COWELL

**Cowell e Holdings Inc.**

**高偉電子控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1415)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

## HIGHLIGHTS

Our revenue for the year ended December 31, 2017 reached approximately US$740,734,000, representing a decrease of approximately 19.0% as compared to the corresponding year ended December 31, 2016.

Our net profit attributable to owners of the Company for the year ended December 31, 2017 reached approximately US$27,619,000, representing a decrease of approximately 3.1% as compared with that for the year ended December 31, 2016.

Basic earnings per share for the financial period ended December 31, 2017 was US3.3 cents representing a decrease of approximately 2.9% as compared with that for the financial year ended December 31, 2016.

The Directors have proposed the payment of a final dividend of HK5.1553 cents per share for the year ended December 31, 2017. Together with the interim dividend of HK1.7179 cents per share, the dividend for the full year will be HK6.8732 cents per share.

## RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Cowell e Holdings Inc. (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended December 31, 2017 together with comparative figures for the year ended December 31, 2016. The annual financial results have also been reviewed by the audit committee (the "**Audit Committee**") of the Company.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*(Expressed in United States dollars)*

| | Note | For the year ended December 31 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Revenue** | 3 | **740,734** | 914,545 |
| Cost of sales | | **(666,507)** | (838,399) |
| **Gross profit** | | **74,227** | 76,146 |
| Other revenue | 4 | **2,968** | 2,709 |
| Other net (loss)/income | 4 | **(3,651)** | 4,281 |
| Selling and distribution expenses | | **(3,168)** | (3,236) |
| Administrative expenses | | **(39,263)** | (44,484) |
| **Profit from operations** | | **31,113** | 35,416 |
| Finance costs | 5(a) | **(729)** | (806) |
| Donation | | **(29)** | (547) |
| **Profit before taxation** | 5 | **30,355** | 34,063 |
| Income tax | 6 | **(2,736)** | (5,568) |
| **Profit for the year** | | **27,619** | 28,495 |
| **Earnings per share** | 7 | | |
| Basic | | **$ 0.033** | $ 0.034 |
| Diluted | | **$ 0.033** | $ 0.034 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*(Expressed in United States dollars)*

| | *Note* | **For the year ended December 31** **2017** ***$'000*** | 2016 *$'000* |
|---|---|---|---|
| **Profit for the year** | | **27,619** | 28,495 |
| **Other comprehensive income for the year (after tax adjustments):** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of financial statements | | **18,551** | (17,901) |
| *Items that will not be reclassified to profit or loss* | | | |
| Remeasurement of net defined benefit liability | | **34** | (18) |
| | | **18,585** | (17,919) |
| **Total comprehensive income for the year** | | **46,204** | 10,576 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*(Expressed in United States dollars)*

| | *Note* | **As at December 31** **2017** ***$'000*** | 2016 *$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **121,343** | 123,316 |
| Intangible assets | | **8,079** | 5,591 |
| Other receivables | | **6,628** | 6,556 |
| Deferred tax assets | | **832** | 329 |
| | | **136,882** | 135,792 |
| **Current assets** | | | |
| Inventories | | **107,366** | 60,026 |
| Trade and other receivables | 8 | **139,904** | 231,158 |
| Current tax recoverable | | **1,221** | 6,981 |
| Pledged deposits | | **3,427** | 3,193 |
| Bank deposits | | **21,409** | 39,675 |
| Cash and cash equivalents | | **93,937** | 85,435 |
| | | **367,264** | 426,468 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **117,952** | 168,693 |
| Bank loans | | **47,114** | 89,249 |
| Current tax payable | | **5,359** | 6,567 |
| | | **170,425** | 264,509 |
| **Net current assets** | | **196,839** | 161,959 |
| **Total assets less current liabilities** | | **333,721** | 297,751 |

| | *Note* | **As at December 31** | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | ***$'000*** | *$'000* |
| **Non-current liabilities** | | | |
| Net defined benefit retirement obligation | | **225** | 178 |
| Deferred tax liabilities | | **—** | 210 |
| | | **225** | 388 |
| **NET ASSETS** | | **333,496** | 297,363 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **3,326** | 3,326 |
| Reserves | | **330,170** | 294,037 |
| **TOTAL EQUITY** | | **333,496** | 297,363 |

# NOTES TO THE FINANCIAL INFORMATION

*(Expressed in United States dollars unless otherwise indicated)*

## 1 Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's financial statements for the year ended December 31, 2017 but are extracted from those financial statements.

