TONLY ELECTRONICS HOLDINGS LIMITED
通力電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01249)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

Results for the year ended 31 December

	2019 *(HK$M)*	2018 *(HK$M)*	Change
Turnover	**8,146.6**	7,303.0	11.6%
Gross profit	**1,095.5**	831.6	31.7%
Operating profit	**334.3**	297.7	12.3%
Profit for the year	**271.2**	221.2	22.6%
Profit attributable to owners of the parent	**268.7**	223.1	20.4%
Basic earnings per share *(HK dollars)*	**1.03**	0.87	18.4%
Full year dividend per share *(HK dollars)*			
– Proposed final dividend per share *(HK dollars)*	**0.35**	0.30	16.7%

Highlights

For the year ended 31 December 2019, the Group recorded a turnover of approximately HK$8,146.6 million, increased by 11.6% year-on-year. Gross profit amounted to approximately HK$1,095.5 million, increased by 31.7% year-on-year. Operating profit reached approximately HK$334.3 million, representing an increase of 12.3% year-on-year. Profit attributable to owners of the parent reached approximately HK$268.7 million, representing an increase of 20.4% year-on-year. The board of Directors proposed a final dividend of HK$0.35 per share.

The overall sales revenue of audio products reached approximately HK$5,823.9 million, representing an increase of 5.1% year-on-year. The sales revenue of headphones reached approximately HK$1,055.2 million, representing an increase of approximately 49.7% year-on-year. The sales revenue of video products reached approximately HK$211.0 million, representing a decrease of 46.8% year-on-year. The sales revenue of IoT related products reached approximately HK$128.3 million, representing a decrease of approximately 20.4% year-on-year. The overall sales revenue of ancillary products reached approximately HK$786.6 million, representing an increase of 70.1% year on year.

The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Twelve months ended 31 December	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**8,146,641**	7,302,951
Cost of sales		**(7,051,162)**	(6,471,337)
Gross profit		**1,095,479**	831,614
Other income and gains, net		**148,209**	168,071
Selling and distribution costs		**(190,709)**	(149,755)
Administrative expenses		**(331,083)**	(279,834)
Research and development costs		**(370,351)**	(255,572)
Other operating expenses, net		**(17,250)**	(16,872)
		334,295	297,652
Finance costs	*4*	**(31,877)**	(20,705)
Share of profits and losses of an associate		**(320)**	5,361
PROFIT BEFORE TAX	*5*	**302,098**	282,308
Income tax expense	*6*	**(30,885)**	(61,149)
PROFIT FOR THE YEAR		**271,213**	221,159
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**1,919**	1,897
Reclassification adjustments for loss/(gains) included in profit or loss		**(11,127)**	8,309
Income tax effect		**(160)**	5,913
		(9,368)	16,119
Exchange fluctuation reserve:			
Translation of foreign operations		**(31,706)**	(47,224)

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

	Notes	Twelve months ended 31 December 2019 HK$'000	2018 HK$'000
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(41,074)**	(31,105)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**230,139**	190,054
Profit/(loss) attributable to:			
Owners of the parent		**268,746**	223,135
Non-controlling interests		**2,467**	(1,976)
		271,213	221,159
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**228,593**	192,540
Non-controlling interests		**1,546**	(2,486)
		230,139	190,054
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**HK$1.03**	HK$0.87
Diluted		**HK$1.00**	HK$0.85

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2019** *HK$'000*	31 December 2018 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,086,062**	818,212
Prepaid land lease payments		**–**	66,305
Goodwill		**4,002**	4,091
Other intangible asset		**–**	65
Investment in an associate		**1,918**	–
Prepayments and other receivables		**82,937**	18,060
Deferred tax assets		**79,523**	79,296
Total non-current assets		**1,254,442**	986,029
CURRENT ASSETS			
Inventories		**1,248,668**	1,268,150
Trade and bills receivables	*9*	**2,154,029**	1,231,231
Prepayments, other receivables and other assets		**211,177**	399,833
Tax recoverable		**7,071**	4,695
Derivative financial instruments		**3,755**	65,489
Cash and cash equivalents		**739,193**	749,466
Total current assets		**4,363,893**	3,718,864
CURRENT LIABILITIES			
Trade and bills payables	*10*	**2,318,109**	1,860,556
Other payables and accruals		**854,785**	730,053
Tax payable		**90,990**	81,827
Derivative financial instruments		**1,000**	50,133
Interest-bearing bank borrowings		**69,377**	73,338
Provision		**232,543**	218,362
Total current liabilities		**3,566,804**	3,014,269
NET CURRENT ASSETS		**797,089**	704,595
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,051,531**	1,690,624

