



## 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

### INTERIM REPORT 2018



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. YU Guanghui (Chief Executive Officer)  
Mr. SONG Yonghong (Chief Operating Officer)  
Mr. REN Xuenong (Chief Financial Officer)

### Non-Executive Director

Mr. LIAO Qian (Chairman)

### Independent Non-Executive Directors

Mr. POON Chiu Kwok  
Mr. LI Qi  
Mr. LEONG Yue Wing

## COMPANY SECRETARY

Ms. CHOY Fung Yee, Solicitor, Hong Kong

## AUDITOR

Ernst & Young  
Certified Public Accountants  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

## LEGAL ADVISOR

Cheung Tong & Rosa Solicitors  
Room 501, 5/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

## PRINCIPAL REGISTRAR

SMP Partners (Cayman) Limited  
Royal Bank House – 3rd Floor  
24 Shedden Road, P.O. Box 1586  
Grand Cayman KY1-1110  
Cayman Islands

## BRANCH REGISTRAR

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL OFFICE

8th Floor, Building 22E  
22 Science Park East Avenue  
Hong Kong Science Park  
Shatin, New Territories, Hong Kong

## REGISTERED OFFICE

P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

## INVESTOR AND MEDIA RELATIONS

Cornerstones Communications  
Unit 1408-10, 14/F, Dominion Centre  
43-59 Queen's Road East, Wanchai  
Hong Kong

# INTERIM RESULTS

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The board of directors (the "Board") of Tonly Electronics Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 with comparative figures for the said period last year as follows and these condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee ("Audit Committee"):

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

|  | Notes | Six months ended 30 June<br>2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
|--|-------|---|---------------------------------|
| TURNOVER   | 4     | <b>2,802,195</b>  | 2,064,807                       |
| Cost of sales  |       | <b>(2,460,195)</b>  | (1,755,908)                     |
| Gross profit   |       | <b>342,000</b>  | 308,899                         |
| Other income and gains, net  |       | <b>105,067</b>  | 34,667                          |
| Selling and distribution costs   |       | <b>(67,774)</b>   | (56,347)                        |
| Administrative expenses  |       | <b>(132,385)</b>  | (96,560)                        |
| Research and development costs   |       | <b>(130,738)</b>  | (85,601)                        |
| Other operating expenses, net  |       | <b>273</b>  | (1,224)                         |
| Finance costs  | 5     | <b>116,443</b>  | 103,834                         |
| Share of profits of associates   |       | <b>(7,458)</b>  | (3,141)                         |
|  |       | <b>1,043</b>  | 923                             |
| PROFIT BEFORE TAX  | 6     | <b>110,028</b>  | 101,616                         |
| Income tax expense   | 7     | <b>(26,749)</b>   | (22,833)                        |
| PROFIT FOR THE PERIOD  |       | <b>83,279</b>   | 78,783                          |
| OTHER COMPREHENSIVE INCOME/(LOSS)  |       |   |                                 |
| Other comprehensive income/(loss) to 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      |       | <b>(65,902)</b>   | 6,575                           |
| Reclassification adjustments for losses included in the consolidated statement of profit or loss |       | <b>(9,815)</b>  | –                               |
| Income tax effect  |       | <b>12,128</b>   | –                               |
|  |       | <b>(63,589)</b>   | 6,575                           |
| Exchange fluctuation reserve:  |       |   |                                 |
| Translation of foreign operations  |       | <b>(5,543)</b>  | 23,326                          |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD   |       | <b>(69,132)</b>   | 29,901                          |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD  |       | <b>14,147</b>   | 108,684                         |
| Profit/(loss) attributable to:   |       |   |                                 |
| Owners of the parent   |       | <b>85,383</b>   | 78,877                          |
| Non-controlling interests  |       | <b>(2,104)</b>  | (94)                            |
|  |       | <b>83,279</b>   | 78,783                          |
| Total comprehensive income/(loss) attributable to:   |       |   |                                 |
| Owners of the parent   |       | <b>16,484</b>   | 108,768                         |
| Non-controlling interests  |       | <b>(2,337)</b>  | (84)                            |
|  |       | <b>14,147</b>   | 108,684                         |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT                         | 9     |   |                                 |
| Basic  |       | <b>HK32.82 cents</b>  | HK32.22 cents                   |
| Diluted  |       | <b>HK31.48 cents</b>  | HK31.47 cents                   |

# INTERIM RESULTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Notes | 30 June<br>2018<br>(unaudited)<br>HK\$'000 | 31 December<br>2017<br>(audited)<br>HK\$'000 |
|--|-------|--|--|
| <b>NON-CURRENT ASSETS</b>                          |       |  |  |
| Property, plant and equipment                      | 10    | <b>670,492</b>                             | 562,992                                      |
| Prepaid land lease payments                        |       | <b>69,566</b>                              | 70,908                                       |
| Goodwill   |       | <b>4,253</b>                               | 4,290  |
| Other intangible asset                             |       | <b>131</b>                                 | 196  |
| Investment in an associate                         |       | <b>26,193</b>                              | 25,150                                       |
| Prepayments and other receivables                  |       | <b>53,554</b>                              | 9,690  |
| Deferred tax assets                                |       | <b>85,238</b>                              | 80,974                                       |
| <b>Total non-current assets</b>                    |       | <b>909,427</b>                             | 754,200                                      |
| <b>CURRENT ASSETS</b>                              |       |  |  |
| Inventories  |       | <b>1,520,776</b>                           | 958,638                                      |
| Trade receivables                                  | 11    | <b>1,001,537</b>                           | 1,208,381                                    |
| Prepayments, deposits and other receivables        |       | <b>269,359</b>                             | 265,592                                      |
| Derivative financial instruments                   |       | <b>26,072</b>                              | 76,454                                       |
| Cash and cash equivalents                          |       | <b>724,549</b>                             | 849,787                                      |
| <b>Total current assets</b>                        |       | <b>3,542,293</b>                           | 3,358,852                                    |
| <b>CURRENT LIABILITIES</b>                         |       |  |  |
| Trade payables                                     | 12    | <b>1,907,503</b>                           | 1,472,949                                    |
| Other payables and accruals                        | 13    | <b>694,714</b>                             | 739,189                                      |
| Tax payable  |       | <b>90,245</b>                              | 113,462                                      |
| Derivative financial instruments                   |       | <b>60,867</b>                              | 33,655                                       |
| Provision  |       | <b>237,367</b>                             | 240,931                                      |
| <b>Total current liabilities</b>                   |       | <b>2,990,696</b>                           | 2,600,186                                    |
| <b>NET CURRENT ASSETS</b>                          |       | <b>551,597</b>                             | 758,666                                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>       |       | <b>1,461,024</b>                           | 1,512,866                                    |
| <b>NON-CURRENT LIABILITIES</b>                     |       |  |  |
| Deferred tax liabilities                           |       | <b>4,092</b>                               | 17,667                                       |
| <b>Net assets</b>                                  |       | <b>1,456,932</b>                           | 1,495,199                                    |
| <b>EQUITY</b>                                      |       |  |  |
| <b>Equity attributable to owners of the parent</b> |       |  |  |
| Share capital                                      | 14    | <b>268,357</b>                             | 268,192                                      |
| Reserves   |       | <b>1,183,491</b>                           | 1,227,007                                    |
| <b>Non-controlling interests</b>                   |       | <b>1,451,848</b>                           | 1,495,199                                    |
|  |       | <b>5,084</b>                               | –  |
| <b>Total equity</b>                                |       | <b>1,456,932</b>                           | 1,495,199                                    |

