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HOME CONTROL INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1747)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of Directors of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the previous financial year, as follows:

The table below sets forth the adjusted net profit and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group:

	Year ended 31 December	
	2019	2018
	<i>US\$ million</i>	<i>US\$ million</i>
Revenue	180	173.9
Reported Net Profit	2.7	3.6
Add: Write-off loan arrangement fee	–	1.1
Add: Restructuring severance expense	0.1	0.8
Add: Listing expense	3.2	–
	<hr/>	<hr/>
Adjusted Net Profit	6.0	5.6
Add: Income tax expense	1.9	0.8
Add: Finance costs	3.4	3.0
Add: Withholding tax	0.2	0.7
Add: Depreciation and amortisation	4.0	4.0
	<hr/>	<hr/>
Adjusted EBITDA	15.5	14.0
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	<i>Notes</i>	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Revenue	3	179,973	173,852
Cost of sales		<u>(144,910)</u>	<u>(139,842)</u>
Gross profit		35,063	34,010
Other income and gains		293	539
Selling and distribution expenses		(8,426)	(8,835)
Administrative expenses		(17,184)	(13,409)
Other expenses		(1,773)	(3,794)
Finance costs		(3,377)	(4,055)
Profit before tax	4	4,596	4,456
Income tax expense	5	<u>(1,854)</u>	<u>(807)</u>
Profit for the year attributable to owners of the parent		<u>2,742</u>	<u>3,649</u>
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(134)</u>	<u>(401)</u>
Other comprehensive income for the year		<u>(134)</u>	<u>(401)</u>
Total comprehensive income for the year attributable to owners of the parent		<u>2,608</u>	<u>3,248</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic	6	<u>US0.65 cents</u>	<u>US0.88 cents</u>
Diluted	6	<u>US0.64 cents</u>	<u>US0.88 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Non-current assets			
Property, plant and equipment		7,828	6,596
Other intangible assets		251	769
Goodwill		8,877	8,877
Deferred tax assets		278	281
Prepayments, other receivables and other assets		150	–
Other investments		4,854	–
		<hr/>	<hr/>
Total non-current assets		22,238	16,523
		<hr/>	<hr/>
Current assets			
Inventories	7	19,002	21,136
Trade receivables	8	36,916	34,351
Prepayments, other receivables and other assets		1,208	1,432
Pledged deposits	10	286	–
Cash and cash equivalents	10	28,480	19,854
		<hr/>	<hr/>
Total current assets		85,892	76,773
		<hr/>	<hr/>
Current liabilities			
Trade payables	9	43,307	42,772
Other payables and accruals		5,314	5,679
Contract liabilities		436	352
Interest-bearing bank and other borrowings		14,346	14,382
Lease liabilities		386	474
Provisions		121	123
Tax payable		1,038	781
		<hr/>	<hr/>
Total current liabilities		64,948	64,563
		<hr/>	<hr/>
Net current assets		20,944	12,210
		<hr/>	<hr/>
Total assets less current liabilities		43,182	28,733
		<hr/>	<hr/>

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Non-current liabilities		
Interest-bearing bank and other borrowings	25,094	27,440
Lease liabilities	284	595
Provisions	572	569
Deferred tax liabilities	370	104
	<hr/>	<hr/>
Total non-current liabilities	26,320	28,708
	<hr/>	<hr/>
Net assets	16,862	25
	<hr/>	<hr/>
Equity		
Equity attributable to owners of the parent		
Share capital	5,017	1
Reserves	11,845	24
	<hr/>	<hr/>
Total equity	16,862	25
	<hr/>	<hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Sertus Chambers, Governors Square, Suite #5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were involved in providing solutions for sensing and control technologies marketed in the smart home automation, consumer electronics and set-top-box segments.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 14 November 2019.

In the opinion of the Directors, the immediate holding company of the Company is NHPEA IV Home Control Netherlands B.V. which is incorporated in the Netherlands and the ultimate holding company of the Company is Morgan Stanley, which is listed on the New York Stock Exchange and is incorporated in the United States of America.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting periods commencing from 1 January 2019, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements throughout the financial years ended 31 December 2018 and 2019.

