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On Real International Holdings Limited

安悅國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8245)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of On Real International Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and be posted on the website of the Company at www.on-real.com.

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 March 2019 amounted to approximately HK$323.5 million, representing an increase of approximately 8.9% as compared with that of approximately HK$297.1 million for the year ended 31 March 2018.

- Loss attributable to owners of the Company for the year ended 31 March 2019 amounted to approximately HK$9.8 million, as compared with profit of approximately HK$0.9 million for the year ended 31 March 2018.

- Basic and diluted loss per share for the year ended 31 March 2019 amounted to approximately HK cents 0.25 (basic and diluted earnings per share for the year ended 31 March 2018: HK cents 0.02).

- The Directors do not recommend the payment of any dividend in respect of the year ended 31 March 2019.

ANNUAL RESULTS

The Board of Directors (the "**Board**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2019 together with the comparative audited figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Note	**2019**	2018
		HK$'000	*HK$'000*
Revenue	3	**323,506**	297,131
Cost of sales		**(299,090)**	(266,817)
Gross profit		**24,416**	30,314
Other income	4	**6,587**	8,060
Other gains and losses	5	**(1,637)**	2,350
Impairment loss of financial assets at amortised cost		**(4,257)**	—
Selling and distribution expenses		**(4,118)**	(3,940)
Administrative expenses		**(27,397)**	(32,639)
Finance costs		**(1,921)**	(927)
(Loss)/Profit before tax		**(8,327)**	3,218
Income tax expense	7	**(1,386)**	(2,333)
(Loss)/Profit for the year	6	**(9,713)**	885
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(9,789)**	890
Non-controlling interests		**76**	(5)
		(9,713)	885
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(375)**	1,448
Total comprehensive (expense) income for the year		**(10,088)**	2,333
Total comprehensive income for the year attributable to:			
Owners of the Company		**(10,164)**	2,338
Non-controlling interests		**76**	(5)
		(10,088)	2,333
(Loss)/Earnings per share (HK cents)	8		
Basic and diluted		**(0.25)**	0.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**3,583**	6,387
Intangible assets		**4,015**	5,020
Financial asset at fair value through profit or loss		**12,597**	14,132
Prepayments		**318**	954
Deferred tax assets		**—**	1,194
		20,513	27,687
Current assets			
Inventories	10	**42,466**	46,405
Trade and other receivables	11	**108,493**	94,394
Loan receivables		**1,041**	—
Tax recoverable		**5,928**	1,180
Pledged bank deposits		**1,128**	2,381
Bank balances and cash		**24,619**	29,734
		183,675	174,094
Current liabilities			
Trade and other payables	12	**84,070**	79,946
Amount due to a related company		**499**	387
Borrowings		**54,207**	36,551
Bond payables		**—**	839
Income tax payables		**2,060**	2,147
		140,836	119,870
Net current assets		**42,839**	54,224
Total assets less current liabilities		**63,352**	81,911
Non-current liabilities			
Bond payables		**—**	7,934
Net assets		**63,352**	73,977
Capital and reserves			
Share capital	13	**4,800**	4,800
Reserves		**58,481**	69,182
Equity attributable to owners of the Company		**63,281**	73,982
Non-controlling interests		**71**	(5)
Total equity		**63,352**	73,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

On Real International Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company acts as an investment holding company and the principal activities of its subsidiaries are designing, trading and manufacturing of two-way radios, baby monitors, other communication devices and servicing business of the above products.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). The functional currency of the Company is Hong Kong dollars ("**HK$**"). The consolidated financial statements are presented in Hong Kong dollars as the directors of the Company consider that HK$ is appropriate presentation currency for the users of the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and amended HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("**HKASs**"), amendments and interpretations ("**Int(s)**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration
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
Amendments to HKAS 28	As part of the Annual Improvement to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of investment property

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[5]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted

The directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 *Leases* and the related interpretations when it becomes effective.