The Group's consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and related interpretations, promulgated by the International Accounting Standards Board ("**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The measurement basis used in the preparation of the Group's consolidated financial statements is the historical cost basis except that certain employee benefits are stated at their fair value.

## 2 Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3 Revenue and segment reporting

### *(a) Revenue*

The principal activities of the Group are manufacturing and sale of camera module and optical components. Revenue represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base includes two customers (2016: two customers), with each of whom transactions have exceeded 10% of the Group's revenues, for the year ended December 31, 2017. Revenues from sales to these customers, arose in the camera module segment, during the reporting period are set out below.

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Largest customer | **633,122** | 780,221 |
| — Percentage of total revenue | **85%** | 85% |
| Second largest customer | **83,086** | 104,704 |
| — Percentage of total revenue | **11%** | 11% |

### *(b) Segment reporting*

The Group manages its businesses by division, which is organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Camera module: this segment is involved in the design, development, manufacture and sale of camera modules for mobile devices and home appliances.

— Optical components: this segment is involved in the design, development, manufacture and sale of optical components for optical disk drivers.

*(i) Segment results*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is profit before tax. To arrive at segment profit, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2017 and 2016 is set out below.

| | **Camera module** | | **Optical components** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Revenue from external customers | **735,605** | 907,871 | **5,129** | 6,674 | **740,734** | 914,545 |
| Reportable segment revenue | **735,605** | 907,871 | **5,129** | 6,674 | **740,734** | 914,545 |
| Segment profit | **33,632** | 38,509 | **(2,180)** | (3,021) | **31,452** | 35,488 |
| Bank interest income | **850** | 485 | **5** | 3 | **855** | 488 |
| Finance costs | **(724)** | (800) | **(5)** | (6) | **(729)** | (806) |
| Depreciation and amortisation | **(21,819)** | (18,192) | **(930)** | (985) | **(22,749)** | (19,177) |
| Additions to non-current segment assets | **18,784** | 43,042 | **90** | 393 | **18,874** | 43,435 |

*(ii) Reconciliations of reportable segment revenue and profit or loss*

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Revenue** | | |
| Reportable segment revenue and consolidated revenue | **740,734** | 914,545 |
| **Profit** | | |
| Reportable segment profit | **31,452** | 35,488 |
| Unallocated head office and corporate expenses | **(1,097)** | (1,425) |
| Consolidated profit before taxation | **30,355** | 34,063 |

*(iii) Geographic information*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and intangible assets ("**specified non-current assets**"). The Group's revenue from external customers is presented based on locations of goods physically delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of the operation to which they are allocated, in the case of intangible assets.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| The People's Republic of China ("**PRC**") (including Hong Kong) (Place of domicile) | **688,665** | 851,823 | **128,454** | 128,160 |
| The Republic of Korea ("**Korea**") | **34,793** | 55,192 | **968** | 747 |
| Others | **17,276** | 7,530 | **—** | — |
| | **740,734** | 914,545 | **129,422** | 128,907 |

## 4 Other revenue and other net (loss)/income

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| ***(a) Other revenue*** | | |
| Bank interest income | **855** | 488 |
| Compensation income | **—** | 518 |
| Rental income | **158** | 174 |
| Government subsidy | **643** | 1,402 |
| Others | **1,312** | 127 |
| | **2,968** | 2,709 |

***(b) Other net (loss)/income***

| | | |
|---|---|---|
| Net loss on disposal of plant and equipment | **(2,491)** | (661) |
| Net foreign exchange (loss)/gain | **(1,722)** | 4,946 |
| Others | **562** | (4) |
| | **(3,651)** | 4,281 |

## 5 Profit before taxation

Profit before taxation is arrived at after charging:

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| ***(a) Finance costs*** | | |
| Interest on bank borrowings | **729** | 806 |
| ***(b) Staff costs# **** | | |
| Contributions to defined contribution retirement plan | **4,156** | 4,864 |
| Expenses recognised in respect of defined benefit retirement plans | **188** | 121 |
| Equity-settled share-based payment expenses | **317** | 1,132 |
| Salaries, wages and other benefits | **50,793** | 55,953 |
| | **55,454** | 62,070 |

