

The Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



TONLY ELECTRONICS HOLDINGS LIMITED

通力電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01249)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2020 (HK\$M)	2019 (HK\$M)	Change
Turnover	3,141.3	3,518.2	-10.7%
Gross profit	392.6	457.2	-14.1%
Operating profit	91.1	133.0	-31.5%
Profit for the period	70.4	98.7	-28.7%
Profit attributable to owners of the parent	68.3	98.3	-30.5%
Basic earnings per share (HK cents)	25.41	37.68	-32.6%

HIGHLIGHTS

For the six months ended 30 June 2020, the Group recorded turnover of approximately HK\$3,141.3 million, representing a decrease of 10.7% year-on-year. The sales revenue of audio products reached approximately HK\$2,085.9 million, representing a decrease of 16.6% year-on-year. The sales revenue of headphones reached approximately HK\$397.5 million, representing a decrease of approximately 5.7% year-on-year. The sales revenue of video products reached approximately HK\$87.4 million, representing a decrease of 36.2% year-on-year. The sales revenue of IoT related products reached approximately HK\$69.9 million, representing a decrease of 10.1% year-on-year. The sales revenue of ancillary products rose by 12.7% year-on-year to approximately HK\$343.7 million. The sales revenue of wireless products, a new product category newly explored by the Group last year, reached approximately HK\$85.4 million in the first half of 2020.

Gross profit amounted to approximately HK\$392.6 million, representing a decrease of 14.1% year-on-year. Profit for the period reached approximately HK\$70.4 million, representing a decrease of 28.7% year-on-year. Profit attributable to owners of the parent reached approximately HK\$68.3 million, representing a decrease of 30.5% year-on-year.

The board (the “Board”) of directors (the “Director(s)”) of Tonly Electronics Holdings Limited (the “Company”) hereby announces the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 with comparative figures for the corresponding period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee (the “Audit Committee”):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	(unaudited)	(unaudited)
		HK\$’000	HK\$’000
REVENUE	3	3,141,317	3,518,176
Cost of sales		(2,748,758)	(3,060,996)
Gross profit		392,559	457,180
Other income and gains, net		66,673	48,610
Selling and distribution costs		(88,860)	(60,572)
Administrative expenses		(139,510)	(140,637)
Research and development costs		(134,485)	(169,464)
Other operating expenses, net		(5,263)	(2,103)
Finance costs	4	91,114	133,014
Share of losses of an associate		(9,227)	(17,897)
		(139)	–
PROFIT BEFORE TAX	5	81,748	115,117
Income tax expense	6	(11,311)	(16,445)
PROFIT FOR THE PERIOD		70,437	98,672
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		4,637	2,526
Reclassification adjustments for gains included in profit or loss		(693)	(10,416)
Income tax effect		(459)	(1,585)
		3,485	(9,475)
Exchange fluctuation reserve:			
Translation of foreign operations		(27,157)	(6,493)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(23,672)	(15,968)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		46,765	82,704

		Six months ended 30 June	
		2020	2019
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Profit attributable to:			
Owners of the parent		68,251	98,295
Non-controlling interests		2,186	377
		<u>70,437</u>	<u>98,672</u>
Total comprehensive income attributable to:			
Owners of the parent		46,598	82,629
Non-controlling interests		167	75
		<u>46,765</u>	<u>82,704</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	<i>8</i>		
Basic		<u>HK25.41 cents</u>	<u>HK37.68 cents</u>
Diluted		<u>HK25.24 cents</u>	<u>HK36.55 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,188,609	1,086,062
Goodwill		3,925	4,002
Investment in an associate		1,743	1,918
Prepayments and other receivables		141,280	82,937
Deferred tax assets		79,140	79,523
		<hr/>	<hr/>
Total non-current assets		1,414,697	1,254,442
CURRENT ASSETS			
Inventories		1,221,765	1,248,668
Trade and bills receivables	9	1,512,916	2,154,029
Prepayments, other receivables and other assets		299,226	211,177
Tax recoverable		6,046	7,071
Derivative financial instruments		4,815	3,755
Cash and cash equivalents		471,059	739,193
		<hr/>	<hr/>
Total current assets		3,515,827	4,363,893
CURRENT LIABILITIES			
Trade and bills payables	10	1,690,285	2,318,109
Other payables and accruals	11	904,197	854,785
Tax payable		81,502	90,990
Derivative financial instruments		2,609	1,000
Interest-bearing bank borrowings	12	29,729	69,377
Provision		220,503	232,543
		<hr/>	<hr/>
Total current liabilities		2,928,825	3,566,804
NET CURRENT ASSETS		587,002	797,089
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,001,699	2,051,531
		<hr/>	<hr/>