With regards to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regards to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

3. REVENUE

Revenue represents revenue from sales of two-way radios, sales of baby monitors, servicing business and sales of other products, net of sales related tax where applicable. An analysis of the Group's revenue for the year is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue comprises:		
Two-way radios	**211,486**	225,866
Baby monitors	**17,141**	29,356
Other products	**85,187**	34,815
Servicing business	**9,692**	7,094
	323,506	297,131

The Group operates in six (2018: six) principal geographical areas — the United States of America, Germany, Europe, Asia, the Netherlands and the United Kingdom.

All analysis of revenue by geographical location is set below:

	Revenue from external customers	
	2019	2018
	HK$'000	*HK$'000*
The United States of America	**101,753**	123,922
Germany	**80,760**	47,712
Europe *(Note (i))*	**75,817**	26,666
Asia *(Note (ii))*	**25,450**	44,394
The Netherlands	**7,597**	24,269
The United Kingdom ("**UK**")	**10,696**	14,608
Others *(Note (iii))*	**21,433**	15,560
	323,506	297,131

Note (i): Europe includes but is not limited to France, Italy and Belgium but excludes UK, Germany and the Netherlands.

Note (ii): Asia includes but is not limited to the PRC and Hong Kong.

Note (iii): Others include but is not limited to Brazil, Canada and Russia.

4. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**120**	66
Interest income from financial asset at fair value through profit or loss	**—**	370
Interest income charged to customers	**—**	13
Loan interest income	**233**	—
Government grants *(Note 1)*	**—**	150
Gain on disposals of property, plant and equipment	**626**	1,559
Gain on early repayment of bond payables *(Note 2)*	**514**	3,121
Service income	**1,843**	—
Rental income	**799**	643
Repair and maintenance income	**181**	757
Sales of scrap materials	**791**	1,065
Sundry income	**1,480**	316
	6,587	8,060

Note 1:

Government grants recognised as other income are awarded to the Group by the PRC government as incentives primarily to encourage the development of the Group and the contribution to the local economic development. The government grants are one-off with no specific condition attached.

Note 2:

Gain on early repayment of bond payables recognised during the year.

5. OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Exchange (loss)/gains, net	**(102)**	2,083
Fair value (losses) gains on financial asset at fair value through profit or loss	**(1,535)**	267
	(1,637)	2,350

6. (LOSS)/PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
(Loss)/Profit for the year has been arrived at after charging:		
Directors' emoluments	**2,388**	4,421
Salaries and allowances (excluding directors' emoluments)	**23,492**	29,178
Retirement benefit scheme contributions (excluding directors)	**1,656**	5,432
Total staff costs	**27,536**	39,031
Auditor's remuneration	**950**	750
Depreciation of property, plant and equipment	**6,466**	3,534
Amortisation of intangible assets (included in cost of sales)	**2,654**	2,774
Allowance for inventories (included in cost of sales)	**—**	146
Cost of inventories recognised as an expense	**229,026**	178,164
Research and development costs recognised as an expense	**2,385**	336
Minimum lease payments in respect of operating lease for office premises, staff quarters and factories	**3,878**	4,211

7. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax (the "**EIT**")	**192**	2,093
Deferred tax	**1,194**	240
	1,386	2,333

8. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the year ended 31 March 2019 and 2018.

	2019	2018
(Loss)/Profit for the year attributable to owners of the Company (HK$'000)	**(9,789)**	890
Weighted average number of ordinary shares in issue ('000)	**3,840,000**	3,840,000
Basic (loss)/earnings per share (HK cents per share)	**(0.25)**	0.02

(b) Diluted

Diluted (loss)/earnings per share were the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 March 2019 and 2018.