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| ***(c) Other items*** | | |
| Amortisation | **910** | 518 |
| Depreciation# | **21,839** | 18,659 |
| Impairment loss of trade receivables | **104** | 285 |
| Auditors' remuneration | **351** | 323 |
| Operating lease charges: minimum lease payments in respect of property rentals# | **3,675** | 3,628 |
| Research and development costs other than depreciation* | **15,725** | 15,655 |
| Cost of inventories# | **666,507** | 838,399 |

\# Cost of inventories includes $50,900,000 (2016: $53,922,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

* Research and development costs other than depreciation includes $10,998,000 (2016: $8,728,000) relating to staff costs, which amounts are also included in the respective total amounts disclosed separately in note 5(b).

## 6 Income tax in the consolidated statement of profit or loss

(a) Income tax in the consolidated statement of profit or loss represents:

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Current tax — Hong Kong Profits Tax** | | |
| Provision for the year | **380** | 1,346 |
| Over-provision in respect of prior years | **(3)** | (69) |
| | **377** | 1,277 |
| **Current tax — Overseas** | | |
| Provision for the year | **3,505** | 4,127 |
| (Over)/under-provision in respect of prior years | **(432)** | 52 |
| | **3,073** | 4,179 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(714)** | 150 |
| Change in tax rate | **—** | (38) |
| | **(714)** | 112 |
| | **2,736** | 5,568 |

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

Pursuant to the Administrative Measures for Recognition of High-New Technology Enterprise ("**HNTE**") jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation, Dongguan Cowell Optic Electronics Co., Ltd. ("**Cowell DG**"), an indirect wholly owned subsidiary of the Company, was certified as a HNTE. According to the provisions of Article 28 "Corporate Income Tax Law of the People's Republic of China", the effective Corporate Income Tax ("**CIT**") rate for 2016 till 2018 will be subject to a reduced tax rate of 15%.

Under the tax law in Korea, the statutory corporate tax rate applicable to the subsidiary in Korea is 10% for assessable income below Korean Won ("**KRW**") 200 million, 20% for assessable income between KRW200 million and KRW20 billion and 22% for assessable income above KRW20 billion for the years presented.

## 7 Earnings per share

***(a) Basis earnings per share***

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $27,619,000 (2016: $28,495,000) and 831,519,000 ordinary shares (2016: 831,519,000 shares) in issue during the year.

***(b) Diluted earnings per share***

There were no dilutive potential ordinary shares outstanding during the years ended December 31, 2017 and 2016. Accordingly, the diluted earnings per share is the same as basic earnings per share.

## 8 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 1 month | **78,606** | 133,790 |
| Over 1 to 2 months | **38,630** | 67,382 |
| Over 2 to 3 months | **224** | 391 |
| Over 3 months | **859** | 531 |
| | **118,319** | 202,094 |

Trade receivables are due within 30 to 90 days from the date of billing.

## 9 Trade and other payables

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 1 month | **57,437** | 88,010 |
| Over 1 to 3 months | **49,810** | 68,821 |
| Over 3 to 6 months | **20** | 631 |
| | **107,267** | 157,462 |

## 10 Dividends

The Board has proposed the payment of a final dividend of HK5.1553 cents per share for the year ended December 31, 2017. Together with the interim dividend of HK1.7179 cents per share, the dividend for the full year will be HK6.8732 cents (2016: HK7.9770 cents) per ordinary share after the end of the reporting period.

***Scope of work of KPMG***

*The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.*

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is a major supplier of camera modules for mobile devices. It primarily engages in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Customers for the Group's camera modules include some of the leading mobile device manufacturers in the world such as Apple, LG Electronics and Samsung Electronics. The Group also designs, develops, manufactures and sells optical components used in a number of consumer electronics products. Major customers for the Group's optical components include subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

The Group believes that its state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as strong relationships with its customers will continue to differentiate it as a provider of high quality and cost effective camera modules and optical components, and position well for continued growth opportunities. The Group operates two production facilities at Hengkeng and Huanan in Dongguan, PRC, where it can take advantage of high-quality labor force and extensive infrastructure for its operations. Furthermore, this location is strategically important from the perspective of transportation of products to its customers.