The financial statements have been prepared under the historical cost convention. These financial statements are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

3. OPERATING SEGMENT INFORMATION

An operating segment, in part, is a component of an enterprise whose operating results are regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to a limited extent. Management reviews the financial information about revenues for purpose of making operating decisions and assessing financial performance. Accordingly, the Group only has a single operating and reportable segment.

Geographical information

(a) *Revenue from external customers*

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
North America	72,540	86,618
Europe	35,123	41,927
Asia	55,895	31,703
Latin America	16,415	13,604
	<u>179,973</u>	<u>173,852</u>

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
North America	21	34
Europe	270	310
Asia	7,938	7,021
	<u>8,229</u>	<u>7,365</u>

The non-current asset information above is based on the locations of the non-current assets and excludes other investments, deferred tax assets and goodwill.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year is set out below:

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Customer 1	39,527	29,270
Customer 2	20,857	35,721

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Cost of inventories sold	121,680	119,429
Depreciation of property, plant and equipment	2,988	2,163
Depreciation of right-of-use assets	508	593
Loss on disposal of property, plant and equipment	128	58
Amortisation of other intangible assets*	547	1,211
Impairment of trade receivables	135	79
Foreign exchange differences, net	126	113
Withholding tax	186	726
Auditor's remuneration	81	76
Long service awards	46	46
Restructuring and severance costs	59	845
Research and development costs	7,349	7,603
Expenses for short-term leases	13	94
Expenses for low-value leases	8	8
Employee benefits expense (including directors' and chief executive's remuneration):		
Wages and salaries	12,961	13,619
Pension scheme contributions	934	1,053
Other employee benefits	294	221
Equity-settled share option expense	31	60
Listing expenses	3,207	–

* The amortisation of other intangible assets for the year is included in "Administrative expenses" and "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

5. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group operates.

Pursuant to the rules and regulations of the Cayman Islands, the Company and HCIL Master Option Limited are not subject to any income tax in this jurisdiction.

The Singapore statutory income tax for Home Control Singapore Pte. Ltd. has been provided at the rate of 17% (2018: 17%) on the estimated assessable profits arising in Singapore during the year.

The federal tax for Premium Home Control Solutions LLC has been provided at the rate of 21% (2018: 21%), and the state tax has been provided at the rate of 4.6% (2018: 4.6%) on the estimated assessable profits arising in the United States of America during the year.

The provision for Mainland China income tax has been provided at the applicable income tax rate of 25% (2018: 25%) on the assessable profits of the PRC subsidiaries of the Group in accordance with the PRC Corporate Income Tax Law. HCS (Suzhou) Limited is qualified as Technologically-advanced Service Enterprises and is subject to a preferential income tax rate of 15% (2018: 15%) for the year.

The corporate income tax rate for Home Control Europe NV has been provided at the rate of 29% (2018: 29%) on the estimated assessable profits arising in Belgium during the year.

The corporate income tax rate for Omni Remotes do Brasil Ltda has been provided at the rate of 24% (2018: 24%) on the estimated assessable profits arising in Brazil during the year.

The major components of income tax expense are as follows:

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Current tax – Singapore		
Charge for the year	1,116	352
Overprovision in prior years	(450)	(375)
Current tax – United States of America		
Charge for the year	223	466
Current tax – Elsewhere		
Charge for the year	696	356
Overprovision in prior years	–	(242)
	1,585	557
Deferred tax		
– Singapore	318	324
– United States of America	(3)	62
– Elsewhere	(46)	(136)
	269	250
Total tax charge for the year	1,854	807

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable statutory rates to the effective tax rates, are as follows:

	2019 <i>US\$'000</i>	%	2018 <i>US\$'000</i>	%
Profit before tax	4,596		4,456	
Tax at the domestic rates applicable to profits in the countries where the Group operates	1,577	34.3	947	21.2
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries	121	2.6	–	–
Adjustments in respect of current tax of previous periods	(450)	(9.8)	(617)	(13.8)
Effect of partial tax exemption and enhanced deductions	(31)	(0.7)	(39)	(0.9)
Expenses not deductible for tax	563	12.2	460	10.3
Others	74	1.6	56	1.3
Income tax expense at the Group's effective rate	1,854	40.3	807	18.1

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

The calculation of the basic earnings per share amounts is based on profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of 424,029,228 ordinary Shares in issue during the year as adjusted to reflect the capitalisation issue (2018: 412,500,000 ordinary Shares, which were deemed to have been issued by way of capitalisation throughout the year ended 31 December 2018).