		30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred tax liabilities		11,370	10,679
Other payables	<i>11</i>	21,989	24,238
Interest-bearing bank borrowings	<i>12</i>	161,003	165,336
		<hr/>	<hr/>
Total non-current liabilities		194,362	200,253
		<hr/>	<hr/>
Net assets		1,807,337	1,851,278
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>13</i>	273,105	272,459
Reserves		1,471,171	1,515,925
		<hr/>	<hr/>
Non-controlling interests		1,744,276	1,788,384
		63,061	62,894
		<hr/>	<hr/>
Total equity		1,807,337	1,851,278
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial information are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2020.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 16*	<i>COVID-19 Related Rent Concessions</i>

* *Early adopted by the Group in current period’s financial statements.*

The amendment to HKFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

The amendments to HKFRS 9 and HKAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

The amendments to HKAS 1 and HKAS 8 provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

The Group has early adopted the amendments to HKFRS 16 which provides relief to lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; (iii) there is no substantive change to other terms and conditions of the lease. The Group elects to adopt the practical expedient to account for the COVID-19 pandemic related rent concession as negative variable lease payments. Accordingly, the Group credited HK\$230,000 to profit or loss for the rent concessions received by the Group during the period.

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

3. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sale of goods	3,110,446	3,496,304
Rendering of services	30,871	21,872
	3,141,317	3,518,176

Revenue from contracts with customers

Disaggregated revenue information

Type of goods or services	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Sale of goods	3,110,446	3,496,304
Research and development services	30,871	21,872
Total revenue from contracts with customers	<u>3,141,317</u>	<u>3,518,176</u>
Geographical markets		
United States of America ("US")	90,555	227,743
Japan	355,578	657,833
Europe	875,940	1,446,130
The People's Republic of China (the "PRC")	1,422,273	1,022,829
Korea	339,217	111,869
Others	57,754	51,772
Total revenue from contracts with customers	<u>3,141,317</u>	<u>3,518,176</u>
Timing of revenue recognition		
Goods or services transferred at a point in time	<u>3,141,317</u>	<u>3,518,176</u>
Total revenue from contracts with customers	<u>3,141,317</u>	<u>3,518,176</u>

Segment Information

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

4. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on factored trade receivables	3,444	11,957
Interest on bank loans	4,934	4,657
Interest on lease liabilities	849	1,283
	<u>9,227</u>	<u>17,897</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	2,711,771	3,035,365
Cost of services rendered	21,610	15,311
Depreciation of owned assets	62,160	64,673
Depreciation of right-of-use assets	10,729	12,036
Employee share-based compensation benefits under the share award scheme	4,250	13,847
Equity-settled share option expense	14,633	11,913
Impairment of trade receivables, net	508	5,539
Loss on disposal/write-off of items of property, plant and equipment	4,755	1,502
Provision on obsoleted inventories	15,377	10,320
Foreign exchange gains, net	(4,532)	(7,889)

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong Charge for the period	6,398	1,922
Current – Elsewhere Charge for the period	5,719	18,093
Deferred	(806)	(3,570)
Total tax charge for the period	<u>11,311</u>	<u>16,445</u>

7. DIVIDENDS

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2020 (30 June 2019: Nil).

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

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

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	68,251	98,295
	268,559,040	260,901,683
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation		
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	14,398	1,872,244
Assumed issue at no consideration on deemed vesting of all shares granted under the share award scheme outstanding during the period	1,835,117	6,158,340
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	270,408,555	268,932,267

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2020	2019
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Trade receivables	1,505,883	2,144,502
Bills receivable	7,033	9,527
	1,512,916	2,154,029

The majority of the Group's sales in the PRC were mainly made on a cash-on-delivery basis or on commercial bills guaranteed by banks with credit periods ranging from 60 to 180 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 15 to 120 days. Sales to certain long-term strategic customers were also made on open-account basis with average credit terms of no more than 180 days.