For the year ended December 31, 2017, the Group sold approximately 143.9 million units of camera modules and approximately 79.0 million units of optical components, compared to approximately 167.9 million units of camera modules and approximately 125.0 million units of optical components in 2016. Revenue decreased from US$914.5 million in 2016 to US$740.7 million in 2017 and a profit for the year of US$28.5 million in 2016 and US$27.6 million in 2017 were recorded. The Group had total assets of US$504.1 million and total equity of US$333.5 million as of December 31, 2017 as compared to total assets of US$562.3 million and total equity of US$297.4 million as of December 31, 2016.

## OUTLOOK AND FUTURE STRATEGIES

Although the smartphone industry's growth has been slower mainly due to consumers' lengthened replacement cycle, the camera module business for the smartphone is, in general, becoming more lucrative. It has been driven by smartphone makers' equipping more camera modules into their premium phones in the form of dual front- and rear-end camera modules, 3D sending camera modules and so on. This trend is clearly reflecting consumers' growing demand for more technological sophistication on their devices. However, the business environment in the fiscal year of 2017 was not favorable to the Group's business due to the following reasons:

1. Chinese smartphone makers, whom the Group is currently not serving, have gained more market share lately;

2. Shipments of camera modules to the major US customer were delayed due to lagging orders;

3. The sales of new products were lower than the Group's expectation; and

4. Competition has been intensified due to new suppliers entering into the supply chain.

In order to cope with the market situation described above, the Group has continued to focus on upgrading technology and product development expertise, manufacturing processes and customer services. The senior management of the Group believed that the Group's effort in this direction would eventually strengthen the relationships with its major customers and grow its business with them. The Group plans to maximize benefits from key mobile device products introduced by its largest customers and aims to expand its share of their demand. The Group is also seeking to further penetrate the camera modules market by widening its product portfolio from primarily fixed-focus camera modules to a variety of high-end camera modules. In addition, it aims to produce higher resolution camera modules, which it believes will drive higher profit margins.

Furthermore, the Group has made progress in expanding research and development division to develop new camera modules and relevant solutions. This initiative is to expand its customer base for further growth in the future. The Group also intends to develop and manufacture components which may be used in camera modules for synergistic value. In addition, the Group will continue to upgrade its camera module related technologies and manufacturing capabilities and other relevant solutions to meet customer requirements and improve operational efficiency, which, in turn, can increase productivity, improve production yields and reduce costs.

Since December 31, 2016, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of raw materials. In the fiscal year of 2017, the Group did not confront any critical production yield issue which it experienced in 2016. As a result, overall profitability has improved in 2017.

The directors are aware that its customers and product portfolio are highly concentrated. In order to alleviate the concentration risk, the Group has decided to expand its research and development division, which may develop new products independently from the existing customers. This initiative has been already kicked off and in progress. Furthermore, the management of the Group has not ruled out the potential plan of entering into strategic partnership with other companies, which have different technologies or solutions, to create synergy for mutual growth.

## RESULTS OF OPERATIONS

The following table presents a breakdown of the Group's revenue by product type and changes therein for the periods indicated.

| | 2017 | 2016 | Changes Amount | % |
|---|---|---|---|---|
| | *(US$ in millions, except percentages)* | | | |
| **Revenue** | | | | |
| Camera Modules | **735.6** | 907.8 | (172.2) | (19.0)% |
| Optical components | **5.1** | 6.7 | (1.6) | (23.9)% |
| Total | **740.7** | 914.5 | (173.8) | (19.0)% |

The Group reported a total revenue of US$740.7 million in 2017, a 19.0% decrease as compared to that of 2016.

***Camera Modules:*** Camera module revenue for the fiscal year of 2017 was US$735.6 million, a 19.0% decrease from US$907.8 million in 2016 mainly due to slowing growth of the global smartphone industry.

***Optical Components:*** Optical component revenue for the fiscal year of 2017 was US$5.1 million, a 23.9% decrease from US$6.7 million in 2016 primarily due to the decreased demand in line with slow smartphone industry and DVD market.