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>2,742</u>	<u>3,649</u>
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>424,029,228</u>	<u>412,500,000</u>
Effect of dilution – weighted average number of ordinary shares: Share options	<u>3,149,200</u>	<u>3,424,933</u>
	<u>427,178,428</u>	<u>415,924,933</u>

7. INVENTORIES

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Components	9,035	10,083
Finished goods	<u>9,967</u>	<u>11,053</u>
	<u>19,002</u>	<u>21,136</u>

8. TRADE RECEIVABLES

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Trade receivables	37,450	34,807
Impairment	(534)	(456)
	<u>36,916</u>	<u>34,351</u>

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts on initial recognition.

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

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Not past due	28,254	27,331
Past due 1–90 days	7,501	5,810
Past due above 90 days	1,161	1,210
	<u>36,916</u>	<u>34,351</u>

9. TRADE PAYABLES

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Trade payables	<u>43,307</u>	<u>42,772</u>

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

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Not past due	32,111	31,903
Past due 1–90 days	11,196	10,869
	<u>43,307</u>	<u>42,772</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

10. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Cash and bank balances	28,766	19,854
Less: Pledged deposits:		
Pledged for bank loans	(286)	–
	<hr/>	<hr/>
Cash and cash equivalents	28,480	19,854
	<hr/>	<hr/>
Denominated in:		
United States dollars (“US\$”)	23,805	13,937
Singapore dollars (“S\$”)	388	3,736
Euros (“EUR”)	912	694
British Pound Sterling (“GBP”)	531	244
Brazilian Real (“BRL”)	302	221
Chinese Renminbi (“RMB”)	329	1,012
Indian Rupee (“INR”)	20	10
Hong Kong dollars (“HK\$”)	2,479	–
	<hr/>	<hr/>
	28,766	19,854
	<hr/>	<hr/>

Cash at banks earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

As at 31 December 2019, the Group’s pledged deposit amounting to US\$ 286,000 (2018: nil) were pledged to secure the bank loans granted to the Group.

11. DIVIDENDS

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Dividends on ordinary Shares:		
Interim exempt (one-tier) dividend	–	5,705
Proposed final dividend – US0.27 cents (equivalent to HK2.13 cents) per ordinary Share	1,371	–
	<hr/>	<hr/>
	1,371	5,705
	<hr/>	<hr/>

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

We are a globally leading home control solution provider headquartered in Singapore, with worldwide presence in North America, Europe, Asia and Latin America. Originally established as the home control division of Philips prior to the acquisition of the entire stake of Home Control Singapore Pte. Ltd. by the Company from Philips in April 2015, we have been operating in this industry for almost 30 years. Under the brand “Omni Remotes”, we develop and offer high quality and bespoke remote controls for a vast array of pay television (TV) operators and consumer electronics brands. Our products are shipped to over 40 countries, with a blue-chip customer base that includes AT&T Services Inc. in North America, Sky CP Limited, British Telecommunications PLC, Vodafone Group Services Limited, and Liberty Global Services B.V. in Europe, as well as Bharti Airtel Limited, Beijing Xiaomi Electronic Products Co., Ltd. and Hisense Electric Co., Ltd. in Asia. We maintain a strong focus on innovation, with over 200 invention patents and owning one of the most comprehensive Infrared (IR) and code databases in the world.

2. BUSINESS REVIEW

2019 was a year of transition for the pay TV market. Global consumers, especially in the United States, continued to migrate to streaming services like Netflix or Disney+, while traditional cable and satellite TV operators responded with offerings in this over-the-top (OTT) segment. The Group continued its record of growth, as revenue increased by approximately 3.5% from approximately US\$173.9 million in 2018 to approximately \$180.0 million in 2019. Cost reduction activities towards the end of the year further yielded overall savings and resulted in higher gross profit from approximately US\$34 million in 2018 to approximately US\$35 million in 2019. Adjusted net income increased slightly from approximately US\$5.6 million in 2018 to approximately US\$6.0 million in 2019. Cash and cash equivalents at end of the year increased from approximately US\$19.9 million in 2018 to approximately US\$28.8 million in 2019.