# INTERIM RESULTS

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | Attributable to owners of the parent     |  |   |  |  |   |  |   |  |  |   |                                  |              | Non-controlling interests<br>(unaudited)<br>HK\$'000 | Total equity<br>(unaudited)<br>HK\$'000 |
|--|--|--|---|--|--|---|--|---|--|--|---|----------------------------------|--------------|--|---|
|  | Share capital<br>(unaudited)<br>HK\$'000 | Share premium account<br>(unaudited)<br>HK\$'000 | Share option reserve<br>(unaudited)<br>HK\$'000 | Reserve funds<br>(unaudited)<br>HK\$'000 | Capital reserve<br>(unaudited)<br>HK\$'000 | Merger reserve<br>(unaudited)<br>HK\$'000 | Hedging reserve<br>(unaudited)<br>HK\$'000 | Exchange fluctuation reserve<br>(unaudited)<br>HK\$'000 | Share held for the Award Scheme<br>(unaudited)<br>HK\$'000 | Awarded share reserve<br>(unaudited)<br>HK\$'000 | Retained profits<br>(unaudited)<br>HK\$'000 | Total<br>(unaudited)<br>HK\$'000 |              |  |   |
| At 1 January 2017  | 249,163                                  | 376,298  | 17,623  | 75,679                                   | (77,223)                                   | (6,059)                                   | (2,905)                                    | (36,108)  | (28,088)   | 3,108  | 593,043                                     | 1,164,531                        | 165          | 1,164,696  |   |
| Profit for the period  | -  | -  | -   | -  | -  | -   | -  | -   | -  | -  | 78,877                                      | 78,877                           | (94)         | 78,783   |   |
| Other comprehensive income for the period:                       |  |  |   |  |  |   |  |   |  |  |   |                                  |              |  |   |
| Cash flow hedges   | -  | -  | -   | -  | -  | -   | 6,575                                      | -   | -  | -  | -   | 6,575                            | -            | 6,575  |   |
| Exchange differences on translation of foreign operations        | -  | -  | -   | -  | -  | -   | -  | 23,316  | -  | -  | -   | 23,316                           | 10           | 23,326   |   |
| Total comprehensive income for the period                        | -  | -  | -   | -  | -  | -   | 6,575                                      | 23,316  | -  | -  | 78,877                                      | 108,768                          | (84)         | 108,684  |   |
| Equity-settled share option arrangements                         | -  | -  | 3,121   | -  | -  | -   | -  | -   | -  | -  | -   | 3,121                            | -            | 3,121  |   |
| Issue of shares upon exercise of share options                   | 3,954                                    | 25,319   | (5,842)   | -  | -  | -   | -  | -   | -  | -  | -   | 23,431                           | -            | 23,431   |   |
| Share options lapsed during the period                           | -  | -  | (696)   | -  | -  | -   | -  | -   | -  | -  | 644   | (52)                             | -            | (52)   |   |
| Purchase of shares for the Award Scheme                          | -  | -  | -   | -  | -  | -   | -  | -   | (2,607)  | -  | -   | (2,607)                          | -            | (2,607)  |   |
| Vesting of shares under the Award Scheme                         | -  | -  | -   | -  | -  | -   | -  | -   | 11,865   | (11,865)   | -   | -                                | -            | -  |   |
| Employee share-based compensation benefit under the Award Scheme | -  | -  | -   | -  | -  | -   | -  | -   | -  | 10,510   | -   | 10,510                           | -            | 10,510   |   |
| Final 2016 dividend paid   | -  | -  | -   | -  | -  | -   | -  | -   | -  | -  | (61,251)                                    | (61,251)                         | -            | (61,251)   |   |
| At 30 June 2017  | 253,117                                  | 401,617  | 14,206  | 75,679                                   | (77,223)                                   | (6,059)                                   | 3,670                                      | (12,792)  | (18,830)   | 1,753  | 611,313                                     | 1,246,451                        | 81           | 1,246,532  |   |
| At 1 January 2018  | <b>268,192</b>                           | <b>456,434</b>                                   | <b>12,281</b>                                   | <b>95,620</b>                            | <b>(77,223)</b>                            | <b>(6,059)</b>                            | <b>29,906</b>                              | <b>18,489</b>   | <b>(28,529)</b>  | <b>14,813</b>                                    | <b>711,275</b>                              | <b>1,495,199</b>                 | -            | <b>1,495,199</b>                                     |   |
| Profit for the period  | -  | -  | -   | -  | -  | -   | -  | -   | -  | -  | 85,383                                      | 85,383                           | (2,104)      | 83,279   |   |
| Other comprehensive income for the period:                       |  |  |   |  |  |   |  |   |  |  |   |                                  |              |  |   |
| Cash flow hedges   | -  | -  | -   | -  | -  | -   | (63,589)                                   | -   | -  | -  | -   | (63,589)                         | -            | (63,589)   |   |
| Exchange differences on translation of foreign operations        | -  | -  | -   | -  | -  | -   | -  | (5,310)   | -  | -  | -   | (5,310)                          | (233)        | (5,543)  |   |
| Total comprehensive income/(loss) for the period                 | -  | -  | -   | -  | -  | -   | (63,589)                                   | (5,310)   | -  | -  | 85,383                                      | 16,484                           | (2,337)      | 14,147   |   |
| Contribution by a non-controlling shareholder                    | -  | -  | -   | -  | -  | -   | -  | -   | -  | -  | -   | -                                | 7,421        | 7,421  |   |
| Equity-settled share option arrangements                         | -  | -  | 16,927  | -  | -  | -   | -  | -   | -  | -  | -   | 16,927                           | -            | 16,927   |   |
| Issue of shares upon exercise of share options                   | 165                                      | 643  | (139)   | -  | -  | -   | -  | -   | -  | -  | -   | 669                              | -            | 669  |   |
| Share options lapsed during the period                           | -  | -  | (806)   | -  | -  | -   | -  | -   | -  | -  | 75  | (731)                            | -            | (731)  |   |
| Share options expired during the period                          | -  | -  | (851)   | -  | -  | -   | -  | -   | -  | -  | 851   | -                                | -            | -  |   |
| Awarded share lapsed during the period                           | -  | -  | -   | -  | -  | -   | -  | -   | -  | (533)  | -   | (533)                            | -            | (533)  |   |
| Purchase of shares for the Award Scheme                          | -  | -  | -   | -  | -  | -   | -  | -   | (4,044)  | -  | -   | (4,044)                          | -            | (4,044)  |   |
| Vesting of shares under the Award Scheme                         | -  | -  | -   | -  | -  | -   | -  | -   | 9,749  | (9,851)  | -   | (102)                            | -            | (102)  |   |
| Employee share-based compensation benefit under the Award Scheme | -  | -  | -   | -  | -  | -   | -  | -   | -  | 19,455   | -   | 19,455                           | -            | 19,455   |   |
| Final 2017 dividend declared                                     | -  | -  | -   | -  | -  | -   | -  | -   | -  | -  | (91,476)                                    | (91,476)                         | -            | (91,476)   |   |
| At 30 June 2018  | <b>268,357</b>                           | <b>457,077</b>                                   | <b>27,412</b>                                   | <b>95,620</b>                            | <b>(77,223)</b>                            | <b>(6,059)</b>                            | <b>(33,683)</b>                            | <b>13,179</b>   | <b>(22,824)</b>  | <b>23,884</b>                                    | <b>706,108</b>                              | <b>1,451,848</b>                 | <b>5,084</b> | <b>1,456,932</b>                                     |   |

\* These reserve accounts comprise the consolidated reserves of HK\$1,183,491,000 (31 December 2017: HK\$1,227,007,000) in the consolidated statements of financial position as at 30 June 2018.

# INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                                 |                                 |
| Cash generated from operations                                   | <b>220,052</b>                  | 154,081                         |
| Interest paid  | <b>(7,458)</b>                  | (3,141)                         |
| Income taxes paid  | <b>(54,665)</b>                 | (10,340)                        |
| Net cash flows from operating activities                         | <b>157,929</b>                  | 140,600                         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                                 |                                 |
| Interest received  | <b>5,223</b>                    | 3,058                           |
| Increase in other receivables                                    | <b>(45,410)</b>                 | (3,765)                         |
| Purchases of items of property, plant and equipment              | <b>(161,772)</b>                | (56,520)                        |
| Proceeds from disposal of items of property, plant and equipment | <b>3,797</b>                    | 1,413                           |
| Net cash flows used in investing activities                      | <b>(198,162)</b>                | (55,814)                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |                                 |                                 |
| Capital contribution by a non-controlling shareholder            | <b>7,421</b>                    | –                               |
| Purchase of shares for the Award Scheme                          | <b>(4,044)</b>                  | (2,607)                         |
| Proceeds from issue of share upon exercise of share options      | <b>669</b>                      | 23,431                          |
| Dividends paid   | <b>(91,476)</b>                 | (61,251)                        |
| Net cash flows used in financing activities                      | <b>(87,430)</b>                 | (40,427)                        |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS             | <b>(127,663)</b>                | 44,359                          |
| Cash and cash equivalents at beginning of period                 | <b>849,787</b>                  | 730,495                         |
| Effect of foreign exchange rate changes, net                     | <b>2,425</b>                    | 8,934                           |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                       | <b>724,549</b>                  | 783,788                         |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>         |                                 |                                 |
| Cash and bank balances   | <b>724,549</b>                  | 783,788                         |



# INTERIM RESULTS

Notes:

## 1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements are 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 statements do 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 2017.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

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

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial statements:

|  |   |
|--|---|
| Amendments to HKFRS 2                      | <i>Classification and Measurement of Share-based Payment Transactions</i>     |
| Amendments to HKFRS 4                      | <i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract</i> |
| HKFRS 9                                    | <i>Financial Instruments</i>  |
| HKFRS 15                                   | <i>Revenue from Contracts with Customers</i>                                  |
| Amendments to HKFRS 15                     | <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>       |
| Amendments to HKAS 40                      | <i>Transfers of Investment Property</i>                                       |
| HK(IFRIC)-Int 22                           | <i>Foreign Currency Transactions and Advance Consideration</i>                |
| <i>Annual Improvements 2014-2016 Cycle</i> | Amendments to a number of HKFRSs issued in March 2017                         |

Except for HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers, which effect of the adoption are disclosed as below. The adoption of the above revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated financial statements.