For the year ended December 31, 2017, the Group has reported gross profit, operating profit and net profit of US$74.2 million, US$31.1 million and US$27.6 million, respectively, as compared to US$76.1 million, US$35.4 million and US$28.5 million, respectively, in the fiscal year of 2016. In terms of margins, the Group's gross margin, operating margin and net margin for the year ended December 31, 2017 were 10.0%, 4.2% and 3.7%, respectively, as compared to 8.3%, 3.9% and 3.1%, respectively, in 2016. The profitability of the Group has been improved mainly due to decreased direct labor and higher production yield.

During the year ended December 31, 2017, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of raw materials.

The selling and distribution expenses decreased by 3.1% from US$3.2 million in 2016 to US$3.1 million in 2017. There was no material adverse development in the selling and distribution expenses in the fiscal year of 2017.

Administrative expenses decreased by 11.7% from US$44.5 million in 2016 to US$39.3 million in 2017. This decrease was primarily attributable to a US$4.0 million decrease in salaries, allowance, social insurance and welfare. The research and development expense in the fiscal year of 2017 amounted to US$16.7 million, which was equal to that in 2016.

Finance costs decreased by 12.5% from US$0.8 million in 2016 to US$0.7 million in 2017, which was mainly attributable to the improved terms and condition of the trade receivable financing facility with the bank.

The Group's income tax expense decreased by 51.8% from US$5.6 million in 2016 to US$2.7 million in 2017 mainly due to '2016 super deduction' booked in 2017. Super deduction is a tax scheme which allows companies to deduct 150% of research and development expenses from the taxable income. This tax scheme incentivizes high technology companies to spend more research and development expenses for high technology. As a result, the Group's effective tax rate was lowered by 7.3% from 16.3% in 2016 to 9.0% in 2017.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at December 31, 2017, the Group had total assets of US$504.1 million (December 31, 2016: US$562.3 million); net current assets of US$196.8 million (December 31, 2016: US$162.0 million) and total equity of US$333.5 million (December 31, 2016: US$297.4 million).

The Group has a solid financial position and continued to maintain a strong and steady inflow from operating activities. As at December 31, 2017, the Group had US$93.9 million of cash and cash equivalents. The Directors believes that the current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

## PLEDGE OF THE GROUP'S ASSETS

As at December 31, 2017, the Group's pledged deposits included US$3.4 million (December 31, 2016: US$3.2 million) provided to the local customs authority in the PRC. In addition, trade receivables with the carrying amount of US$70.6 million (December 31, 2016: US$113.2 million) has been pledged to bank to secure banking facilities.

## CAPITAL EXPENDITURES AND COMMITMENTS

The Group's capital expenditures (equivalent to the cash spent for payment for purchases of property, plant and equipment and intangible assets) for the year ended December 31, 2017 amounted to US$18.9 million which was funded through cash flow from operation, compared to US$43.4 million for the year ended December 31, 2016. The Group's capital expenditures in 2017 mainly reflected purchases of additional machinery and equipment to produce more advanced Flip-chip camera modules. The Group intends to fund the planned future capital expenditures through a combination of cash flow from operating activities and available banking facilities.

## CONTINGENT LIABILITIES

As at December 31, 2017, the Group had no significant contingent liabilities except for the guarantees issued by the Company to secure the banking facilities granted by banks to certain subsidiaries amounting to US$70.0 million (December 31, 2016: US$90.0 million).

## HUMAN RESOURCES

The Group employed a total of approximately 4,267 full-time employees as of December 31, 2017 (December 31, 2016: 5,298). Total staff costs for the year ended December 31, 2017, excluding Directors' remuneration were approximately US$54.5 million (2016: US$60.7 million).

In particular, professional employment agencies located in Dongguan, the PRC, have been involved in hiring most of the Group's factory workers. The Group also provides living, entertainment, dining and training facilities for its employees. The scope of the training includes human resources policy, health and safety, management skills and machine and equipment manuals as well as other various topics.

The Group has an emolument policy with respect to its long-term incentive schemes. The basis of determining emoluments payable to the directors is made on a discretionary basis with reference to the Company's operating results, individual performance and comparable market statistics. Furthermore, the Board has delegated the remuneration committee to review and make decisions in respect of the remuneration packages and overall benefits for the directors and senior management of the Company. The emolument policy of the Group is determined by the Board on the basis of their merit, qualifications and competence.