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	**31 December 2019** ***HK$'000***	31 December 2018 *HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**10,679**	15,350
Other payables		**24,238**	–
Interest-bearing bank borrowings		**165,336**	–
Total non-current liabilities		**200,253**	15,350
Net assets		**1,851,278**	1,675,274
EQUITY			
Equity attributable to owners of the parent			
Share capital	*11*	**272,459**	268,474
Reserves		**1,515,925**	1,330,301
		1,788,384	1,598,775
Non-controlling interests		**62,894**	76,499
Total equity		**1,851,278**	1,675,274

Notes:

1. BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

Except for the amendments to HKFRS 9 and HKAS 19, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and impact of the new and revised HKFRSs are described below:

(a) 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

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.

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. 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use-assets and interest accrued on the outstanding lease liabilities (as finance costs).

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 other payables and accruals. 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 included in "property, plant and equipment" in the consolidated statement of financial position.

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

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

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

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets included in property, plant and equipment	99,987
Decrease in prepaid land lease payments	(66,305)
Decrease in prepayments, other receivables and other assets	(1,712)
Increased in total assets	31,970
Liabilities	
Increase in other payables and accruals	31,970

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

(c) 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 financial statements.

3. SEGMENT INFORMATION

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

4. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank loans	**11,413**	296
Interest on a finance lease	**–**	13
Interest on factored trade receivables	**17,928**	20,396
Interest on lease liabilities	**2,536**	–
	31,877	20,705

5. PROFIT BEFORE TAX

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

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold*	**7,018,350**	6,436,898
Cost of services rendered*	**32,812**	24,373
Depreciation of property, plant and equipment	**118,593**	94,350
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**22,330**	1,423
Lease payments not included in the measurement of lease liabilities	**26,306**	–
Amortisation of other intangible asset	**65**	130
Research and development costs – current year expenditure	**370,351**	255,572
Fair value loss on derivative financial instruments, net – transactions not qualifying as hedges	**13,378**	38,146
Ineffectiveness of cash flow hedges**	**(439)**	(497)
Minimum lease payments under operating leases	**–**	51,695
Auditor's remuneration	**2,580**	2,480
Transaction costs incurred for the Step Acquisition	**–**	214
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**1,117,720**	951,435
Equity-settled share option expense	**15,641**	25,320
Employee share-based compensation benefits under the Award Scheme	**18,599**	30,020
Defined contribution expense	**64,366**	60,075
	1,216,326	1,066,850

	2019	2018
	HK$'000	*HK$'000*
Impairment of financial assets, net		
Impairment of trade receivables**	**7,644**	732
Impairment/(reversal of impairment) of financial assets included in prepayments, other receivables and other assets**	**(5,106)**	5,129
	2,538	5,861
Product warranty provision:		
Additional provision	**93,310**	39,687
Reversal of unutilised provision	**(64,434)**	(30,533)
	28,876	9,154
Loss/(gain) on disposal of items of property, plant and equipment**	**3,727**	(178)
Loss on write-off of items of property, plant and equipment**	**7,601**	620
Loss on re-measurement of pre-existing interest in Guangdong Regency to acquisition date fair value**	**–**	6,875
Write-off of damaged inventories*	**–**	10,066
Provision on obsoleted inventories	**3,823**	4,593
Reversal of compensation and other losses on the fire accident**	**–**	(1,077)

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

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

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rate regime effective from the year of assessment 2018/19. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2019	2018
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**5,733**	13,730
Overprovision in prior years	**(202)**	–
Current – Elsewhere		
Charge for the year	**34,625**	57,136
Overprovision in prior years	**(2,836)**	(11,379)
Deferred	**(6,435)**	1,662
Total tax charge for the year	**30,885**	61,149

Certain subsidiaries of the Group in the PRC were designated as "High and New Technology Enterprises" and accordingly could enjoy a preferential Corporate Income Tax rate of 15%.

7. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Proposed final dividend		
– HK$0.35 (2018: HK$0.30) per ordinary share	**95,361**	80,542

The amount of proposed final dividend for the year was calculated based on the number of shares of the Company as at 31 December 2019.

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

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

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**268,746**	223,135

	Number of shares	
	2019	*2018*
Shares		
Weighted average number of ordinary shares in issue less shares held for the Award Scheme during the year used in the basic earnings per share calculation	**261,906,906**	255,768,203
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	**1,558,021**	2,611,221
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	**4,761,461**	5,332,850
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**268,226,388**	263,712,274

9. TRADE AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables		
Due from third parties	**1,693,449**	1,135,926
Provision for impairment	**(20,674)**	(13,114)
	1,672,775	1,122,812
Due from TCL Industries Holdings Co., Ltd. ("TCL Holdings") and its affiliates *(note)*	**56,043**	–
Due from TCL Technology Group Corporation ("TCL Technology") and its affiliates *(note)*	**415,684**	84,224
Trade receivables	**2,144,502**	1,207,036
Bills receivable	**9,527**	24,195
	2,154,029	1,231,231

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

Sales to third party customers

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

Sales to related parties

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

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

An 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:

	2019	2018
	HK$'000	*HK$'000*
Current to 90 days	**1,808,769**	961,586
91 to 180 days	**249,388**	128,570
181 to 365 days	**54,890**	66,335
Over 365 days	**31,455**	50,545
	2,144,502	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. As at 31 December 2019, trade receivables factored to banks aggregated to HK$407,644,000 (2018: HK$921,886,000), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors of the Company, 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

	2019	2018
	HK$'000	*HK$'000*
Due to third parties	**1,834,747**	1,756,302
Due to TCL Holdings and its affiliates	**151**	–
Due to TCL Technology and its affiliates	**467,031**	85,381
Due to Coxon Industry (Changshu) Co., Ltd. and its affiliates	**16,180**	17,161
Trade payables	**2,318,109**	1,858,844
Bills payable	**–**	1,712
	2,318,109	1,860,556

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

	2019	2018
	HK$'000	*HK$'000*
Current to 90 days	**1,945,464**	1,726,307
91 to 180 days	**322,379**	45,583
181 to 365 days	**47,158**	83,699
Over 365 days	**3,108**	3,255
	2,318,109	1,858,844

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

11. SHARE CAPITAL

Shares

	2019	2018
	HK$'000	*HK$'000*
Authorised:		
500,000,000 shares of HK$1.00 each	**500,000**	500,000
Issued and fully paid:		
272,459,165 (2018: 268,474,420) shares of HK$1.00 each	**272,459**	268,474

During the year, the movements in share capital and share premium account of the Company were summarised as follows:

	Number of shares in issue	**Share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 31 December 2018 and 1 January 2019	268,474,420	268,474	457,532	726,006
Issue of shares upon exercise of share options *(Note)*	3,984,745	3,985	14,967	18,952
At 31 December 2019	272,459,165	272,459	472,499	744,958

Note:

The subscription rights attaching to 3,984,745 share options were exercised at the subscription price of HK$4.05 per share, resulting in the issue of 3,984,745 shares for a total cash consideration, before expenses, of approximately HK$16,138,000. An amount of HK$2,814,000 was transferred from the share option reserve to share premium upon the exercise of share options.

MANAGEMENT DISCUSSION & ANALYSIS

2019 was an unusual year for the development of the PRC's economy or even global economy. The Sino-US trade tariffs issue has been changeable, trade barriers arose around the world and certain PRC enterprises were included in the entity list of the US, all of which have posed significant challenges to the economic development of the PRC and the world. Nevertheless, in 2019, the PRC's gross domestic product (GDP) amounted to RMB99,086.5 billion, which reached US$14,400 billion (converted at the annual average exchange rate) and remained the second place in the world with a year-on-year increase of 6.1%. Such growth met the expected target of 6.0%-6.5% and contributed to approximately 30% of global economic growth.