Several other amendments and interpretations are applied for the first time in 2018, but do not have significant impact on the unaudited interim condensed consolidated financial statements of the Group.

### **HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

# INTERIM RESULTS

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings in the 2018 financial year. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

Except for the reclassification effect below, the adoption of HKFRS 15 do not have material financial impact on the Group's consolidated financial statement.

Reclassifications were made as at 30 June 2018 to be consistent with the terminology used under HKFRS 15, advances received from customers of HK\$102,098,000 (2017: HK\$87,742,000) were reclassified from receipts in advance to contract liabilities under other payables and accruals.

## **HKFRS 9 Financial Instruments**

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group elected to apply existing hedge accounting requirements under HKAS 39 until International Accounting Standards Board completes their macro hedging project, the Group has applied HKFRS 9 retrospectively in accordance with the transition requirements, with the initial application date of 1 January 2018. The Group has elected not to adjust the comparative information for the period beginning 1 January 2017, which the comparative information was prepared under classification and measurement requirements of HKAS 39.

### **(a) Classification and measurement**

Except for trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

# INTERIM RESULTS

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Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

## (b) Impairment

HKFRS 9 requires an impairment on trades receivables, prepayments, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis.

The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its deposits and other receivables and trades receivables, respectively. The Group performed a detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

## 3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

## 4. REVENUE AND SEGMENT INFORMATION

### Revenue

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2018</b>                     | 2017        |
|   | <b>(unaudited)</b>              | (unaudited) |
|   | <b>HK\$'000</b>                 | HK\$'000    |
| <b>Disaggregated by major products or service lines</b> |                                 |             |
| Sale of goods   | <b>2,787,214</b>                | 2,035,303   |
| Rendering of services                                   | <b>14,981</b>                   | 29,504      |
|   | <b>2,802,195</b>                | 2,064,807   |

### 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.

# INTERIM RESULTS

## Geographical Information

Revenue from external customers based on the locations of these customers is analysed as follows:

|               | Six months ended 30 June        |                                 |
|---------------|---------------------------------|---------------------------------|
|               | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| Europe        | 863,071                         | 612,035                         |
| PRC           | 841,741                         | 412,431                         |
| Japan         | 722,147                         | 562,479                         |
| United States | 203,710                         | 241,955                         |
| Others        | 171,526                         | 235,907                         |
|               | <b>2,802,195</b>                | 2,064,807                       |

## 5. FINANCE COSTS

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| Interest on factored trade receivables | 7,458                           | 3,141                           |

## 6. PROFIT BEFORE TAX

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

|   | Six months ended 30 June        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| Depreciation  | 44,116                          | 34,649                          |
| Amortisation of other intangible assets                                     | 66                              | 74                              |
| Amortisation of prepaid land lease payments                                 | 738                             | 682                             |
| Employee share-based compensation benefits under the Award Scheme           | 16,677                          | 9,996                           |
| Equity-settled share option expense   | 15,260                          | 2,502                           |
| Loss/(gain) on disposal/write-off of items of property, plant and equipment | (212)                           | 840                             |
| Write-off of damaged inventories  | -                               | 2,979                           |
| Foreign exchange losses, net  | 7,577                           | 5,798                           |

# INTERIM RESULTS

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2017: 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        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| Current – Hong Kong                    |                                 |                                 |
| Charge for the period                  | 11,925                          | 4,323                           |
| Current – Elsewhere                    |                                 |                                 |
| Charge for the period                  | 21,183                          | 16,664                          |
| Deferred                               | (6,359)                         | 1,846                           |
| <b>Total tax charge for the period</b> | <b>26,749</b>                   | 22,833                          |

## 8. DIVIDENDS

The Board has resolved not to pay any dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

## 9. 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        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| <b>Earnings</b>   |                                 |                                 |
| Profit attributable to ordinary equity holders of the parent,<br>used in the basic and diluted earnings per share calculation | 85,383                          | 78,877                          |
|   |                                 |                                 |
|   | Number of shares                |                                 |
|   | Six months ended 30 June        |                                 |
|   | 2018<br>(unaudited)             | 2017<br>(unaudited)             |
| <b>Shares</b>   |                                 |                                 |
| Weighted average number of ordinary shares in issue during<br>the period used in the basic earnings per share calculation     | 260,126,889                     | 244,812,682                     |
| Effect of dilution – weighted average number of ordinary shares:  |                                 |                                 |
| Assumed issue at no consideration on deemed exercise of all share options<br>outstanding during the period                    | 3,293,747                       | 1,502,453                       |
| Assumed issue at no consideration on deemed vesting of all Awarded Shares<br>outstanding during the period                    | 7,783,952                       | 4,322,865                       |
| Weighted average number of ordinary shares in issue during the period<br>used in the diluted earnings per share calculation   | 271,204,588                     | 250,638,000                     |

# INTERIM RESULTS

## 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group incurred HK\$164,128,000 (six months ended 30 June 2017: HK\$86,412,000) on the additions of items of property, plant and equipment.

## 11. TRADE RECEIVABLES

The majority of the Group's sales in the PRC were mainly made on the 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 aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

|                    | <b>30 June<br/>2018<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2017<br>(audited)<br>HK\$'000 |
|--------------------|--|--|
| Current to 90 days | <b>831,568</b>                                       | 1,023,690                                    |
| 91 to 180 days     | <b>91,227</b>  | 73,289                                       |
| 181 to 365 days    | <b>17,818</b>  | 31,434                                       |
| Over 365 days      | <b>60,924</b>  | 79,968                                       |
|                    | <b>1,001,537</b>                                     | 1,028,381                                    |

Certain subsidiaries of the Group have entered into receivable purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 30 June 2018, trade receivables factored to banks aggregated to HK\$689,226,000 (31 December 2017: HK\$833,592,000), and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks.

## 12. TRADE PAYABLES

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

|                    | <b>30 June<br/>2018<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2017<br>(audited)<br>HK\$'000 |
|--------------------|--|--|
| Current to 90 days | <b>1,849,729</b>                                     | 1,434,839                                    |
| 91 to 180 days     | <b>43,272</b>  | 30,304                                       |
| 181 to 365 days    | <b>5,915</b>   | 4,403  |
| Over 365 days      | <b>8,587</b>   | 3,403  |
|                    | <b>1,907,503</b>                                     | 1,472,949                                    |

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

# INTERIM RESULTS

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## 13. OTHER PAYABLES AND ACCRUALS

|                                    | <b>30 June<br/>2018<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2017<br>(audited)<br>HK\$'000 |
|------------------------------------|--|--|
| Other payables                     | <b>266,219</b>                                       | 267,559                                      |
| Patent fees accruals               | <b>218,258</b>                                       | 237,359                                      |
| Accruals                           | <b>102,919</b>                                       | 141,350                                      |
| Receipts in advance                | –  | 87,742                                       |
| Contract liabilities               | <b>102,098</b>                                       | –  |
| Due to related parties:            |  |  |
| TCL Corporation and its affiliates | <b>4,964</b>   | 4,889  |
| An associate                       | <b>256</b>   | 290  |
|                                    | <b>694,714</b>                                       | 739,189                                      |

## 14. SHARE CAPITAL

### Shares

|  | <b>30 June<br/>2018<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2017<br>(audited)<br>HK\$'000 |
|--|--|--|
| Authorised:  |  |  |
| 500,000,000 shares of HK\$1.00 each  | <b>500,000</b>                                       | 500,000                                      |
| Issued and fully paid:   |  |  |
| 268,357,390 (31 December 2017: 268,192,071) ordinary shares of HK\$1.00 each | <b>268,357</b>                                       | 268,192                                      |

During the six months ended 30 June 2018, the subscription rights attaching to 165,319 share options were exercised at the subscription prices of HK\$4.05 per share, respectively, resulting in the issue of an aggregate of 165,319 shares of HK\$1.00 each for a total cash consideration of approximately HK\$669,000 before expenses.