9. DIVIDENDS

No dividend has been declared by the Company for the year ended 31 March 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

10. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**30,506**	27,925
Work in progress	**10,556**	12,448
Finished goods	**1,404**	6,032
	42,466	46,405

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**74,656**	58,504
Less: Impairment of trade receivables	**(2,632)**	—
	72,024	58,504
Prepayments	**11,185**	8,597
Value-added tax receivables	**23,457**	26,505
Deposits *(Note)*	**732**	1,339
Other receivables	**1,616**	403
Less: Impairment of other receivable	**(203)**	—
	36,787	36,844
Total trade and other receivables	**108,811**	95,348
Less: Non-current portion-deposits	**(318)**	(954)
Current portion	**108,493**	94,394

The Group does not hold any collateral over these balances.

Note: Included in the balance of deposits, are of approximately HK$318,000 (2018: HK$954,000) rental deposits as at 31 March 2019 and are shown as non-current assets.

The Group normally grants credit terms to its customers ranging from 0 to 90 days. At 31 March 2019 and 2018, the ageing analysis of the trade receivables based on invoice date which approximates the respective revenue recognition dates were as follows:

	2019	2018
	HK$'000	*HK$'000*
1 to 30 days	**20,201**	27,407
31 to 60 days	**24,735**	12,180
61 to 90 days	**9,122**	13,254
91 to 180 days	**47**	3,407
Over 180 days	**17,919**	2,256
	72,024	58,504

12. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**60,142**	58,918
Other payables and accruals		
Accrued expenses	**13,305**	12,783
Other payables	**5,688**	3,649
Receipt in advance *(Note)*	**—**	4,596
Contract liabilities	**4,935**	—
	23,928	21,028
Trade and other payables	**84,070**	79,946

Note: Receipt in advance represented advance payments of related sales of goods from customers pursuant to the respective sales contracts.

The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period.

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**20,799**	14,157
31 to 60 days	**19,895**	16,750
61 to 90 days	**7,461**	17,923
More than 90 days	**11,987**	10,088
Total	**60,142**	58,918

The credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

13. SHARE CAPITAL

	Number of shares		**Share capital**	
	2019	2018	**2019**	2018
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.00125 each (2018: HK$0.00125 each)				
Authorised				
At the beginning and at the end of the financial year	**3,840,000**	3,840,000	**4,800**	4,800
Issued and fully paid				
At the beginning and at the end of the financial year	**3,840,000**	3,840,000	**4,800**	4,800

All the ordinary shares issued during the year ended 31 March 2019 and 2018 rank pari passu with the then existing shares in all respects.

14. RELATED PARTY TRANSACTIONS

The Group has entered into the following significant transactions with related parties during the year.

(a) Compensation of key management personnel

The remuneration of key management personnel during the years ended 31 March 2019 and 2018 are as follows:

	2019	2018
	HK$'000	*HK$'000*
Short-term employee benefits	**5,458**	6,123
Post-employment benefits	**190**	214
	5,648	6,337

The remuneration of the directors and key management personnel is determined by the board of directors regarding to the performance of individuals and market trends.

(b) In addition to the balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

Name of company	**Nature of transactions**	*Note*	**2019** ***HK$'000***	2018 *HK$'000*
Xinxing On Time Electronics Limited	Rental expenses charged	(i)	**1,614**	1,672
	Interest expenses paid		**12**	14

Note:

(i) Mr. Tam Wing Ki, the director and chairman of the Company, has direct interest in the relevant party.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Our business objectives are to grow our existing business by strengthen our product portfolio, enhancing our information management system and strengthen our marketing efforts. We have continued reviewing our business and manufacturing processes to implement cost saving measures in operations. Riding on our car camera system product launched last year, the Group is exploring opportunity in electronic component distribution business by starting of trading of smart TV in the first quarter of 2018/19.

The Group will continue looking into opportunities to diversify our revenue stream. For instance, we will be exploring the way to leverage our research and development capability to provide design engineering service to our customers. We will also be searching opportunities to leverage our developed sales channels and network for distributing related products.

On 11 December 2017, On Real Limited (as vendor), an indirect wholly-owned subsidiary of the Company, and Smart Tech Development Limited (as purchaser) entered into a disposal agreement (the "**Disposal Agreement**"), pursuant to which On Real Limited has conditionally agreed to sell and Smart Tech Development Limited has conditionally agreed to purchase the entire issued share capital in Onward Technology Development Limited, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK$9.5 million (the "**Disposal**").