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

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

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Current to 90 days	1,318,515	1,808,769
91 to 180 days	127,721	249,388
181 to 365 days	16,675	54,890
Over 365 days	42,972	31,455
	<u>1,505,883</u>	<u>2,144,502</u>

A subsidiary of the Group has entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2020, trade receivables factored to banks aggregated to HK\$128,475,000 (31 December 2019: HK\$407,644,000), all of which were derecognised from the consolidated statement of financial position of the Company 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

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Trade payables	1,685,499	2,318,109
Bills payable	4,786	–
	<u>1,690,285</u>	<u>2,318,109</u>

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

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Current to 90 days	1,580,674	1,945,464
91 to 180 days	86,320	322,379
181 to 365 days	14,456	47,158
Over 365 days	4,049	3,108
	<u>1,685,499</u>	<u>2,318,109</u>

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

11. OTHER PAYABLES AND ACCRUALS

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Other payables	383,454	385,085
Patent fees accruals	140,997	150,036
Accruals	272,016	259,745
Lease liabilities	30,586	37,656
Contract liabilities	94,728	37,410
Refund liabilities	3,950	4,913
Due to related parties:		
TCL Industries Holdings Co., Ltd. and its affiliates	455	2,656
Coxon Industry (Changshu) Co., Ltd. and its affiliates	–	1,522
	<hr/>	<hr/>
Total other payables and accruals	926,186	879,023
Less: Other payables classified as non-current liabilities	(21,989)	(24,238)
	<hr/>	<hr/>
Current liabilities portion	904,197	854,785
	<hr/> <hr/>	<hr/> <hr/>

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Bank loans – unsecured	27,607	311
Bank loans – secured	163,125	234,402
	<hr/>	<hr/>
	190,732	234,713
Less: Interest-bearing bank borrowings classified as non-current liabilities	(161,003)	(165,336)
	<hr/>	<hr/>
	29,729	69,377
	<hr/> <hr/>	<hr/> <hr/>

13. SHARE CAPITAL

Shares

	30 June 2020 (unaudited) HK\$'000	31 December 2019 (audited) HK\$'000
Authorised: 500,000,000 ordinary shares of HK\$1.00 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid: 273,104,917 (31 December 2019: 272,459,165) ordinary shares of HK\$1.00 each	<u>273,105</u>	<u>272,459</u>

During the six months ended 30 June 2020, the subscription rights attaching to 645,752 share options of the Company were exercised at the subscription prices of HK\$4.05 per share, resulting in the issue of an aggregate of 645,752 shares of HK\$1.00 each for a total cash consideration of approximately HK\$2,615,000 before expenses.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Overview

The novel coronavirus (“COVID-19”) outbreak in early 2020 delayed production of numerous enterprises after the Spring Festival Holiday. Later, on 11 March 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic. Affected by the pandemic, some business operations in the European and US markets were temporarily closed. All these have posed challenges to the overall economic development in the first half of the year. According to the macroeconomic data released by the National Bureau of Statistics of the PRC, the gross domestic product (GDP) of the PRC amounted to RMB45,661.4 billion in the first half of 2020, representing a year-on-year decrease of 1.6% on a constant price basis. From a quarterly perspective, the GDP of the PRC in the second quarter grew by 3.2% year-on-year.

With regard to the sector markets for the Group’s main products, according to a report by Strategy Analytics, a market research institution, the global sales volume of smart speakers reached 28.2 million units in the first quarter of 2020, representing a year-on-year increase of 8.2% as compared to the first quarter of 2019, showing a slowing trend of growth. Amazon and Google ranked the first and the second in terms of market shares with 23.5% and 21.5%, respectively. According to the data from All View Cloud (AVC), a market research company, the sales volume of smart speakers in the PRC market was 8.844 million units in the first quarter of 2020, representing a year-on-year increase of 23.0%; whereas the sales revenue was RMB1.67 billion, representing a year-on-year increase of 21.9%.

Business Review

For the six months ended 30 June 2020 (the “period under review”), the Group recorded a turnover of approximately HK\$3,141.3 million, representing a decrease of 10.7% compared with the corresponding period last year, which was because the Group’s primary market is in Europe and the US where the sales volume declined as a result of the pandemic, leading to a substantial decrease in orders from overseas customers. Gross profit amounted to approximately HK\$392.6 million, representing a decrease of 14.1% as compared to the corresponding period last year. Gross profit margin decreased from 13.0% for the corresponding period last year to 12.5%, primarily due to the reduction in the Group’s production efficiency caused by failure of the Group to resume work and production after the Spring Festival Holiday as a result of the pandemic, delayed work resumption of employees and material supply, and imbalanced production. Operating profit and profit for the period amounted to approximately HK\$91.1 million and HK\$70.4 million, representing year-on-year decreases of 31.5% and 28.7% respectively, primarily due to the decrease in turnover and production efficiency and the incurring of extra expenses arising from pandemic prevention and control during the period under review. Profit attributable to the owners of the parent company of the Group for the period under review decreased year-on-year by 30.5% to approximately HK\$68.3 million.