With regard to industry development, according to a report published by Strategy Analytics, a third party market analysis institution, the global sales volume of smart speakers reached 146.9 million units in 2019, representing an increase of 70% as compared to 2018 and setting a record high. Among other things, although Amazon and Google still ranked the first and second in terms of shipments, their respective market shares reduced significantly as compared to the same period last year. Meanwhile, Chinese brands maintained their strong momentums with the market shares of Baidu, Ali（阿里）and Xiaomi still rose steadily. As for True Wireless Stereo (TWS) earphones market, according to the information from Counterpoint, a market research institution, the global shipments of TWS earphones was 120 million units in 2019, representing a year-on-year growth of 160% and a market size of approximately US$15 billion, of which Apple airpods occupied the dominant position, while other brands were also improving.

BUSINESS REVIEW

For the year ended 31 December 2019 (the "period under review"), the Group recorded a turnover of approximately HK$8,146.6 million, representing a year-on-year growth of 11.6% which was primarily due to the growth in the new audio, smart audio speaker, headphones and ancillary product businesses. Gross profit amounted to approximately HK$1,095.5 million, representing a year-on-year growth of 31.7%. Gross profit margin increased by 2.0% from 11.4% in the same period last year to 13.4%, which was attributable to the improvement of production layout and efficiency as well as the decrease in cost of certain raw materials. Benefiting from the increase in turnover and gross profit margin as well as effective cost control, profit attributable to the owners of the parent company during the period under review increased by 20.4% year-on-year to HK$268.7 million.

During the period under review, 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. 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. The Group has established subsidiaries 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 productivity, the Group also continued to enhance production automation and its digitisation capability.

During the period under review, the Group endeavoured to develop its audio product, smart product and ancillary product businesses, among which products including smart speakers, headphones and soundbars grew rapidly. Based on the analysis by product category, the turnover of the Group's audio products, headphones, video products, IoT related products, ancillary products and other businesses amounted to approximately HK$5,823.9 million, HK$1,055.2 million, HK$211.0 million, HK$128.3 million, HK$786.6 million and HK$141.6 million respectively, representing an increase of 5.1% and 49.7%, a decrease of 46.8% and 20.4%, an increase of 70.1% and 306.7% respectively. The Group's turnover breakdown by product is set out below:

	For the year ended 31 December		
	2019	2018	Change
	(HK$'000)	*(HK$'000)*	
Audio Products (1)	**5,823,875**	5,543,219	5.1%
Headphones	**1,055,194**	704,688	49.7%
Video Products (2)	**211,030**	396,420	-46.8%
IoT Products (3)	**128,310**	161,271	-20.4%
Ancillary products (4)	**786,640**	462,534	70.1%
Other Businesses	**141,592**	34,819	306.7%
Total	**8,146,641**	7,302,951	11.6%

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

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

(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 Guangdong Regency Optics-electron Co., Ltd. ("Guangdong Regency"), 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 sales volume of certain IoT related products in 2018 was reclassified to video products 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 advantage of leading product technology and the initial market layout, the smart product business of the Group maintained growth and the proportion of the revenue generated by it to the total turnover increased to 16.3%. Meanwhile, the ancillary product business which is ancillary to the smart product business also benefited from the overall market growth, especially in respect of precision plastic injection, structural parts with new form and speaker units, all of which achieved remarkable results. In addition, with the shipments of Bluetooth headphones of the Group maintaining rapid growth, the Group has achieved large-scale shipments for TWS earphones and enhanced technology development of active noise reduction and voice interaction functions. The Group continued to consolidate its leading position of Bluetooth speakers and enhance its market share of soundbars.

Product research and development (R&D) and innovation

The Group has been committed to product R&D and innovation. During the period under review, the Group's R&D expenses amounted to HK$370.4 million, accounting for 4.5% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an. Each R&D base carried out R&D works by regions, focusing on different basic modules, product categories and forward-looking technology. Leveraging on voice technology advantages from domestic and overseas ecological chain, it actively developed and reserved new products and technology. The Group continued to devote more R&D resources to smart products epitomised by smart voice speakers and gradually established the development capability for ancillary products which are ancillary to the smart products.