## SUPPLEMENTARY INFORMATION

### Final dividend

The Board has recommended the payment of a final dividend of HK5.1553 cents (2016: HK7.9770 cents) per ordinary share for the year ended December 31, 2017 to shareholders whose names appear on the register of members of the Company on Monday, May 28, 2018, subject to the approval of shareholders (the "**Shareholder**") of the Company at the forthcoming annual general meeting.

### Closure of Register of Members

The record date for the proposed final dividend will be Monday, May 28, 2018. The Company's register of members will be closed from Thursday, May 24, 2018 to Monday, May 28, 2018 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited (the "**Share Registrar**"), at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, May 23, 2018. Subject to the approval of the Shareholders at the annual general meeting, dividend will be paid to the Shareholders on or around Thursday, June 7, 2018.

**Annual General Meeting**

The annual general meeting of the Company (the "**AGM**") will be held on Thursday, May 17, 2018. The notice of the AGM will be published and dispatched to the Shareholders in due course.

**Closure of Register of Members for the AGM**

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, May 14, 2018 to Thursday, May 17, 2018, both dates inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, Shareholders must complete and lodge all transfer documents accompanied by the relevant share certificates with the Share Registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, May 11, 2018.

**Purchase, sale or redemption of the Company's listed securities**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2017.

**Corporate governance**

The Board has reviewed the corporate governance of the Group in accordance with the code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**CG Code**") and considered that, from the date of listing of the Company (the "**Listing Date**") to December 31, 2017 (the "**Current Period**"), the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions during the Current Period, with the exception that the roles of chairman and chief executive of the Company were both vested in Mr. Seong Seokhoon.

Pursuant to Code Provision A.2.1 of the CG Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, during part of the Current Period, the Company did not have a separate chairman and chief executive and Mr. Seong Seokhoon had been performing these two roles at the same time. The Board had considered that having Mr. Seong acting as both the chairman of the Board and the Company's chief executive officer would provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. The Board had taken into account Mr. Seong's extensive experience in the industry, personal profile and critical role in the Group and its historical development.

Upon Mr. Kim Kab Cheol's resignation from all his positions with the Company, Mr. Seong Seokhoon, the co-chief executive officer of the Company and executive Director, became the sole chief executive officer of the Company on September 30, 2017.

Under Rules 3.10(1) and 3.21 of the Listing Rules, every issuer should have at least three independent non-executive directors and its audit committee should comprise a minimum of three members respectively. During the Current Period, Mr. Kim Ilung resigned as an independent non-executive Director (the "**INED (s)**") and as a member of the Audit Committee of the Company with effect from March 23, 2017. Following Mr. Kim's resignation, the Company had two INEDs and the Audit Committee comprised two members, which fell below the requirements under Rules 3.10(1) and 3.21 of the Listing Rules. Upon the appointment of Mr. Andrew Look as an INED and a member of the Audit Committee with effect from April 3, 2017, the Company has three INEDs and the Audit Committee comprises of three members and therefore the Company has since complied with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules.

Save as disclosed above, the Directors consider that the Company has fully complied with the applicable Code Provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 during the Current Period.

**Audit Committee**

The Audit Committee has reviewed with the management and KPMG, the Company's auditor, the accounting principles and policies adopted by the Group and the consolidated financial results for the year ended December 31, 2017. Based on this review, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended December 31, 2017.

**Model Code of Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry of all Directors that they have fully complied with the required standard set out in the Model Code throughout the Current Period.

**Events after the financial year ended December 31, 2017**

There were no significant events affecting the Company nor any of its subsidiaries after the financial year ended December 31, 2017 requiring disclosure in this announcement.

**Publication of 2017 Annual Results and Annual Report**

The annual results announcement is published on the website of the Company (http://www.cowelleholdings.com) and the website of the Stock Exchange (http://www.hkex.com.hk). The annual report of the Company for the year ended December 31, 2017 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board
**Cowell e Holdings Inc.**
**Seong Seokhoon**
*Chairman*

Hong Kong, March 22, 2018

*As at the date of this announcement, the Board comprises Mr. Seong Seokhoon and Mr. Lee Dong Goo as executive Directors; and Mr. Kim Chan Su, Dr. Song Si Young and Mr. Andrew Look as independent non-executive Directors.*