## 15. COMMITMENTS

The Group had the following commitments at the end of the reporting period:

|                                   | <b>30 June<br/>2018<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2017<br>(audited)<br>HK\$'000 |
|-----------------------------------|--|--|
| Contracted, but not provided for: |  |  |
| Buildings                         | <b>226,675</b>                                       | –  |
| Plant and machinery               | <b>12,916</b>  | 6,791  |
|                                   | <b>239,591</b>                                       | 6,791  |

# INTERIM RESULTS

## 16. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2018<br>(unaudited)<br>HK\$'000 | 2017<br>(unaudited)<br>HK\$'000 |
| The companies controlled by TCL Corporation: |                                 |                                 |
| Sales of raw materials                       | 277,486                         | 76,367                          |
| Sales of finished goods                      | 196                             | 13,219                          |
| Purchases of raw materials                   | 280,226                         | 82,598                          |
| Rental expense                               | 10,373                          | 5,015                           |
| Interest income                              | 2,061                           | 1,725                           |
| Other finance service fee                    | 7                               | 24                              |
| Call centre services fee                     | –                               | 11                              |
| Technology support services                  | 145                             | 267                             |
| Licence fee on usage of premises             | 162                             | 162                             |
| Administrative service fees                  | 2,585                           | –                               |

(b) Outstanding balances with related parties

|                                    | Due from related parties                   |  | Due to related parties                     |  |
|------------------------------------|--|--|--|--|
|                                    | 30 June<br>2018<br>(unaudited)<br>HK\$'000 | 31 December<br>2017<br>(audited)<br>HK\$'000 | 30 June<br>2018<br>(unaudited)<br>HK\$'000 | 31 December<br>2017<br>(audited)<br>HK\$'000 |
| An associate                       | 419  | –  | 256  | 290  |
| TCL corporation and its affiliates | 200,779                                    | 138,120                                      | 223,443                                    | 12,106                                       |

## 17. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2018.



# MANAGEMENT DISCUSSION & ANALYSIS

## INDUSTRY OVERVIEW

In the first half of the year of 2018, the tightening of global monetary policies, spread of trade protectionist sentiments, Sino-US trade frictions, and escalating geopolitical tensions brought challenges to the recovery of the global economy. Meanwhile, the substantial fluctuation of the exchange rate of RMB and the rising costs of raw material and labour exerted operating pressure on China's export-oriented enterprises. Although the global economic landscape for the first half of the year of 2018 was not optimistic, the smart speaker market grew against the tide with the increasingly enhanced user experience and more diverse applications brought by the evolving products. According to Canalis, a marketing research firm, global shipments of smart speakers reached 26 million units in the first half of 2018, with a year-on-year growth of 195%. A total number of 10.1 million smart speakers were shipped into the United States and the top three manufacturers were Google, Amazon, and Apple. In China, a total of 7.6 million units were delivered, with Tmall and Xiaomi ranked among the top brands.

## Business Overview

For the six months ended 30 June 2018 ("the period under review"), the Group recorded a turnover of approximately HK\$2,802.2 million, up 35.7% year-on-year. Gross profit increased by 10.7% year-on-year to approximately HK\$342.0 million. Gross profit margin decreased from 15.0% to 12.2% for the corresponding period last year. Operating profit rose by 12.1% year-on-year to approximately HK\$116.4 million. Profit attributable to the owners of the holding company of the Group for the period under review climbed by 8.2% year-on-year to approximately HK\$85.4 million.

During the period under review, the Group was strongly committed to developing audio products, smart products, and ancillary products, of which smart speakers, headphones, and soundbars recorded considerable growth. Benefitting from the rapid growth of smart speaker market in Mainland China, new products and models launched by clients, as well as product pricing and promotion strategies that received a high-level of market acceptance, the Group's turnover recorded an increase of 35.7% year-on-year. Owing to the substantial fluctuation of the exchange rate of RMB and the rising costs of raw materials and labour, the gross profit margin of the Group in the period under review decreased by 2.8% compared with the corresponding period in 2017. The Group has taken a series of measures to reduce the exchange rate risks. Despite the effect of the rising costs of raw materials and labour, and the increase of the actual allocation for the Company's options and awarded shares, foreign exchange etc. in the first half of 2018, profit attributable to owners of the parent for the period under review slightly increased by 8.2% year-on-year to approximately HK\$85.4 million.

For the period under review, turnover from the Group's audio products increased by 22.7% year-on-year to approximately HK\$1,787.1 million; turnover from smart products rose by 6.1 times year-on-year to approximately HK\$566.9 million; turnover from video products decreased by 37.9% year-on-year to approximately HK\$246.9 million; turnover from ancillary products rose by 82.1% year-on-year to approximately HK\$186.3 million; turnover from other business decreased by 49.2% year-on-year to approximately HK\$15.0 million. The Group's turnover breakdown by product<sup>(1)</sup> was as follows:

|                                   | Six months ended 30 June          |                                   | Change       |
|-----------------------------------|-----------------------------------|-----------------------------------|--------------|
|                                   | 2018<br>(unaudited)<br>(HK\$'000) | 2017<br>(unaudited)<br>(HK\$'000) |              |
| Audio products <sup>(2)</sup>     | 1,787,148                         | 1,456,226                         | 22.7%        |
| Smart products <sup>(3)</sup>     | 566,854                           | 79,376                            | 614.1%       |
| Video products <sup>(4)</sup>     | 246,897                           | 397,408                           | -37.9%       |
| Ancillary products <sup>(5)</sup> | 186,315                           | 102,293                           | 82.1%        |
| Other businesses                  | 14,981                            | 29,504                            | -49.2%       |
| <b>Total</b>                      | <b>2,802,195</b>                  | <b>2,064,807</b>                  | <b>35.7%</b> |

<sup>(1)</sup> The turnover breakdown by product for the six months ended 30 June 2017 were revised for the product form adjustment.

<sup>(2)</sup> Mainly include wireless speakers, soundbars, headphones, home theatres, and mini speakers

<sup>(3)</sup> Mainly include smart voice speakers, smart gateways, and other I.o.T products.

<sup>(4)</sup> Mainly include DVD players, BD players, OTT set top boxes (STB), and other products

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

# MANAGEMENT DISCUSSION & ANALYSIS

In view of the market's strong demand for new audio ancillary products related to smartphones and smart TVs, the Group has actively raised its research and development ("R&D") investments in wireless technology, low energy consumption, new crafting, new materials, and structural units of product display and other functions, in order to develop a variety of new audio products. Meanwhile, the Group has sustained its R&D efforts in electroacoustic technology to further develop single-speaker and other smart speaker products to enhance its overall product competitiveness and boost its profitability. During the period under review, the Group has been committed to developing the soundbar, headphone, and wireless speaker businesses and providing product design and production for renowned domestic and overseas brands. As a result, the turnover of audio products surged by approximately 22.7% year-on-year to HK\$1,787.1 million, reflecting the Group's achievement in exploring new clients and developing new products.

Riding on its strong R&D team and technological advantages in smart audio speakers, the Group continued to expand its smart audio speaker business during the period under review, through cooperating with distinguished internet corporations to develop new smart speakers in various models and providing structural components in new forms for well-known internet customers. Under the rapid development of language recognition and analysis, big data analysis and artificial intelligence, smart audio speakers compatible with voice interaction in a more natural way are widely recognized. Meanwhile, more sophisticated technology within the smart product ecosystem has prolonged the usage time of such products. For the period under review, smart products have contributed approximately HK\$566.9 million to the revenue of the Group, amounting to a 6.1 times year-on-year increase. As the market for smart speakers remains at the stage of rapid development, the Group will keep on increasing investment in R&D in this area to open more windows of opportunity in the market.

The Group continued to strengthen its capability in product components such as structural components in new forms, speaker units and different kinds of modules, in order to enhance the vertical integration capability of the supply chain and to propel independent sales of ancillary products. For the six months ended 30 June 2018, the ancillary products recorded a year-on-year growth of 82.1% to approximately HK\$186.3 million. Concurrently, in order to drive the development of structural components and serve the diverse needs of more customers through structural components in new forms, TCL Technoly Electronics (an indirect wholly-owned subsidiary of the Company) entered into a joint venture agreement with Coxon Industry (a wholly-owned subsidiary of Coxon Precise Industrial Co., Ltd) for the establishment of Guangdong Tonly Precise Component Co., Ltd. in January 2018. The joint venture would focus on R&D design and manufacturing of precision moulding and structural components in the consumer electronics industry.

As the shrinkage of the market for traditional video disc players such as DVD players and BD players persists, the Group will take advantage of its technological strengths and scale effect to grow this business within an ensured and reasonable profit margin, as such business can bring consistent cash flow to the Group. However, the Group will strictly control the R&D investments in related products in order to focus its resources on other business segments with higher development potential.

The Group is committed to the R&D of new products that cater to the market needs as well as the building of competitive R&D teams. During the period under review, the Group's R&D expenses were approximately HK\$130.7 million, representing 4.7% of its total revenue. The Group owns R&D teams in Huizhou, Shenzhen and Xi'an with more than 900 staff. In addition to developing and introducing new products in response to customers' specific requirements, the R&D teams will carry out visionary research and development on fundamental product technologies. The Group has also amassed a design team with experienced electroacoustic professionals from overseas, and continued to increase its R&D investment in smart and ancillary products to capture market growth opportunities.

In the face of China's labour shortage and rising wages, the Group is dedicated to enhancing its human resources system. 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 production efficiency. The Group has successfully implemented smart warehouse logistics management based on an industrial intelligent system, to closely integrate all aspects of supply chain, production and logistics, so as to lay a solid foundation for Industry 4.0, i.e. the current trend to create a "smart factory" with cyber-physical systems, the internet of things, cloud computing and cognitive computing. The Group is committed to optimising its equipment maintenance and management systems in order to gradually bolster the actual production capacity of the Huizhou production base.