The Disposal is a step to achieve the cost restructuring plan of the Group and to reduce the costs of production and contingent liabilities for the labour cost.

Pursuant to the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018), the conditions precedent to the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) shall be satisfied (or as the case may be, waived) on or before 30 June 2018 (the "**Long Stop Date**"), or such other date as the Vendor and the Purchaser may agree in writing. As certain conditions precedent to the Disposal Agreement have not been satisfied (or as the case may be, waived) on or before 30 June 2018, the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) has ceased and determined. Given that considerable time has elapsed since the date of the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) and the market condition has changed, the Purchaser decided, and the Vendor agreed, not to further extend the Long Stop Date and proceed with the transaction.

Upon termination of the Disposal Agreement, neither party shall have any obligations and liabilities towards each other thereunder.

Details of the Disposal and the expiry of the Long Stop Date were set out in the Company's announcements dated 11 December 2017, 5 January 2018, 5 February 2018, 5 March 2018, 29 March 2018, 7 May 2018, 4 June 2018 and 3 July 2018.

On 27 September 2018, the Company, as subscriber, entered into the memorandum of understanding (the "**MOU**") with Primus Power Corporation, a company incorporated and existing under the laws of the State of Delaware, the United States of America ("**Target**"), pursuant to which the parties to the MOU will negotiate for the proposed subscription by the Company of certain securities in the Target.

Subject to further negotiation and the entering into of a legally-binding formal agreement, and the fulfilment or wavier of conditions precedent which may be set out in the formal agreement, the Company intends to subscribe for certain number of securities to be issued by the Target at a consideration to be determined (the "**Proposed Subscription**").

The final terms of the Proposed Subscription, including the consideration and the number of securities to be subscribed will be subject to further negotiations and the formal agreement to be entered into between the parties to the MOU.

On 8 October 2018, the Company entered into a non-legally binding term sheet (the "**Term Sheet**") with the Target, pursuant to which the parties to the Term Sheet will further negotiate for the Proposed Subscription by the Company of certain number of Series F Convertible Preferred Stock to be issued by the Target at a share price to be determined by the parties to upon signing of a formal agreement. The indicative total subscription consideration is US$10 million. The subscription price will be payable by the Company to the Target at the applicable closing date of the upon the satisfaction or waiver of closing conditions as may be stated in the formal agreement.

On 16 December 2018, the Company entered into the Series F preferred stock purchase agreement with the Target (the "**Preferred Stock Purchase Agreement**"), pursuant to which the Company agrees to purchase and the Target agrees to sell and issue to the Company, the 47,510,800 Series F preferred stocks at the subscription price of US$0.136811 per Series F preferred stock ("**Purchased Preferred Stocks**"). As at the date of the Preferred Stock Purchase Agreement, the Purchased Preferred Stocks represent approximately 11.89% of the enlarged issued share capital of the Target upon full conversion of all issued preferred stocks of the Target but before the exercise of options under the employees share option plan and the warrants of the Target in issue.

In addition to the Purchased Preferred Stocks, the Target will issue to the Company without additional consideration, the warrants, to purchase the number of 5,138,574 fully paid and non-assessable shares of Series F preferred stocks at the fair value.

On 17 January 2019, the Company announced that the Preferred Stock Purchase Agreement has lapsed on 14 January 2019. The Board is in the course of negotiating with the Target to continue the transaction contemplated under the Preferred Stock Purchase Agreement, yet as at the date of this announcement no binding agreement has been entered into between the parties to such effect. Further announcement will be made by the Company as and when appropriate when material development take place.

Details of the Proposed Subscription and Preferred Stock Purchase Agreement were set out in the Company's announcements dated 27 September 2018, 8 October 2018, 7 December 2018, 14 December 2018, 16 December 2018 and 17 January 2019.