- **North America:** Revenue in the North America region declined approximately 16.3% year-on-year to reach approximately US\$72.6 million. Cord cutting has affected the North American market more than most, leading to higher demand for our OTT products but reduced volumes from traditional pay TV customers. In addition, one of our strategic key account has postponed the launch of its new platform to early 2020. Following the expansion of our sales team to Canada, we penetrated the Canadian market for the first time in the last 5 years, shipment started towards the end of 2019. With ongoing import tariffs in the United States, the Company successfully moved production for key affected customers to our Cambodia factory.

- **Asia:** Revenue in Asia grew approximately 76.3% to approximately US\$55.9 million in 2019. There was strong demand in the Indian pay TV market during the year. This was contributed by the accelerated deployment of a new pay TV service with a blue chip customer, and, thanks to our agile operations we fulfilled the overall demand upswing by several other pay TV operators as prior government regulations lowered the barrier of entry for end users. There was also an improvement in volumes from Chinese consumer electronics customers for their domestic and international sales.
- **Europe:** Revenue for Europe was down approximately 16.2% to approximately US\$35.1 million in 2019. This was due to a key account started having its associate to supply its entire remote control needs, as well as 2 major customers delaying their launch of new projects. In 2019, we began shipping a control device for a medical instrument customer, a further proof point of our quality, reliability and sustainability paramount to this sector.
- **Latin America:** Revenue from Latin America grew approximately 20.7% to US\$16.4 million in 2019 due to customer wins and initial deployment of high end Bluetooth voice product in the region, following a salesforce expansion in recent years. In particular, the Company saw increased demand from pay TV operators in Argentina and Mexico.

Simple Setup, our intelligent multi-device control solution, was deployed to several customers in 2019. The next-generation Simple Setup Hybrid offers the responsiveness of an on-device database in tandem with the vast coverage of a global cloud database. This unique solution is expected to launch with a major operator in 2020. The Company is showcasing advanced user input, recognition and far field voice solutions, and expect greater customer traction in 2020.

Our strategy to offer a new off-the-shelf Android TV remote control, the VINO portfolio, built from the ground up for the streaming segment, is beginning to pay dividends. Limited shipments started in 2019, with more partners and customers expected to launch in 2020.

3. PROSPECT AND OUTLOOK

At present, the Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

The Company has fully adhered to government measures and recommendations in China, and our operations in Suzhou, the PRC were approved for recommencement following the Lunar New Year holiday in 2020. Discussions are underway with customers to mitigate any production delays via measures such as expedited shipping and close supply chain coordination.

- **North America:** The slower supply resumption of key components to our Cambodia production was mitigated by the inventory in our U.S. distribution hub and goods in transit, coupled with the expedition of the subsequent productions. We will fulfil all first half 2020 orders. Cord cutting is expected to continue impacting the traditional pay TV subscriber base, and hence the demand of remote control products in that industry. The Company has been successful in supplying advanced products to work with our key customers' newly roll out streaming devices, notably by one of the largest operators in the second quarter of 2020. We will continue to focus on this strong growth segment.
- **Asia:** The slower resumption of supply chain and production has some but limited impact to this region. Aside from its effect on the global supply chain, COVID-19 is likely to lead to a slump in retail sentiment among Chinese consumers. The consumption volume of our China-based customers accounted for less than 8% of the Company's volumes in the first half of 2019, and we expect India continuing its demand momentum to more than covering the loss from decrease in domestic Chinese demand. We expect to see continuing growth in 2020.
- **Europe:** The supply chain has not impacted the fulfilment of orders for this region. The Company is expected to develop other products for certain key accounts and the medical instrument company to grow the business further.
- **Latin America:** The supply chain has not impacted the fulfilment of orders for this region. The economy situation in Argentina may pull back the growth in this region, however the impact is somewhat mitigated with the new business in Mexico.

With the listing of shares of the Company on the Main Board of the Stock Exchange in November 2019, our Company will continue to invest in research & development (“**R&D**”), expand our sales force, and make improvements to our supply chain. The Group is also actively exploring opportunities for strategic investments in the OTT and/or smart home security segments.