# MANAGEMENT DISCUSSION & ANALYSIS

The Group has continued its current production base expansion project in Huizhou. Phase two of Huizhou Zhongkai Second Plant officially commenced in April 2018 and is expected to deliver by the end of March 2019. This project allows the Group to expand its product line and integrate its supply chain. In June 2018, the Group's Huizhou Puli Electroacoustic Tongqiao Industrial Park was completed, which will form a comprehensive industrial chain integrating carpentry, speaker assembly, high-end wooden boxes, speakers, and plastic injection. Meanwhile, in order to alleviate the labour shortage and diversify employment needs in the Huizhou factory, Guangxi Tonly Factory has been established in Beihai City to engage in the assembly business, and production has commenced during the period under review.

## **Future Plans and Outlook**

Looking ahead, the Group will double its efforts in developing the smart products business, in particular the smart speaker and voice-related intelligent products, and in enhancing development capabilities of components such as structural parts in new forms and speakers. According to Canalys, a research firm, ownership of smart speakers will reach 100 million worldwide in 2018, marking an almost 2.5 times upsurge from the end of 2017. According to the latest report by another market research firm eMarketer, the number of smart speaker users is expected to witness a compound annual growth rate of 47.9% in 2018. In the U.S. alone, that number will be over 90 million this year.

The Group will persist in driving the development of its smart products business, particularly smart voice speakers and voice-related smart products. The Group will keep on reinforcing its technological advantages in smart voice technology, focusing on the form of smart speaker products and cooperating with global major voice recognition platforms to constantly tap into more market opportunities. In the meantime, the Group will seek more opportunities for cross-industry applications based on smart voice technology. As a core partner of the global Internet enterprise voice ecosystem, the Group will grow together with the voice ecosystem and continue its efforts to bring the experience of a new generation of human-machine interaction to more users.

After years of continuous investment and development, the audio product business has now become the major business segment of the Group, especially in view of the rapid growth of new audio business. The Group will continue to consolidate and strengthen its position in the new audio market, concentrating on the development of the business of soundbar and headphone products, striving for more business opportunities and exploring more new customers. For the video and traditional audio business, the Group will keep on adjusting its resource structure and adopt a small-team and asset-light operation strategy.

In terms of vertical integration of the supply chain, the Group has consolidated the moulding and plastic parts manufacturing and electroacoustic units of its subsidiaries to achieve synergy and reduce production costs. The Group will further promote meticulous management to enhance overall operational efficiency and control overall costs. In view of the continuous growth of the Group's business, especially in the smart product business, meticulous management is a necessary process for the Group, during which it will apply a series of measures to improve the administrative efficiency and internal operation process. With meticulous management and improvement of product assembly and testing infrastructure, the Group will be able to ensure product quality and have better control in its production cost.

In conclusion, the Group will provide outstanding quality products and services to brand companies and customers through expanding new businesses, exploring new technologies and products, and enhancing its productivity. Following the gradual maturity of its smart and ancillary products business, the management expects that the Group's proportion of turnover from its smart products and ancillary products will continue to grow in 2018 and is confident of the Group's future business growth. 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.

# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL REVIEW

### Significant Investments, Acquisitions and Disposals

There were no significant investment held as at 30 June 2018, nor other material acquisitions and disposals of subsidiaries during the period.

### Liquidity and Financial Resources

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

The cash and cash equivalents of the Group as at 30 June 2018 amounted to approximately HK\$724.5 million, of which 1.1% was maintained in Hong Kong dollars, 51.4% in US dollars, 47.4% in Renminbi and 0.1% in Euros. The Group's gearing ratio was nil since the Group had no interest-bearing bank borrowings.

There was no material change in available credit facilities when compared with the year ended 31 December 2017 and there was no asset held under finance lease as at 30 June 2018.

### Pledge of Assets

There was no pledge of assets by the Group as at 30 June 2018.

### Capital Commitments and Contingent Liabilities

As at 30 June 2018, the Group had capital commitments of approximately HK\$240.0 million (31 December 2017: HK\$6.8 million) which were contracted but not provided for. The Group did not have any material contingent liabilities as at 30 June 2018.

### Pending Litigation

The Group had not been involved in any material litigation as at 30 June 2018.

### Foreign Exchange Exposure

Due to its international presence and operation, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

### Employee and Remuneration Policy

The Group had approximately 11,700 dynamic and talented employees. They were all dedicated to uphold product and service quality. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individuals and the Company.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the directors and chief executives in shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### (A) Interests in the Company – Long Positions

| Name of Director | Capacity          |                        |                            | Number of shares held under equity derivatives<br>(Note 4) | Total      | Percentage of issued share capital of the Company<br>(Note 5) |
|------------------|-------------------|------------------------|----------------------------|--|------------|---|
|                  | Personal Interest | Corporate interests    | Other Interest<br>(Note 3) |  |            |   |
| Yu Guanghui      | 1,552,668         | 11,869,339<br>(Note 1) | 486,908                    | 4,239,123  | 18,148,038 | 6.76%   |
| Song Yonghong    | 1,140,379         | 13,399,268<br>(Note 2) | 373,296                    | 3,265,326  | 18,178,269 | 6.77%   |
| Ren Xuenong      | 697,127           | –                      | 194,201                    | 1,827,486  | 2,718,814  | 1.01%   |
| Liao Qian        | 38,300            | –                      | 39,446                     | 657,274  | 735,020    | 0.27%   |
| Leong Yue Wing   | 84,200            | –                      | 10,000                     | 400,000  | 494,200    | 0.18%   |
| Poon Chiu Kwok   | 10,000            | –                      | 10,000                     | 400,000  | 420,000    | 0.16%   |
| Li Qi            | 10,000            | –                      | 10,000                     | 400,000  | 420,000    | 0.16%   |

Notes:

- For the purpose of the Securities and Futures Ordinance (Cap. 571) ("SFO"), as at 30 June 2018, other than the personal interests and the other interests as stated in the above table, Mr. YU Guanghui ("Mr. YU") was deemed to be interested in 11,869,339 shares, held by Vast Bright Investment Limited ("Vast Bright"), a company wholly owned by Mr. YU.
- For the purpose of the SFO, as at 30 June 2018, other than the personal interests and the other interests as stated in the above table, Mr. SONG Yonghong ("Mr. SONG") was deemed to be interested in the 13,399,268 shares held by Run Fu, which was owned as to 100% by Huizhou Guangsheng Investment Partnership Enterprise (Limited Partnership) in which Mr. SONG held 37% effective interest.
- These other interests are awarded shares to the relevant directors of the Company which remained unvested as at 30 June 2018 according to the Company's restricted share award scheme.
- As at 30 June 2018, these equity derivatives were outstanding share options granted to the relevant directors under the share option scheme adopted by the Company in accordance with Chapter 17 of the Listing Rules.
- Such percentage was calculated based on the total number of Shares in which each of the directors was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 30 June 2018, being 268,357,390 shares.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

### (B) Interests in associated corporations of the Company - Long positions TCL Electronics Holdings Limited ("TCL Electronics")

| Name of Director | Capacity           |                  |                            | Number of shares held under equity derivatives<br>(Note 7) | Total   | Percentage of issued share capital of TCL Electronics<br>(Note 8) |
|------------------|--------------------|------------------|----------------------------|--|---------|---|
|                  | Personal Interests | Family Interests | Other Interest<br>(Note 6) |  |         |   |
| Leong Yue Wing   | 494,672            | –                | –                          | –  | 494,672 | 0.02%   |
| Liao Qian        | 58,565             | –                | 52,065                     | 353,206  | 463,836 | 0.02%   |

### 廣東瑞捷光電股份有限公司 Guangdong Regency Optics-Electron Corp. ("Regency")

| Name of Director | Capacity          |                 |                | Number of shares held under equity derivatives | Total     | Percentage of issued share capital of Regency<br>(Note 9) |
|------------------|-------------------|-----------------|----------------|--|-----------|---|
|                  | Personal Interest | Family Interest | Other Interest |  |           |   |
| Ren Xuenong      | 799,000           | –               | –              | –  | 799,000   | 2.10%   |
| Song Yonghong    | –                 | 800,000         | –              | –  | 800,000   | 2.11%   |
| Yu Guanghui      | 1,600,000         | –               | –              | –  | 1,600,000 | 4.21%   |

#### Notes:

- These other interests are restricted shares granted to the relevant directors of the Company which remained unvested as at 30 June 2018 according to the restricted share award scheme of TCL Electronics.
- As at 30 June 2018, these equity derivatives were outstanding share options granted to the relevant directors under the share option scheme adopted by TCL Electronics in accordance with Chapter 17 of the Listing Rules.
- Such percentage was calculated based on the total number of shares or underlying shares of TCL Electronics in which the relevant director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of TCL Electronics as at 30 June 2018 based on the information available to the Company.
- Such percentage was calculated based on the total number of shares or underlying shares of Regency in which the relevant director was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of Regency as at 30 June 2018 based on the information available to the Company.