On 10 October 2018, the Company entered into the technology collaboration agreement (the "**Agreement**") with Seiki Corporation ("**Seiki**"), which is a company incorporated in the United States of America, pursuant to which the Company has agreed to provide engineering design and technical support service to Seiki in relation to the Project (defined as below).

The Company will provide engineering design and technical support service to Seiki to facilitate the implementation of the project(s) (the "**Project**") under a collaboration agreement entered into between Google LLC ("**Google**") and Kelly Digital Company Limited ("**KDI**"), the holding company of Seiki. The Project is related to the products and services developed by KDI under Google's technology including but not limited to smart TV, smart speakers, smart soundbar, smart idisplay and smart monitors.

Details of the Agreement were set out in the Company's announcement dated 10 October 2018.

Below are the progress of the objectives and strategies as disclosed in our prospectus (the "**Prospectus**") dated 18 September 2015:

(i) Strengthen our product portfolio: we are going to develop new high-end two-way radio and baby monitor products with new features and technologies. The high-end commercial two-way radio for European market was launched in third quarter of 2017. A new series of analog radio with new outlook has been launched by the end of 2017. Another high-end marine two-way radio is expected to be launched in the coming year. We are also looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.

(ii) Enhance our information management system: We will keep evaluating our information management system, upon the market condition, we will target to improve our information system to cope with the communication between our customers and suppliers.

(iii) Strengthen our marketing efforts: we continue to maintain our market presence and expand our sales channels and new potential customers globally by introducing new products.

In additional to the objectives and strategies as disclosed in Prospectus, we are proceeding costs migration of our fixed overhead in manufacturing into a variable cost in order to increase the flexibility of operation the business.

BUSINESS REVIEW

The Group is a two-way radio product designer and manufacturer established in 2001. We derive revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis.

The Group's revenue increased from approximately HK$297.1 million for the year ended 31 March 2018 to approximately HK$323.5 million for the year ended 31 March 2019, representing an increase of approximately 8.9%. The major reason is the decrease of the Group's revenue of two-way radios and baby monitors for the year ended 31 March 2018. Such increase was mainly due to start trading of smart TV during the year ended 31 March 2019.

The Group's revenue of two-way radios decreased by approximately 6.4% from approximately HK$225.9 million for the year ended 31 March 2018 to approximately HK$211.4 million for the year ended 31 March 2019 mainly due to the decrease in demand from our customers.

The Group's revenue of baby monitor significantly decreased by approximately 41.6% from approximately HK$29.4 million for the year ended 31 March 2018 to approximately HK$17.1 million for the year ended 31 March 2019 mainly due to the decrease in demand of our audio baby monitor products.

The Group's revenue of services business increased by approximately 36.6% from approximately HK$7.1 million for the year ended 31 March 2018 to approximately HK$9.7 million for the year ended 31 March 2019 mainly due to the increase in the provision of electric manufacturing servicing business.

The Group's revenue of other products significantly increased by approximately 144.7% from approximately HK$34.8 million for the year ended 31 March 2018 to approximately HK$85.2 million for the year ended 31 March 2019 mainly due to start trading of smart TV with a amount of HK$39.9 million during the year ended 31 March 2019.

The following table sets forth the breakdown of the revenue of the Group by product/service categories for each of the year ended 31 March 2019 and 2018:

	For the year ended 31 March					
	2019		2018		Increase (Decrease)	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Two-way radio	**211,486**	**65.4**	225,866	76.0	(14,380)	(6.4)
Baby monitors	**17,141**	**5.3**	29,356	9.9	(12,215)	(41.6)
Service business	**9,692**	**3.0**	7,094	2.4	2,598	36.6
Other products	**85,187**	**26.3**	34,815	11.7	50,372	144.7
Total	**323,506**	**100**	297,131	100	26,375	8.9

Cost of Sales and Gross Profit

The majority of the Group's cost of sales comprised of raw material cost, direct labour costs and subcontracting fees. The cost of sales increased by approximately 12.1% from approximately HK$266.8 million for the year ended 31 March 2018 to approximately HK$299.1 million for the year ended 31 March 2019, due to start trading of smart TV. The gross profit margin decreased from approximately 10.2% for the year ended 31 March 2018 to approximately 7.5% for the year ended 31 March 2019, mainly due to the increase in trading of smart TV with a lower margin comparing with other product categories which in turns drag down the entire profit margin of the Group.