With COVID-19 that is still affecting the world community, the overall impact is lagging and uncertain. The Company has taken prudent measures to freeze salary increase for all employees, defer non-critical hiring and capital expenditure, limit business travel to essential trips only, in order to maintain certain buffers of cash flow.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December in 2019 increased by approximately 3.5% (approximately US\$6.1 million) compared to the year ended 31 December 2018 mainly contributed by Asia region. The increase in sales for Asia region more than compensated for the loss of sales in North America region.

The following table sets forth the breakdown of revenue of the Group by the geographical location of customers for the years ended 31 December 2019 and 31 December 2018, respectively.

	2019		2018		Year-on-year Change	
	US\$'000	% of Revenue	US\$'000	% of Revenue	US\$'000	%
North America	72,540	40.3	86,618	49.8	(14,078)	(16.3%)
Asia	55,895	31.1	31,703	18.2	24,192	76.3%
Europe	35,123	19.5	41,927	24.1	(6,804)	(16.2%)
Latin America	16,415	9.1	13,604	7.9	2,811	20.7%
Total	<u>179,973</u>	<u>100.0</u>	<u>173,852</u>	<u>100.0</u>	<u>6,121</u>	<u>3.5%</u>

Cost of sales

The cost of sales of the Group mainly consists of components including finished goods from ODM (original design manufacturing), outsourcing and overheads. The cost of sales amounted to approximately US\$144.9 million and approximately US\$139.8 million for the year ended 31 December 2019 and the year ended 31 December 2018 respectively, representing approximately 80.5% and approximately 80.4% of the total revenue for the corresponding periods.

The following table sets forth the breakdown of the cost of sales for the year ended 31 December 2019 and the year ended 31 December 2018.

	2019		2018	
	US\$'000	%	US\$'000	%
Cost of Components	121,680	84.0	119,724	85.6
Outsourcing	18,711	12.9	15,853	11.3
Overheads	4,519	3.1	4,265	3.1
	<u>144,910</u>	<u>100</u>	<u>139,842</u>	<u>100</u>

Gross profit

As a result of the changes in the revenue and cost of sales above, gross profit increased by approximately US\$1.1 million from approximately US\$34.0 million for the year ended 31 December 2018 to approximately US\$35.1 million for the year ended 31 December 2019.

Other income and gains

Other income and gains decreased from approximately US\$0.5 million for the year ended 31 December 2018 to approximately US\$0.3 million for the year ended 31 December 2019. The decrease was primarily because of a decrease in government grants.

Selling and distribution expenses

Selling and distribution expenses decreased from approximately US\$8.8 million for the year ended 31 December 2018 to approximately US\$8.4 million for the year ended 31 December 2019. The decrease in selling & distribution expenses was mainly due to approximately US\$0.4 million decrease in employee benefits expense.

Administrative expenses

Administrative expenses increased by approximately 28.4% from approximately US\$13.4 million for the year ended 31 December 2018 to approximately US\$17.2 million for the year ended 31 December 2019. The increase was mainly due to listing expenses amounting to approximately US\$3.2 million incurred for the year ended 31 December 2019.

Other expenses

Other expenses decreased from approximately US\$3.8 million for the year ended 31 December 2018 to approximately US\$1.8 million for the year ended 31 December 2019. The decrease was mainly due to approximately US\$0.5 million decrease in withholding tax expense, approximately US\$0.8 million decrease in restructuring expenses and approximately US\$0.6 million decrease in project related costs.

Finance costs

Comparing to the year ended 31 December 2018, finance cost incurred during the year ended 31 December 2019 decreased by approximately US\$0.7 million. The decrease was mainly due to the write-off of loan arrangement fee of approximately US\$1.0 million that was incurred in 31 December 2018, no such costs was incurred in 31 December 2019. This was partially offset by an increase in approximately US\$0.3 million for interest on bank borrowings.

Profit before tax

Profit before tax for the year ended 31 December 2019 was approximately US\$4.6 million which was almost on par with the profit before tax of approximately US\$4.5 million for the year ended 31 December 2018.

Income tax expense

The Group's income tax expense increased from approximately US\$0.8 million for the year ended 31 December 2018 to approximately US\$1.9 million for the year ended 31 December 2019. The income tax expense for the year ended 31 December 2019 was higher mainly because of higher chargeable income for year ended 31 December 2019.