Save as disclosed above, as at 30 June 2018, none of the directors and chief executive and their associates had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests and short positions of the person (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### Long and short positions in shares of the Company

| Shareholder     | Capacity                           | Number of shares held<br>or underlying shares<br>Long Position (L) | Approximate<br>percentage of<br>the number<br>of issued shares<br>of the Company<br>(Note 2) |
|-----------------|------------------------------------|--|--|
| TCL Corporation | Interest of controlled corporation | 130,741,170 (L) <i>(Note 1)</i>                                    | 48.72%   |

#### Notes:

- For the purpose of SFO, TCL Corporation was deemed to be interested in the 130,741,170 shares through its controlled corporation, TCL Industries (its direct wholly-owned subsidiary).
- Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as recorded in the register required to be kept by the Company pursuant to Part XV of the SFO and disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 30 June 2018, being 268,357,390 shares.

Save as disclosed above, as at 30 June 2018, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 17 April 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include the Company's directors, including independent non-executive directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The share option scheme became effective on 17 April 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares of the Company that could be issued upon exercise of (i) all outstanding share options and (ii) all share options that could be granted under the then available scheme mandate limit as at 30 June 2018 was 38,281,402 shares and 4,705,028 shares respectively, which represented about 14.27% and 1.75% of the number of issued shares of the Company as at 30 June 2018 respectively.

# OTHER INFORMATION

The following share options were outstanding under the share option scheme adopted by the Company on 17 April 2014 during the period from 1 January 2018 to 30 June 2018:

| Name or category of participant   | Number of share options |                           |                             |                             |                          | At 30 June 2018 | Date of grant of share options | Exercise price of share options HK\$ | Exercise period of share options | Closing price immediately before the date of exercise of share options HK\$ | Average closing price immediately before the date of exercise of share options* HK\$ |
|---|-------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|-----------------|--------------------------------|--------------------------------------|----------------------------------|---|--|
|   | At 1 January 2018       | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period |                 |                                |                                      |                                  |   |  |
| <b>Director</b>   |                         |                           |                             |                             |                          |                 |                                |                                      |                                  |   |  |
| <b>Executive directors</b>  |                         |                           |                             |                             |                          |                 |                                |                                      |                                  |   |  |
| YU Guanghui   | 408,695                 | -                         | -                           | -                           | -                        | 408,695         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 627,241                 | -                         | -                           | (225,371)                   | -                        | 401,870         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | -                       | 3,428,558                 | -                           | -                           | -                        | 3,428,558       | 21-05-2018                     | 7.840                                | Note 3                           | 7.84  | -  |
|   | 1,035,936               | 3,428,558                 | -                           | (225,371)                   | -                        | 4,239,123       |                                |                                      |                                  |   |  |
| SONG Yonghong   | 328,665                 | -                         | -                           | -                           | -                        | 328,665         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 480,885                 | -                         | -                           | (172,785)                   | -                        | 308,100         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | -                       | 2,628,561                 | -                           | -                           | -                        | 2,628,561       | 21-05-2018                     | 7.840                                | Note 3                           | 7.84  | -  |
|   | 809,550                 | 2,628,561                 | -                           | (172,785)                   | -                        | 3,265,326       |                                |                                      |                                  |   |  |
| REN Xuenong   | 303,478                 | -                         | -                           | -                           | -                        | 303,478         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 250,897                 | -                         | -                           | (90,149)                    | -                        | 160,748         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | -                       | 1,363,260                 | -                           | -                           | -                        | 1,363,260       | 21-05-2018                     | 7.840                                | Note 3                           | 7.84  | -  |
|   | 554,375                 | 1,363,260                 | -                           | (90,149)                    | -                        | 1,827,486       |                                |                                      |                                  |   |  |
| <b>Non-executive director</b>   |                         |                           |                             |                             |                          |                 |                                |                                      |                                  |   |  |
| LIAO Qian   | 347,649                 | -                         | -                           | -                           | -                        | 347,649         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 250,000                 | -                         | -                           | -                           | -                        | 250,000         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | -                       | 59,625                    | -                           | -                           | -                        | 59,625          | 21-05-2018                     | 7.840                                | Note 3                           | 7.84  | -  |
|   | 597,649                 | 59,625                    | -                           | -                           | -                        | 657,274         |                                |                                      |                                  |   |  |
| <b>Independent non-executive directors</b>                                    |                         |                           |                             |                             |                          |                 |                                |                                      |                                  |   |  |
| LEONG Yue Wing  | 300,000                 | -                         | -                           | -                           | -                        | 300,000         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 100,000                 | -                         | -                           | -                           | -                        | 100,000         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | 400,000                 | -                         | -                           | -                           | -                        | 400,000         |                                |                                      |                                  |   |  |
| POON Chiu Kwok  | 300,000                 | -                         | -                           | -                           | -                        | 300,000         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 100,000                 | -                         | -                           | -                           | -                        | 100,000         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | 400,000                 | -                         | -                           | -                           | -                        | 400,000         |                                |                                      |                                  |   |  |
| LI Qi   | 300,000                 | -                         | -                           | -                           | -                        | 300,000         | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | -  |
|   | 100,000                 | -                         | -                           | -                           | -                        | 100,000         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | 400,000                 | -                         | -                           | -                           | -                        | 400,000         |                                |                                      |                                  |   |  |
| Sub-total   | 4,197,510               | 7,480,004                 | -                           | (488,305)                   | -                        | 11,189,209      |                                |                                      |                                  |   |  |
| Other employees and those who have contributed or may contribute to the Group |                         |                           |                             |                             |                          |                 |                                |                                      |                                  |   |  |
|   | 2,070,054               | -                         | (43,533)                    | (63,070)                    | (80,123)                 | 1,883,328       | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | 8.94   |
|   | 8,742,111               | -                         | -                           | (276,104)                   | (305,000)                | 8,161,007       | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | -                       | 12,132,122                | -                           | -                           | (40,000)                 | 12,092,122      | 21-05-2018                     | 7.840                                | Note 3                           | 7.84  | -  |
| Sub-total   | 10,812,165              | 12,132,122                | (43,533)                    | (339,174)                   | (425,123)                | 22,136,457      |                                |                                      |                                  |   |  |
| Employees of TCL group  | 1,895,200               | -                         | (121,786)                   | -                           | -                        | 1,773,414       | 30-12-2016                     | 4.050                                | Note 1                           | 3.95  | 8.29   |
|   | 627,241                 | -                         | -                           | -                           | -                        | 627,241         | 22-09-2017                     | 9.600                                | Note 2                           | 9.60  | -  |
|   | -                       | 2,555,081                 | -                           | -                           | -                        | 2,555,081       | 21-05-2018                     | 7.840                                | Note 3                           | 7.84  | -  |
| Sub-total   | 2,522,441               | 2,555,081                 | (121,786)                   | -                           | -                        | 4,955,736       |                                |                                      |                                  |   |  |
| Total   | 17,532,116              | 22,167,207                | (165,319)                   | (827,479)                   | (425,123)                | 38,281,402      |                                |                                      |                                  |   |  |



# OTHER INFORMATION

## Notes:

- (1) For share options granted to the employees of the Group, 50% of the share options granted on 30 December 2016 are exercisable commencing from 31 May 2017 to 31 December 2019, and the remaining 50% are exercisable commencing from 31 May 2018 to 31 December 2019.

For the share options granted to the employees of the TCL Corporation and/or its subsidiaries excluding the employees of the Group, approximately one-third of such share options are exercisable commencing from 31 December 2016, a further approximately one-third are exercisable commencing from 31 December 2017 and the remaining one-third are exercisable commencing from 31 December 2018 up to 31 December 2022.

- (2) For share options granted to the employees of the Group (excluding the directors and management of the Company), the share options granted on 22 September 2017 are exercisable commencing from 15 May 2018 to 31 December 2020.

For the share options granted to the directors and management of the Group and the employees of the TCL Corporation and/or its subsidiaries excluding the employees of the Group, 50% of the share options are exercisable commencing from 15 May 2018 to 31 December 2020, and the remaining 50% are exercisable commencing from 15 May 2019 up to 31 December 2020.

- (3) For share options granted to the employees of the Group (excluding the directors and management of the Company), the share options granted on 21 May 2018 are exercisable commencing from 15 May 2019 to 31 December 2020.

For the share options granted to the directors and management of the Group, 1,593,750 number of the share options are exercisable commencing from 15 May 2019 to 15 May 2024, 3,562,502 number of the share options are exercisable commencing from 15 May 2020 to 15 May 2024, 4,312,500 number of the share options are exercisable commencing from 15 May 2021 to 15 May 2024, and the remaining are exercisable commencing from 15 May 2022 up to 15 May 2024.