In respect of the smart voice eco-platform, the Group maintained close cooperation with internet enterprises with global mainstream voice platforms and continued development of latest technologies and product coordination on the basis of mainstream voice platforms. The smart audio speaker market continued to grow and gradually developed and diversified various ecological scenes centring this market. With the integration of various human-device interactions such as voice, vision and touch and the perception, comprehension and decision-making ability of AI, a smart home in the 5G era is created. In respect of the transformation of technology and interaction method, smart audio speaker has been gradually transforming from sole-audio interaction to "audio + visual" diversified interaction. Screen-equipped smart speaker jointly developed by the Group and its customers breaks the limitation in respect of audio interaction function and content display and allows smart products to acquire audio and visual abilities.

The Group constantly develops diversified smart products and, by leveraging on its extensive experience in professional electro-acoustic design and pioneer advantages in smart speakers, the Group constantly innovates in product development to enhance the overall competitiveness of the Group and capture potential market opportunities. The Group also believes that future voice technologies will not only be limited to smart speaker products, but may also be utilised by various types of products that require voice access. Therefore, in addition to strengthening the R&D and innovation of smart voice speakers, the Group also actively explores and applies ecological ancillary products in respect of 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.

During the period under review, the Group has been enhancing its active noise reduction technology and developed various mid-to high-end earphone products with active noise reduction functions. The headphone business has maintained rapid growth. In 2019, TWS master chip manufacturers launched new generation upgraded products specially designed for Android platforms with a view to achieving dual wireless connection. Represented by the projects of Qualcomm, Bestechnic and Airoha, the TWS earphone market has experienced explosive growth. The Group has been constantly expanding the TWS earphone products development team. Combining active noise reduction and voice interaction technology and leveraging on its outstanding electroacoustic capability, the Group's TWS earphone products have realised large-scale shipments.

Customer and market expansion

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

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

Production and supply chain management

The Group used Huizhou Zhongkai as a core base and moulding centre integrating research, production and sales. After the commencement of operation of the new plant at Phase Two of Second Plant on land parcel No. 41 in March 2019, the externally rented factories and warehouses of the Group gradually moved back to the new plant and certain space was reserved for the production of new products, which were beneficial to the enhancement of overall production management and efficiency and reduced external rental expenses. The Group's Huizhou Puli Electroacoustic Tongqiao Industrial Park was also put into operation, forming 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 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.

The Group is not only equipped with R&D and production abilities, but also possesses vertical integration capability of the supply chain, which enables the Group to provide customers with speaker units and sophisticated structural parts. With hot sale of smart products continuing throughout the world, the Group's ancillary business has experienced rapid growth. During the period under review, the Group continuously enhanced its capabilities in speaker units and structural components, especially the structural parts with new form related to precision moulding. Meanwhile, with the explosive growth of TWS earphone products, small forms of structural parts have experienced rapid growth and the Group has been continuously enhancing its developing capability regarding small forms of structural parts.

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 and establish overseas productivity. During the period under review, the Group continued to increase the proportion of automated equipment and strengthened the stability of skilled workers to boost its per capita production efficiency steadily. The Group has introduced automated test systems and automated packaging systems to facilitate a streamlined, automated, digitalised 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, and logistics while enhancing the actual production capacity of the Huizhou production base.

Future plans and outlook

In 2020, Sino-US trade disputes eventually entered a stage of gradual improvement. On 15 January, the PRC and the US signed Phase I Economic and Trade Agreement, which brought a pause to the trade disputes lasting for nearly two years. However, the outbreak of the novel coronavirus epidemic early this year forced numerous enterprises to postpone production after the Chinese New Year holidays. Meanwhile, World Health Organization (WHO) declared on 11 March that the novel coronavirus epidemic has constituted a pandemic, which posed challenges to overall economic development for the first half of the year. The PRC government's series of epidemic prevention and control measures have effectively controlled the epidemic from spreading. The International Monetary Fund (IMF) anticipated that the economic growth of the PRC in 2020 will be 5.6%.