Selling and Distribution Expenses

The selling and distribution expenses increased from approximately HK$3.9 million for the year ended 31 March 2018 to approximately HK$4.1 million for the year ended 31 March 2019, which was mainly due to increase of marketing and promotion expenses for the market of America.

Administrative Expenses

The administrative expenses decreased from approximately HK$32.6 million for the year ended 31 March 2018 to approximately HK$27.4 million for the year ended 31 March 2019, which was mainly due to the costs optimization.

(Loss)/profit attributable to the owners of the Company

The Group recorded a loss of HK$9.8 million for the year ended 31 March 2019, compared to profit of HK$0.9 million for the year ended 31 March 2018 primarily due to the decrease in gross profit in trading of lower margin product and the impairment loss of financial assets at amortised cost.

Dividends

The Board does not recommend the payment of a dividend for the year ended 31 March 2019.

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

There were neither significant investments held as at 31 March 2019 nor material acquisitions and disposals of subsidiaries during the year ended 31 March 2019.

On 20 June 2019, Mr. Tam Wing Ki ("**Mr. Tam**"), the executive directors of the Company and On Real Limited ("**the Vendor**"), an indirect wholly-owned subsidiary of the Company entered into the Agreement, pursuant to which Mr. Tam has conditionally agreed to purchase, and the Vendor has agreed to sell, the asset of the life insurance plan "Jade Global Select Universal Life Plan" insured by HSBC Life (International) Limited on the life of Mr. Tam at a consideration of HK$9,500,000 to be settled by cash.

Apart from the transactions disclosed on the above, there is no plan for material investment or capital assets as at 31 March 2019.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients and credit review of the Group's loan portfolio. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Employees and remuneration policies

As at 31 March 2019, the Group had a total of 284 staff (2018: 380). Total staff costs (including Directors' emoluments) were approximately HK$27.5 million for the year ended 31 March 2019 (2018: approximately HK$39.0 million). Remuneration is determined with reference to market conditions and the performance, qualifications and experience of individual employee. Year-end bonus will be paid to employees as recognition of and reward for their contributions according to individual performance. Other benefits include share option scheme, contributions to statutory mandatory provident fund schemes and social insurance together with housing provident funds to its employees in Hong Kong and the PRC respectively.

Liquidity and financial resources

As at 31 March 2019, the Group's cash and cash equivalents amounted to approximately HK$24.6 million, representing a decrease of approximately HK$5.1 million as compared to that of approximately HK$29.7 million as at 31 March 2018. Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and bank borrowings. As of 31 March 2019, we had various short term loan, bank borrowings and overdrafts of approximately HK$54.2 million, including factoring loan for trade receivables (as at 31 March 2018: approximately HK$36.5 million), representing an increase of approximately HK$17.7 million as compared to that as at 31 March 2018.

Net current assets decreased from approximately HK$54.2 million for the year ended 31 March 2018 to approximately HK$42.8 million for the year ended 31 March 2019, which was mainly due to increase in short-term borrowings for trading business during the year.

The Company requires cash primarily for working capital need. As of 31 March 2019, the Company had approximately HK$24.6 million in cash and bank balances (as at 31 March 2018: approximately HK$29.7 million), representing a decrease of approximately HK$5.1 million as compared to that as at 31 March 2018.

Gearing Ratio

As at 31 March 2019, the gearing ratio of the Group was approximately 85.6% (as at 31 March 2018: approximately 61.3%). The gearing ratio is calculated based on the total borrowings divided by the total equity at the end of the period. The increase of the gearing ratio was mainly attributable to the increase in amount of borrowings for short-term loan to support the settlement to suppliers.