For the share options granted to the employees of the TCL Corporation and/or its subsidiaries excluding the employees of the Group, approximately one-third of such share options are exercisable commencing from 15 June 2018, a further approximately one-third are exercisable commencing from 15 June 2019 and the remaining one-third are exercisable commencing from 15 June 2020 up to 15 June 2024.

- \* This represent the weighted average closing price of the shares of the Company immediately before the date on which the relevant share options were exercised by the relevant director, associate of director or other employees and those who may have contributed or may contribute to the Group (as the case may be) during the period from 1 January 2018 to 30 June 2018.

# OTHER INFORMATION

## RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme on 28 August 2014 which was subsequently amended on 9 September 2016, 8 August 2017 and 7 September 2017 (the "Restricted Share Award Scheme"). The Company has appointed BOCI-Prudential Trustee Limited as the trustee (the "Trustee") for the administration of the Restricted Share Award Scheme. To the knowledge and belief of the Company, the Trustee is an independent third party to the Company. No one, including the Trustee, may exercise any voting rights in respect of the awarded shares ("the Awarded Shares") held by the Trustee.

The grantees of the Awarded Shares are not entitled to any distribution the Company made in respect of the Awarded Shares. The Company may determine any vesting conditions for the Awarded Shares as it considers appropriate in its absolute discretion. Detail of the Restricted Share Award Scheme are set out in the Company's announcement dated 28 August 2014 and 8 August 2017 and the Company's circular dated 12 September 2017. Information in relation to the Awarded Shares during the period under review under the Restricted Share Award Scheme is as follows:

| Name or category of participant | Number of Awarded Shares |                           |                          |  | At 30 June 2018 | Date of grant | Vesting date | Fair value per share on granted day HK\$ |
|---------------------------------|--------------------------|---------------------------|--------------------------|--|-----------------|---------------|--------------|--|
|                                 | At 1 January 2018        | Granted during the period | Vested during the period | Cancelled/lapsed/deducted during the period<br><i>Note 1</i> |                 |               |              |  |
| <b>Executive directors</b>      |                          |                           |                          |  |                 |               |              |  |
| YU Guanghui                     | 234,790                  | -                         | (234,790)                | -  | -               | 28-04-2017    | 31-05-2018   | 4.97                                     |
|                                 | 250,897                  | -                         | (250,897)                | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|                                 | 250,896                  | -                         | -                        | -  | 250,896         | 08-08-2017    | 15-05-2019   | 9.80                                     |
|                                 | -                        | 118,006                   | -                        | -  | 118,006         | 21-05-2018    | 15-05-2019   | 7.84                                     |
|                                 | -                        | 118,006                   | -                        | -  | 118,006         | 21-05-2018    | 15-05-2020   | 7.84                                     |
|                                 | 736,583                  | 236,012                   | (485,687)                | -  | 486,908         |               |              |  |
| SONG Yonghong                   | 180,006                  | -                         | (180,006)                | -  | -               | 28-04-2017    | 31-05-2018   | 4.97                                     |
|                                 | 192,354                  | -                         | (192,354)                | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|                                 | 192,354                  | -                         | -                        | -  | 192,354         | 08-08-2017    | 15-05-2019   | 9.80                                     |
|                                 | -                        | 90,471                    | -                        | -  | 90,471          | 21-05-2018    | 15-05-2019   | 7.84                                     |
|                                 | -                        | 90,471                    | -                        | -  | 90,471          | 21-05-2018    | 15-05-2020   | 7.84                                     |
|                                 | 564,714                  | 180,942                   | (372,360)                | -  | 373,296         |               |              |  |
| REN Xuenong                     | 93,916                   | -                         | (93,916)                 | -  | -               | 28-04-2017    | 31-05-2018   | 4.97                                     |
|                                 | 100,359                  | -                         | (100,359)                | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|                                 | 100,358                  | -                         | -                        | -  | 100,358         | 08-08-2017    | 15-05-2019   | 9.80                                     |
|                                 | -                        | 46,922                    | -                        | -  | 46,922          | 21-05-2018    | 15-05-2019   | 7.84                                     |
|                                 | -                        | 46,921                    | -                        | -  | 46,921          | 21-05-2018    | 15-05-2020   | 7.84                                     |
|                                 | 294,633                  | 93,843                    | (194,275)                | -  | 194,201         |               |              |  |
| <b>Non-executive director</b>   |                          |                           |                          |  |                 |               |              |  |
| LIAO Qian                       | 4,306                    | -                         | -                        | -  | 4,306           | 29-09-2016    | 31-12-2018   | 3.96                                     |
|                                 | 25,000                   | -                         | (25,000)                 | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|                                 | 25,000                   | -                         | -                        | -  | 25,000          | 08-08-2017    | 15-05-2019   | 9.80                                     |
|                                 | -                        | 5,070                     | (5,070)                  | -  | -               | 21-05-2018    | 15-06-2018   | 7.84                                     |
|                                 | -                        | 5,070                     | -                        | -  | 5,070           | 21-05-2018    | 15-06-2019   | 7.84                                     |
|                                 | -                        | 5,070                     | -                        | -  | 5,070           | 21-05-2018    | 15-06-2020   | 7.84                                     |
|                                 | 54,306                   | 15,210                    | (30,070)                 | -  | 39,446          |               |              |  |

# OTHER INFORMATION

| Name or category of participant  | Number of Awarded Shares |                           |                          |  | At 30 June 2018 | Date of grant | Vesting date | Fair value per share on granted day HK\$ |
|--|--------------------------|---------------------------|--------------------------|--|-----------------|---------------|--------------|--|
|  | At 1 January 2018        | Granted during the period | Vested during the period | Cancelled/lapsed/deducted during the period<br><i>Note 1</i> |                 |               |              |  |
| <b>Independent non-executive directors</b>   |                          |                           |                          |  |                 |               |              |  |
| LEONG Yue Wing   | 10,000                   | -                         | (10,000)                 | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|  | 10,000                   | -                         | -                        | -  | 10,000          | 08-08-2017    | 15-05-2019   | 9.80                                     |
|  | 20,000                   | -                         | (10,000)                 | -  | 10,000          |               |              |  |
| POON Chiu Kwok   | 10,000                   | -                         | (10,000)                 | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|  | 10,000                   | -                         | -                        | -  | 10,000          | 08-08-2017    | 15-05-2019   | 9.80                                     |
|  | 20,000                   | -                         | (10,000)                 | -  | 10,000          |               |              |  |
| LI Qi  | 10,000                   | -                         | (10,000)                 | -  | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|  | 10,000                   | -                         | -                        | -  | 10,000          | 08-08-2017    | 15-05-2019   | 9.80                                     |
|  | 20,000                   | -                         | (10,000)                 | -  | 10,000          |               |              |  |
| Sub-total  | 1,710,236                | 526,007                   | (1,112,392)              | -  | 1,123,851       |               |              |  |
| Other employees and those who have contributed or may contribute to the Group in aggregate | 319,218                  | -                         | (319,218)                | -  | -               | 21-05-2015    | 16-05-2018   | 5.49                                     |
|  | 557,173                  | -                         | (552,509)                | (4,664)  | -               | 29-04-2016    | 31-05-2018   | 3.60                                     |
|  | 382,228                  | -                         | (354,677)                | (27,551)   | -               | 28-04-2017    | 31-05-2018   | 4.97                                     |
|  | 414,298                  | -                         | (393,210)                | (21,088)   | -               | 08-08-2017    | 15-05-2018   | 9.80                                     |
|  | 414,288                  | -                         | -                        | (21,087)   | 393,201         | 08-08-2017    | 15-05-2019   | 9.80                                     |
|  | 1,820,000                | -                         | -                        | (20,000)   | 1,800,000       | 08-08-2017    | 15-12-2019   | 9.80                                     |
|  | 1,820,000                | -                         | -                        | (20,000)   | 1,800,000       | 08-08-2017    | 15-05-2020   | 9.80                                     |
|  | -                        | 435,537                   | -                        | -  | 435,537         | 21-05-2018    | 15-05-2019   | 7.84                                     |
|  | -                        | 719,899                   | -                        | -  | 719,899         | 21-05-2018    | 15-05-2020   | 7.84                                     |
|  | -                        | 284,354                   | -                        | -  | 284,354         | 21-05-2018    | 15-05-2021   | 7.84                                     |
| Sub-total  | 5,727,205                | 1,439,790                 | (1,619,614)              | (114,390)  | 5,432,991       |               |              |  |
| Employees of TCL group   | 205,189                  | -                         | -                        | -  | 205,189         | 29-09-2016    | 31-12-2018   | 3.96                                     |
|  | 250,000                  | -                         | (250,000)                | -  | -               | 28-04-2017    | 31-05-2018   | 4.97                                     |
|  | -                        | 220,493                   | (197,188)                | (23,305)   | -               | 21-05-2018    | 15-06-2018   | 7.84                                     |
|  | -                        | 215,662                   | -                        | -  | 215,662         | 21-05-2018    | 15-06-2019   | 7.84                                     |
|  | -                        | 215,650                   | -                        | -  | 215,650         | 21-05-2018    | 15-06-2020   | 7.84                                     |
| Sub-total  | 455,189                  | 651,805                   | (447,188)                | (23,305)   | 636,501         |               |              |  |
| Total  | 7,892,630                | 2,617,602                 | (3,179,194)              | (137,695)  | 7,193,343       |               |              |  |

# OTHER INFORMATION

According to the rules of the Restricted Share Award Scheme, subject to the refreshment of the Restricted Share Award Scheme limit and the adjustment in the event of consolidation or subdivision of shares, the Board shall not make any further award of restricted shares which will result in the aggregate number of the Awarded Shares granted under the Restricted Share Award Scheme exceeding 10% of the number of issued shares of the Company as at the approval date (i.e. 7 September 2017 being the date on which the Board approved such amendments, "Approval Date") (or the latest new approval date (i.e. latest date on which the Board approves the refreshment of the Restricted Share Award Scheme limit, "New Approval Date"), as the case may be).

