 the structural parts with new form related to precision moulding.

The Group used Huizhou Zhongkai as a core base and moulding centre integrating research, production and sales. After the commencement of operation of Phase Two of Second Plant on land parcel No. 42 in March 2019, the externally rented factories and warehouses of the Group gradually moved back to the new plant and certain space is reserved for the production of new products, which were beneficial to the enhancement of overall production management and efficiency and reduced external rental fees. The Group's Huizhou Puli Electroacoustic Tongqiao Industrial Park was also put into operation which formed a comprehensive industrial chain integrating carpentry, speaker assembly, high-end wooden boxes, speakers, and plastic injection. At the beginning of 2019, in order to enhance the overseas supply chain capability and to proactively respond to the potential impact of the U.S. tariff on the export of the Group's products, the Group purchased an industrial land of over one hundred thousand square meters in Vietnam to establish its own overseas plant which the Group would strive to commence operation in the second half of 2020.

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 usage 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, digitised and informationised production 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, storage and logistics, while enhancing the actual production capacity of the Huizhou production base.

Future Plans and Outlook

Looking ahead to the second half of 2019, domestic and overseas economy will still be complicated and severe and there will be a slowdown in global economic growth with an increase in unstable and uncertain external factors. Despite the relatively huge pressure on global economic growth, smart product field will maintain a relatively strong growth. Strategy Analytics, a research institution, adjusted upwards the forecast of annual global shipment of smart speakers by 10% in 2019 to 147.7 million units. Meanwhile, in terms of the utilisation of smart speakers, eMarketer, a research institution, adjusted upwards the latest forecast of utilisation rate of smart speakers. It is anticipated that there will be 31 million people shopping through smart speaker in the U.S. this year, representing a growth of 31.6% as compared to 2018. By 2021, such number will climb up to 38 million.

Although the global economic development in 2019 is rather unpromising and the trade dispute prolongs, 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 earphone business. The Group will continue to consolidate and strengthen its industry position in the new audio market, focusing on the development of soundbar and earphone product businesses, especially earphones, and strive to maintain its leading position in headphone industry while actualising breakthroughs in TWS earphone business and rapidly building up industrial competitiveness in order to secure more business opportunities and explore more new customers. For the video 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 to the development of its smart and ancillary product businesses, in particular, smart voice speakers and other voice-related smart eco-ancillary 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 under continuous efforts.

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 continue to maximise the outcome of cost reduction and efficiency enhancement measure to enhance overall operational efficiency and control overall costs in a bid to improve the Group's competitiveness. In view of the continuous growth of the Group's business, especially in the smart product business, cost reduction and efficiency enhancement are a necessary process for the Group, during which it will adopt a series of measures to improve its administrative efficiency and internal operation process. Through the cost reduction and efficiency enhancement measure, improvement of product testing and assembled infrastructure, as well as enhancement of proportion of automated production, the Group will also be able to ensure product quality and control production cost, which will in turn heighten the Group's profit level. 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, earphones and ancillary products of the Group will account for an increasing proportion of its turnover in 2019 and is confident of the Group's future business growth. Meanwhile, along with the continuous development of smart voice products, more corporations 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 was no significant investment held as at 30 June 2019, nor other material acquisitions and disposals of subsidiaries, associates and/or joint ventures during the period under review, save as the following:

On 20 June 2019, a subsidiary of the Company entered into an equity transfer agreement, pursuant to which the subsidiary agreed to acquire from the vendors and the vendors agreed to transfer to the subsidiary the target equity interest representing 49% of the total equity interest of the target company at consideration of RMB32,590,000 (out of which RMB25,590,000 was satisfied by allotment and issuance of 10,680,000 new ordinary shares of the said subsidiary). Please refer to the announcements of the Company published on the websites of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company dated 20 June 2019 and 10 July 2019.

Liquidity and Financial Resources

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

The cash and cash equivalents of the Group as at 30 June 2019 amounted to approximately HK$704.2 million, of which 1% was maintained in Hong Kong dollars, 50% in US dollars, and 49% in Renminbi. The Group's gearing ratio as at 30 June 2019 was 20%. The gearing ratio equals to the aggregate of short term and long term liabilities divided by total equity.

There was no material change in available credit facilities when compared with the year ended 31 December 2018 and there was no asset held under finance lease as at 30 June 2019.

Pledge of Assets

There was no pledge of assets by the Group as at 30 June 2019.

Capital Commitments and Contingent Liabilities

As at 30 June 2019, the Group had capital commitments of approximately HK$51.5 million (31 December 2018: HK$48.1 million) which were contracted but not provided for. The Group did not have any material contingent liabilities as at 30 June 2019.

Pending Litigation

The Group had not been involved in any material litigation as at 30 June 2019.

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 Group'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 10,479 dynamic and talented employees. They were all dedicated to upholding product and service quality. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individuals and the Company.

PURCHASES, SALES OR REDEMPTION OF SHARES

Pursuant to the rules of the Restricted Share Award Scheme adopted by the Company on 28 August 2014 and subsequently revised on 9 September 2016, 8 August 2017 and 7 September 2017, the Company purchased from the market a total of 365,000 shares being the awarded shares during the period. The total amount paid to acquire such shares was approximately HK$2,174,000.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the six months ended 30 June 2019, 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 Listing Rules, except for the deviation from the Code Provision F.1.1.

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 current company secretary of the Company, is not an employee of the Company. 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 (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors (of which Ms. CHOY is a partner) and the Group, Ms. CHOY is 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 her 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.

In addition, the Environmental, Social and Governance report for the year of 2018 was published on the websites of the Company and The Stock Exchange of Hong Kong Limited on 20 June 2019.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019, 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 six months ended 30 June 2019.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 14 August 2019

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