During the period under review, the Group focused on the development of smart speakers, true wireless stereo (TWS) earphone products and ancillary products businesses. Based on the analysis by product category, the turnover of the Group's audio products, headphones, video products, wireless products, Internet of Things (IoT) related products, ancillary products and other businesses amounted to approximately HK\$2,085.9 million, HK\$397.5 million, HK\$87.4 million, HK\$85.4 million, HK\$69.9 million, HK\$343.7 million and HK\$71.5 million respectively, representing a decrease of 16.6%, 5.7% and 36.2%, nil, a decrease of 10.1%, an increase of 12.7%, and a decrease of 4.1% year-on-year, respectively. The Group's turnover breakdown by product is set out below:

	For the six months ended		Change
	30 June		
	2020	2019	
	(HK\$'000)	(HK\$'000)	
	(Unaudited)	(Unaudited)	
Audio Products ⁽¹⁾	2,085,945	2,502,579	-16.6%
Headphones	397,491	421,474	-5.7%
Video Products ⁽²⁾	87,440	137,077	-36.2%
Wireless Products ⁽³⁾	85,409	–	–
IoT Related Products ⁽⁴⁾	69,854	77,677	-10.1%
Ancillary Products ⁽⁵⁾	343,725	304,866	12.7%
Other Businesses	71,453	74,503	-4.1%
	<hr/>	<hr/>	
Total	<u>3,141,317</u>	<u>3,518,176</u>	-10.7%

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

⁽²⁾ Mainly include DVD players, BD players and Over-the-top (OTT) set top boxes (STB)

⁽³⁾ Mainly include wireless router products

⁽⁴⁾ Mainly include smart plugs, smart gateways and other IoT related products

⁽⁵⁾ Mainly include fabric covering for external sales, plastic injection structural parts, speakers, wireless modules, and other components

During the period under review, the pandemic had relatively less impact on the global market for smart audio products, and the smart audio speaker business of the Group maintained a slight growth. However, as the smart audio products market started to transform from a growing market to a saturated market, the growth has notably slowed down compared to previous years. The new audio business significantly decreased in the first half of the year mainly because the overseas market sharply declined as a result of the pandemic while the Bluetooth speaker market was in decline since this year due to the impact of smart speakers. In particular, orders from key European and US customers of the Group notably decreased during the first half of the year, with the overall sales revenue deriving from a key customer of the Group decreasing by over 30% in the first half of the year. In terms of TWS earphones, as the Group has just entered this market, the product has a small number of customers and is not very competitive, as a result the shipment of TWS earphones remained low.

Wireless products is a product category newly explored by the Group last year. The Group did not have this product category in the corresponding period last year. Currently, the product is still at the preliminary exploration and investment stage and faces many uncertainties in the future due to late start and low profitability. For IoT related products business, further cultivation is required to optimise customer structure and enhance market competitiveness. As to the progress of the new plant in Vietnam, the construction progress was slower than expected due to the impacts of the pandemic. As immigration clearance of management and technical personnel as well as transportation of materials were hindered, relevant operating costs increased without achieving the expected output.

Product research and development (R&D) and innovation

The Group has been committed to product R&D investment. During the period under review, the Group's R&D expenses amounted to HK\$134.5 million, accounting for 4.3% of its total revenue. The Group has its own R&D bases in Huizhou, Shenzhen and Xi'an in the PRC. To facilitate the development of the wireless product business, it has also set up a new R&D base in Wuhan, the PRC. In addition to developing and introducing new products in response to customers' specific requirements, the R&D team also carries out visionary R&D on fundamental product technologies. In recent years, the Group mainly invested in the development of smart products epitomised by smart voice speakers and gradually established the development capability for ancillary products which are ancillary to the smart products. The Group also continued to invest R&D resources to develop TWS earphone products and entered the market of wireless products.

Based on the development of the smart voice speaker, the Group leverages on its years of experience in professional electroacoustic design and smart voice to explore the business of screen-equipped products and the ancillary products thereof to diversify the Group's product lines. Meanwhile, it explores R&D of cross-industry implication of smart voice technologies to better meet customers' needs.

Customer and market expansion

The Group has collaborated with many well-known audio and video brands all over the world for years and has a sound customer base, building on the Group's long-time accumulation in the field to better serve customers. However, smart voice speakers are substitutional to Bluetooth speakers to a certain extent. In the long run, the demand for Bluetooth products is on a downward trajectory, which has a certain impact on the business of audio and video brands and the Company's overall business.