Despite uncertainties in external economic environment, the Group will continue to consolidate and strive to upgrade its position in the new audio market, focus on the development of smart speakers, soundbar and headphone product businesses, as well as strive for more business opportunities and find more new customers. Especially with respect to soundbar products, the Group has completed productivity construction of soundbar integrated production at the Huizhou factory. As to customer structure, the Group has basically secured top soundbar customers around the world, which laid a solid foundation for the Group's future development of soundbar business. For the video business, the Group will keep on adjusting its resource structure and adopt a small-team and asset-light operation strategy.

TWS earphones have become one of the Group's business units with key breakthrough. With Bluetooth 5.0 technology becoming more popular and gradual removal of headphone jacks from smart phones around the world, TWS earphones have experienced explosive growth in the past year. Basic user needs such as battery life, transmission and price of most TWS products in market are satisfactory while there is still room for improvement regarding functions including sound quality, noise reduction mode, voice assistant and health monitoring. Counterpoint, a third party market analysis agency, predicted 120 million pairs of global TWS earphones shipments in 2019. With both driving force of replacement and new purchase, TWS earphones shipments will surge to 230 million pairs in 2020, representing a year-on-year growth rate of 91.6%. In terms of sound quality, noise reduction technology and voice interaction, the Group has been well equipped with market competitive edges. The Group will keep on advancing its technology and automated production capacity to strive for more competitive integrated advantages and higher industry status in the TWS earphone market in the future.

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 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 and develop more mainstream ancillary products in the voice ecosystem. As a core partner of the global Internet corporate voice ecosystem, the Group will achieve mutual growth with voice ecosystem development and strive to provide more users with the experience of a new generation of human-machine interaction.

The Group has actively coped with the risks deriving from potential trade tariffs and prepared in advance. After the establishment of the subsidiaries in Vietnam, the Group will strive for completing the construction of overseas self-owned plants as soon as possible and build mature capability of overseas supply chain vertical integration. The Group will continue to enhance its development ability in respect of utilities such as speakers and sophisticated structural parts. The Group also consolidated the moulding and plastic parts manufacturing and electro-acoustic units of its subsidiaries to achieve synergy and reduce production costs. The Group will further implement streamlined management to enhance overall operational efficiency and control overall costs, during which it will adopt a series of measures to improve its administrative efficiency and internal operation process. With the streamlined management and improvement of product testing and assembled infrastructure, the Group will be able to ensure product quality and control production cost.

In 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 businesses such as smart products, soundbars, headphones and ancillary products of the Group will account for an increasing proportion in 2020. Meanwhile, along with the continuous development of smart audio products, more enterprises will enter this field in the future and the market competition will become fiercer. The Group will, as always, keep on looking for opportunities and actively seeking viable business expansion opportunities, which, coupled with its own strengths, will enlarge its business portfolio, enhance the long-term value of the Group, and proactively generate more return for its shareholders.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

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

On 20 June 2019, Guangdong Regency, a subsidiary of the Company, entered into an equity transfer agreement with (i) Mr. Ling Gaode; (ii) Mr. Hu Qingde; and (iii) Mr. Deng Gaofeng (collectively the "Vendors") pursuant to which Guangdong Regency agreed to acquire from the Vendors 49% of the equity interest in Huizhou Nikko Optoelectronics Co., Ltd. (the "Target Company"), a company established in the PRC with limited liability, at an aggregate consideration of RMB32,590,000. The consideration was to be satisfied by Guangdong Regency by way of (i) the payment of a cash consideration of RMB7,000,000; and (ii) the allotment and issuance of the 10,680,000 consideration shares in Guangdong Regency to the Vendors at the issue price of RMB2.39 per consideration share. Completion took place on 10 July 2019, after which Guangdong Regency held 100% of the equity interest in the Target Company and therefore the Target Company became a wholly-owned subsidiary of Guangdong Regency, while Guangdong Regency remains a subsidiary of the Company. Please refer to the announcements of the Company published on the websites of The Stock Exchange of Hong Kong Limited and the Company on 20 June 2019 and 10 July 2019 for details.