Contingent Liabilities

As at 31 March 2019, the Company had no significant contingent liabilities (as at 31 March 2018: Nil).

Pledged of Assets

At the end of the reporting period, the Group's banking facilities were secured by:

(i) certain of the Group's trade receivables with an aggregate amount of approximately HK$33,584,000 (2018: HK$27,556,000);

(ii) pledged bank deposits with an aggregate amount of approximately HK$1,128,000 (2018: HK$2,381,000);

(iii) pledge of key-man insurance with an aggregate amount of approximately HK$14,132,000 in year ended 31 March 2018; and

(iv) a corporate guarantee from the Company with an aggregate amount of approximately HK$65,000,000 (2018: HK$65,000,000).

Capital Commitments

The Company had capital commitments on acquisition of intangible assets and property, plant and equipment of approximately HK$0.2 million (as at 31 March 2018: HK$1.2 million).

Use of Proceeds from the Listing

On 30 September 2015, 120,000,000 ordinary shares of the Company were allotted at HK$0.57 per placing share pursuant to the Placing (as defined in the Prospectus). The net proceeds from the Placing received by the Company were approximately HK$30.9 million (after deduction of any related expenses). As at 31 March 2019, the unused proceeds of approximately HK$4.5 million were deposited into licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out above.

From the listing date of the Company to 31 March 2019, the net proceeds had been utilized as follows:

	Actual net proceeds allocated	**Amount utilized up to 31 March 2019**	**Balance as at 31 March 2019**
	HK$ Million	*HK$ Million*	*HK$ Million*
Strengthen our product portfolio	21.7	19.6	2.1
Enhance our information management systems	2.4	—	2.4
Strengthen our marketing efforts	4.0	4.0	—
Working capital and other general corporate purposes	2.8	2.8	—
	30.9	26.4	4.5

In additional to the objectives and strategies as disclosed in the Prospectus, it is the Company's continuous effort to maintain low overhead costs, and by reducing our own in-house production; and increasing outsourcing to some PRC and overseas subcontractors, the Company is able to enhance its flexibility and maintained a cost control. The Company will assess the feasibility to outsource more production in the future.

PROSPECT

Our business objectives are to grow our existing business by strengthen our product portfolio, enhancing our information management system and strengthen our marketing efforts. We have continued reviewing our business and manufacturing processes to implement cost saving measures in operations. Riding on our car camera system product launched last year, the Group is exploring opportunity in electronic component distribution business by starting of trading of smart TV in the first quarter of 2018/19.

The Group will continue looking into opportunities to diversify our revenue stream. For instance, we will be exploring the way to leverage our research and development capability to provide design engineering service to our customers. We will also be searching opportunities to leverage our developed sales channels and network for distributing related products.

In coming year, the Group is expecting to deploy more subcontracting arrangement to enhance the flexibility in terms of fixed cost commitment. The subcontracting arrangement may shift outside the People's Republic of China (the "**PRC**") to diversify the production processes and fulfill the requirement from the customers. We have started trading of smart TV to diversify the revenue stream. We will continue to put effort in developing new model of our products and diversify our revenue streams which are expected to bring growth potential for turnover to the Group and returns to the shareholders of the Company (the "**Shareholders**").

The Group will continue to put effort in developing new models of our products and aim to streamline the business and improve overall performance of the Group which are expected to bring growth potential for revenue to the Group and returns to the Shareholders. To reducing the impact of ongoing trade war between the PRC and the US, the Group intends to develop new production facilities outside the PRC, such as Malaysia, Vietnam. The Group looks at and considers potential investment opportunities from time to time and looking for business opportunity of the Company. The Group will also be looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 to the GEM Listing Rules during the year ended 31 March 2019 except the following deviation:

Code Provision A.2.1

The above code provision stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

However, the Board is of the view that although Mr. Tam Wing Ki is the chairman and chief executive officer of the Company, this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting the operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Tam and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group.