As at 30 June 2018, 18,016,214 further restricted shares might be granted to the eligible participants of the Restricted Share Award Scheme, which represented about 6.71% of the number of issued shares of the Company as at 30 June 2018. On 24 April 2018, an ordinary resolution was passed to renew the specific mandate granted to the Directors to allot and issue new shares under the Restricted Share Award Scheme not exceeding 3% of the number of shares in issue as at the date on which the resolution was passed, i.e. 24 April 2018. As at 24 April 2018, the number of issued shares of the Company was 268,324,857 shares and the maximum amount of new shares which could be issued as approved under the said specific mandate was 8,049,745 shares. During the 6 months ended 30 June 2018, no shares have been issued and allotted under the said specific mandate and the remaining maximum amount of new shares which could be issued and allotted under the said specific mandate as at 30 June 2018 was therefore 8,049,745 shares.

Note: (1) This includes, among others, number of Awarded Shares deducted by the Company to recover such amount of taxes paid by the Company for the selected person as reimbursement pursuant to the rules to the Restricted Share Award Scheme.

## CHANGE OF PARTICULARS OF THE DIRECTORS

As at 31 August 2018, being the latest practicable date for ascertaining certain information in this interim report, certain particulars of the directors had been changed in the following respects since the published date of annual report 2017 of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

### Effective Date

### Changes

6 June 2018

Mr. POON Chiu Kwok, an independent non-executive Director of the Company, has resigned as a non-executive director of CHONG KIN GROUP HOLDINGS LIMITED (a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange, stock code: 1609)

## PURCHASES, SALES OR REDEMPTION OF SHARES

Pursuant to the rules of the Restricted Share Award Scheme adopted by the Company on 28 August 2014 and subsequently revised on 9 September 2016, 8 August 2017 and 7 September 2017, the Company purchased from the market a total of 498,000 shares being the awarded shares during the period. The total amount paid to acquire such shares was approximately HK\$4,044,000.

## CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the six months ended 30 June 2018, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from the Code Provisions A.6.7 and F.1.1.

### Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended to by him, Mr. LI Qi, being an independent non-executive director, was not present at the annual general meeting of the Company held on 24 April 2018.

However, Mr. REN Xuenong, an executive director and the chief financial officer of the Company, and Mr. POON Chiu Kwok, an independent non-executive director were present at the annual general meeting, and Mr. LIAO Qian, a non-executive director and the chairman of the Board and Mr. LEONG Yue Wing, an independent non-executive director had also participated the meeting to ensure an effective communication with the shareholders at that meeting.

In addition, the Environmental, Social and Governance report for the year 2017 was published on the websites of the Company and The Stock Exchange of Hong Kong Limited on 30 May 2018.

# OTHER INFORMATION

## **Code Provision F.1.1**

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

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

## **Environmental, Social and Governance Reporting**

The Environmental, Social and Governance report for the year 2017 was published on the websites of the Company and The Stock Exchange of Hong Kong Limited on 30 May 2018.

## **COMPLIANCE WITH DEED OF NON-COMPETITION**

The Company has received a confirmation (the "Confirmation") from TCL Corporation and T.C.L. Industries (H.K.) Limited (the "Covenantors") signed by them on 6 August 2018 confirming that for the period from 1 January 2018 to 30 June 2018 and up to the date of signing the Confirmation by the relevant Covenantors, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 15 July 2013 as amended on 25 August 2017 (the "Deed of Non-Competition"). For details of the Deed of Non-Competition, please refer to the Company's announcement of 21 July 2017 and the Company's circular of 11 August 2017.

The independent non-executive directors of the Company have reviewed the Confirmation and all of them are satisfied that the Deed of Non-Competition has been complied with during the period under review.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018, 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 2018.

## **CHANGE IN THE USE OF PROCEEDS FROM THE RIGHTS ISSUE**

Reference is made to the prospectus published by the Company dated 30 October 2014 (the "Prospectus") in respect of the rights issue in the proportion of one rights share for every two then existing shares held by the qualifying shareholders on the record date of 29 October 2014 ("Rights Issue"). Unless otherwise specified, terms used in this section shall have the same meanings as those defined in the Prospectus.

## **Update on the use of proceeds from the Rights Issue**

As disclosed in the Prospectus, the gross proceeds from the Rights Issue were approximately HK\$423 million. The net proceeds from the Rights Issue after deduction of expenses and professional fees amounted to approximately HK\$421 million ("Proceeds"), amongst which approximately HK\$333 million had been utilised as at the date of this report.

# OTHER INFORMATION

The breakdown of the Company's proposed use of the Proceeds as disclosed in the Prospectus and its actual use of the Proceeds from the date of completion of the Rights Issue to the date of this report is as follows:

| Such net proceeds are intended to be used for the following purposes:   | Proposed use of the Proceeds as disclosed in the Prospectus<br><i>HK\$ million (approximately)</i> | Actual use of the Proceeds from the date of completion of the Rights Issue to the date of this report<br><i>HK\$ million (approximately)</i> | Balance of proceeds as at the date of this report<br><i>HK\$ million (approximately)</i> |
|---|--|--|--|
| Construction of a new factory in proximity to the Group's existing manufacturing base in Huizhou, PRC and purchase of machinery and equipment | 150  | 150  | 0  |
| Financing of potential acquisitions of other ODM business to broaden the Group's income stream  | 200  | 112  | 88   |
| General working capital   | 71   | 71   | 0  |
| <b>Total</b>  | <b>421</b>   | <b>333</b>   | <b>88</b>  |

As of the date of this report, the use of the Proceeds has not exceeded the proposed use of the Proceeds as disclosed in the Prospectus and the total balance of the unutilised Proceeds is approximately HK\$88 million, all originally allocated to potential acquisitions of other ODM business.

### Change in use of Proceeds

Based on the information currently available and the Board's estimation of the future market condition, the Board has on 21 August 2018 resolved to reallocate and utilise the unutilised Proceeds in the following manner:

| Intended use  | New allocation of the unutilised Proceeds<br><i>HK\$ million (approximately)</i> |
|---|--|
| Construction of a new factory in proximity to the Group's existing manufacturing base in Huizhou, PRC and purchase of machinery and equipment | 88   |
| <b>Total of unutilised Proceeds</b>   | <b>88</b>  |

Whilst as disclosed in the Prospectus that it was originally intended that a sum of HK\$200 million was to be used for potential acquisition of other ODM business, the Group has not been able to identify suitable target for acquisitions subsequent to the acquisition of FP Group Limited for an approximate amount of HK\$112 million (for more information, please refer to the announcement published by the Company dated 31 July 2015). Further, upon review and having considered the business development plan of the Group, the Board considers that the demand for capital in relation to construction of Phase 2 of the new factory in Huizhou, PRC (which is currently still under construction) and purchasing machinery and equipment for increasing production efficiency is relatively more imminent. Therefore, with a view to reasonably utilise the unutilised Proceeds in a more effective and efficient manner, the Board has resolved that such unutilised Proceeds in the sum of approximately HK\$88 million originally allocated to potential acquisition of other ODM business be reallocated to construction of a new factory in proximity to the Group's existing manufacturing base in Huizhou, PRC and purchase of machinery and equipment.

It is expected that all the unutilised Proceeds will be used in the financial year ending 31 December 2018.

The Board has considered the impact of the proposed change in the use of the Proceeds on the Group's business and believes that, in view of the Group's operation and business updates, the reallocation of the unutilised Proceeds will facilitate efficient allocation of financial resources and strengthen the future development of the Group, and it is appropriate and in the best interests of the Company and its shareholders as a whole.

On behalf of the Board  
**LIAO Qian**  
Chairman

Hong Kong, 21 August 2018

As at the date of this report, the Board comprises YU Guanghui, SONG Yonghong and REN Xuenong as executive directors, LIAO Qian (Chairman) as non-executive director and POON Chiu Kwok, LI Qi and LEONG Yue Wing as independent non-executive directors.