Liquidity and Financial Resources

The Group maintained robust financial position during the Period under Review. The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and short-term deposits. The main objective of the use of these financial instruments is to maintain continuity and flexibility of funding at the lowest cost possible.

The cash and bank balance of the Group as at 31 December 2019 amounted to approximately HK$739,193,000, of which 2% was maintained in Hong Kong dollars, 49% in US dollars, 48% in Renminbi and 1% in Vietnamese Dong.

For the purpose of day-to-day liquidity management and future expansion, the Group has access to banking facilities. As at 31 December 2019, the Group's interest-bearing bank borrowings were HK$234,713,000, which are denominated in RMB with variable interest rate ranging from 3.47%-4.75%. The maturity profile of borrowing ranged from one to five years. It is the intention of the Group to maintain a mix of equity and debt to ensure an efficient capital structure and in view of the reasonable interest rate. There was no asset held under finance lease as at 31 December 2019.

The Group monitors capital using a gearing ratio, which is debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Debt is calculated as a total of interest-bearing bank borrowings. Total capital refers to equity attributable to owners of the parent. The gearing ratio as at the end of the reporting period was 13.1%.

Pledge of Assets

There was no pledge of assets by the Group as at 31 December 2019.

Event after the Reporting Period

The outbreak of the novel coronavirus disease ("COVID-19") started from early 2020. Although the Group was affected to a certain extent in respect of work resumption of employees, materials supply and increase in cost of raw materials, the Group has been under normal management and has fully resumed work and maintained normal level of production and operation.

However, the pandemic has been spreading in Europe and Americas since March 2020. As the Group's major markets are in Europe and Americas, there will be significant adverse effects on the Group's business if the European and American markets slump or the countries implement closure of business premises in view of the impact of the pandemic.

Capital Commitments and Contingent Liabilities

As at 31 December 2019, the Group had capital commitments of approximately HK$58,789,000 (31 December 2018: HK$48,070,000). The Group did not have any material contingent liabilities as at 31 December 2019.

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 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 Company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

The Group had approximately 9,247 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of shareholders, share options were granted to selected employees under the Company's share option scheme. Options to subscribe for a total of 27,946,154 shares remained outstanding at the end of the reporting period.

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

PURCHASES, SALES OR REDEMPTION OF SHARES

Pursuant to the rules of the Award Scheme, the trustee for the Award Scheme purchased from the market a total of 365,000 existing shares being the awarded shares for the Award Scheme during the year ended 31 December 2019. The total amount paid by the Company to the trustee to acquire such existing shares was approximately HK$2,174,000.

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

FINAL DIVIDEND

The Board has proposed a final dividend, for the year ended 31 December 2019, of HK$0.35 (2018: HK$0.30) in cash per share.

Subject to approval at the forthcoming annual general meeting on 19 May 2020, Tuesday the said final dividend will be payable on or about 18 June 2020, Thursday to shareholders whose names appear on the register of members of the Company on 28 May 2020, Thursday.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 14 May 2020, Thursday to 19 May 2020, Tuesday, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the shares in the Company may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers of shares in the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 13 May 2020, Wednesday.

The register of members of the Company will be closed from 25 May 2020, Monday to 28 May 2020, Thursday, (both dates inclusive), for the purposes of determining the entitlements of the shareholders to the proposed final dividend upon the passing of relevant resolution. No transfer of the shares in the Company may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of shares in the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 22 May 2020, Friday.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 19 May 2020, Tuesday. The notice of annual general meeting will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited and despatched to the shareholders of the Company in due course.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the year ended 31 December 2019, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the deviation from Code Provision F.1.1. The reasons for the deviation from Code Provision F.1.1 remain substantially the same as those set out in the Company's 2018 annual report.

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

Ms. CHOY Fung Yee ("Ms. CHOY"), the company secretary of the Company is not an employee of the Company. Ms. CHOY is a partner of the Company's legal advisor, Messrs. Cheung Tong & Rosa Solicitors.

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

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

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit and loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by EY to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on this announcement.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 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 year ended 31 December 2019.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 24 March 2020

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.