With the popularity of Bluetooth 5.0 technology and binaural transmission, the TWS earphone market sees rapid growth in market sales. Mobile phone brands powered by mainstream Android platforms are rolling out TWS earphone products which provide better user experience. The Group has been building its technical capabilities since last year and currently is still at the stage of capacity accumulation. The Group strives to narrow the gap with mainstream TWS earphone companies and gradually increase the sales volume and market share of the Group's TWS earphones in the short and medium-term.

Production and supply chain management

The Group continued to develop vertical integration capability of the supply chain and continuously enhanced its capabilities in speaker units and structural components, especially the structural parts with a new form related to precision moulding.

The Group used Huizhou Zhongkai as a core base to build an industrial chain primarily comprising complete machines, structural parts, electroacoustics and speakers. At the beginning of 2019, in order to enhance the overseas supply chain capability and to mitigate the impact of the US tariff policy 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. At present, the progress of the new plant in Vietnam was behind schedule. The hindrance of immigration clearance of management and technical personnel as well as the transportation of materials by pandemic prevention and control measures in Vietnam have severely affected the Group's overall project of overseas supply chain construction. However, the Group aimed to officially put the plant into production in the second half of the year.

During the period under review, the Group continued to increase the proportion of automated equipment to reduce staff turnover rate and improve production efficiency. The Group has introduced some automated test systems and automated packaging systems as well as digital management systems to improve operational efficiency and quality. The Group is also dedicated to optimising the layout of its production plant to closely integrate all aspects of supply chain, production, and logistics while enhancing the actual production capacity of all production bases and reducing operating costs.

Future plans and outlook

Looking ahead to the second half of 2020, although the COVID-19 pandemic continues, it is less severe than the first half of the year. However, the adverse impacts of the pandemic on the achievement of the Group's annual targets subsist.

Part of the Group's order amount has gradually recovered since May 2020, and the cash flow is sufficient to support the recovery and development of the Group's business. The Group strives for a recovery of the overall business in the second half of the year as compared with the first half. In respect of smart speakers, with limiting market development space of the product and adjustments to supply chain management strategies by main customers, the growth of the Group's smart voice speakers may be subject to a certain degree of pressure in the future. In addition, due to the restrictions by the US on chip supply to certain PRC enterprises, the Group will be required to switch chip platform for some of its products in the future, which may lead to new R&D investments and longer R&D cycle for products.

The Group will continue to invest in smart voice speakers and other voice-related smart ecological ancillary products to seize new market opportunities. In the meantime, the Group strives to explore more opportunities for cross-industry applications based on smart voice technology. In terms of vertical integration of the supply chain, the Group intends to consolidate the moulding and plastic parts manufacturing and electroacoustic units of its subsidiaries and invest in the automation of certain processes to achieve synergy and reduce production costs. In addition, the Group will gradually build up the production and supply chain vertical integration capability of the new overseas plant.

In conclusion, new businesses of the Group including the smart products, earphones and ancillary products are less susceptible to the pandemic in 2020 than key businesses represented by Bluetooth products. Despite challenges to the Group's operations posed by the pandemic in the first half of the year and that the impact of the pandemic is expected to continue in the second half of the year, the Group will endeavour to achieve a recovery of performance in the second half of the year.

PURCHASES, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the period under review.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the six months ended 30 June 2020, fully complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviation from the Code Provision F.1.1.

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

Ms. CHOY Fung Yee ("Ms. CHOY"), the current company secretary of the Company, is not an employee of the Company. The Company has assigned Mr. REN Xuenong, an executive Director of the Company, as the contact person with Ms. CHOY. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) is speedily delivered to Ms. CHOY through the contact person assigned. Given the long-term relationship between Messrs. Cheung Tong & Rosa Solicitors (of which Ms. CHOY is a partner) and the Group, Ms. CHOY is familiar with the operations of the Group and has in-depth knowledge of the management of the Group. Having in place a mechanism that Ms. CHOY will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. CHOY as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

In addition, the Environmental, Social and Governance Report for the year of 2019 was published on the websites of the Company and The Stock Exchange of Hong Kong Limited on 22 May 2020.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee consists of three independent non-executive Directors, namely, Mr. POON Chiu Kwok, Mr. LI Qi and Mr. LEONG Yue Wing, and is chaired by Mr. POON Chiu Kwok who possesses appropriate accounting and related financial management expertise. The primary duties of the Audit Committee are to assist the Board to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company and to perform other duties and responsibilities as assigned by the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Group has adopted a model code of conduct regarding securities transactions by Directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Specific enquires have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the six months ended 30 June 2020.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 24 July 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.