Subsequent on 1 April 2019, Mr. Tam has resigned from his position as Chairman of the Board of the Company. The position of Chairman of the Board has been vacant since 1 April 2019. The Company will seek suitable candidate to fill the vacancy of the Chairman of the Board.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules. Having been made specific enquiry by the Company, all Directors confirmed that they have complied with the required standard of dealings and its code of conduct concerning securities transactions by the Directors during the year ended 31 March 2019.

SHARE OPTION SCHEME

The share option scheme of the Company (the "**Scheme**") was adopted pursuant to a resolution passed by the Company's shareholders on 16 September 2015 for the primary purpose is to attract, retain and motivate talented participants, to strive for future developments and expansion of the Group. Eligible participants of the Scheme include any employees, any executives, Non-executive Directors (including Independent Non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Scheme is adopted, after which period no further share options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue. The principal terms of which were summarised in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus. No share options have been granted under the Scheme since its adoption.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is a sufficient public float of at least 25% of the Company's issued shares at the latest practicable date prior to issue of this announcement under the GEM Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Apart from the transactions disclosed under the heading "Related Party Transactions" as set out in note 14 of this announcement, there were no other contracts of significance in relation to the Group's business to which the Group was a party and which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year and up to the date of this announcement, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Lego Corporate Finance Limited ("**Lego**"), the compliance adviser of the Company, except for the compliance adviser agreement entered into between the Company and Lego dated 26 January 2016, neither Lego nor its directors, employees and associates (as defined under the GEM Listing Rules) is materially interested in any contract or arrangement or had any interest in the securities of the Company for the period from 26 January 2016 to 31 July 2019, being the date on which the Company complies with Rules 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of listing, had been completed in full compliance of the relevant GEM Listing Rules requirements.

FOREIGN CURRENCY EXPOSURE

The trading of two-way radios and baby monitors are conducted predominantly in United States dollars ("**US dollars**" or "**US$**") while the production costs are mainly denominated in Renminbi ("**RMB**"). The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The management manages foreign currency exposure by entering into foreign exchange forward contracts. The Group does not currently designate any hedging relationship on the foreign exchange forward contracts for the purpose of the hedge accounting.

EVENTS AFTER THE REPORTING PERIOD

On 20 June 2019, Mr. Tam Wing Ki ("**Mr. Tam**"), the executive directors of the Company and On Real Limited ("**the Vendor**"), an indirect wholly-owned subsidiary of the Company entered into the Agreement, pursuant to which Mr. Tam has conditionally agreed to purchase, and the Vendor has agreed to sell, the asset of the life insurance plan "Jade Global Select Universal Life Plan" insured by HSBC Life (International) Limited on the life of Mr. Tam at a consideration of HK$9,500,000 to be settled by cash.

Details were set out in the Company's announcement dated 20 June 2019.

Apart from the transactions disclosed on the above, there was no other events after the reporting period which need to be disclosed.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising all independent non-executive Directors namely Mr. Wong Ching Wan, Mr. Chan Shiu Man and Mr. Fung Chan Man Alex.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including review and approve the annual results for the year ended 31 March 2019. The Audit Committee has approved the Group's annual results for the year ended 31 March 2019.

By order of the Board
On Real International Holdings Limited
Kwok Ming Fai
Executive Director

Hong Kong, 28 June 2019

As at the date of this announcement, the executive Directors are Mr. Tam Wing Ki, Mr. Fu Yan Ming and Mr. Kwok Ming Fai; the non-executive Director is Mr. Chan Chung Yin Victor and the independent non-executive Directors are Mr. Chan Shiu Man, Mr. Fung Chan Man Alex and Mr. Wong Ching Wan.

This announcement will remain on the Stock Exchange website at www.hkexnews.hk on the "Latest Company Announcements" page for at least seven days from the day of its posting and will also published on the website of the Company at www.on-real.com.