Profit for the year

As a result of the above, the Group recorded a net profit after tax of approximately US\$2.7 million for the year ended 31 December 2019, representing a decrease of approximately 25.0% from the net profit after tax for the year ended 31 December 2018 which was approximately US\$3.6 million.

Earnings per share

The basic and diluted earnings per share for year ended 31 December 2019 is US0.65 cents and US0.64 cents.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2019, the Group had cash and cash equivalents of approximately US\$28.8 million. The Board is of the opinion that the financial position of the Group is strong and healthy, and the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Cash flow

The following table sets forth a summary of our cash flows of the Group as at 31 December 2019 and 31 December 2018 respectively:

	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Net cash from operating activities	13,509	13,618
Net cash used in investing activities	(9,648)	(3,816)
Net cash from financing activities	4,923	828
Net increase in cash and cash equivalents	8,784	10,630
Cash and cash equivalents at beginning of the year	19,854	9,342
Effects of exchange rate changes on cash and cash equivalents	128	(118)
Cash and cash equivalents at end of the year	28,766	19,854
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the statement of financial position	28,480	19,854
Pledged for bank loans	286	–
Cash and cash equivalents as stated in the statement of cash flows	28,766	19,854

Net cash flow generated from operating activities

The Group generates cash from operating activities primarily from sales of goods. Cash flows from operating activities reflects profit before taxation for the year adjusted for (i) non-cash item such as depreciation of property, plant and equipment, and amortization of intangible assets, plant and equipment and other items, which lead to the operating profit before changes in working capital; (ii) effects of cash flows arising from changes in working capital, including changes in inventories, trade and other receivables and trade and other payables and other items, which lead to cash generated from operations; and income tax paid, long service awards paid and other item, which result in net cash generated from operating activities.

For the year ended 31 December 2019, the Group's net cash generated from operating activities was approximately US\$13.5 million, primarily reflected (i) cash generated before working capital changes of approximately US\$15.2 million; (ii) decrease in inventories of approximately US\$2.1 million partially offset by increase in trade payables of approximately US\$0.5 million, increase in trade receivables of approximately US\$2.7 million and payment for tax of approximately US\$1.3 million.

Net cash flow generated from/(used in) investing activities

Cash flow generated from/(used in) investing activities mainly relates to purchase and disposal of property, plant and equipment and other investments. For the year ended 31 December 2019, the Group's net cash used in investing activities was approximately US\$9.6 million, which was primarily attributable to purchases of property, plant and equipment of approximately US\$4.8 million and other investments of approximately US\$4.9 million.

Net cash flow generated from/(used in) financing activities

Cash flows generated from/(used in) financing activities mainly includes proceeds from interest-bearing bank and other borrowings and repayment of interest-bearing bank and other borrowings. For the year ended 31 December 2019, the Group's net cash flow generated from financing activities was approximately US\$4.9 million, mainly attributable to proceeds from issue of shares of approximately US\$10.8 million, partially offset by US\$3.0 million repayment of interest bearing bank and other borrowing, US\$2.5 million interest paid and repayment of lease obligations of US\$0.5 million.

NET CURRENT ASSETS

The Group's net current asset increased by approximately US\$8.7 million from approximately US\$12.2 million as at 31 December 2018 to approximately US\$20.9 million as at 31 December 2019. The increase was primarily due to (i) an increase in cash and cash equivalents of approximately US\$8.8 million; (ii) an increase in trade receivables of approximately US\$2.6 million, partially offset by (i) a decrease in inventories of approximately US\$2.1 million and (ii) an increase in trade payables of approximately US\$0.5 million.

CAPITAL EXPENDITURE

The Group's capital expenditure consisted of purchase costs relating to property, plant and equipment. For the year ended 31 December 2019, the Group's capital expenditure amounted to approximately US\$4.8 million for the acquisition of property, plant and equipment. The Group funded such capital expenditure primarily with cash generated from operating activities.

Capital and investment commitments

As at 31 December 2019, the Group did not have any capital and investment expenditure contracted for as at the end of the reporting period but not recognised in the financial statements.

INDEBTEDNESS

Bank loan and other borrowings

The Group's bank loan and other borrowings primarily consisted of short and long-term trade financing from bank. As at 31 December 2019 and 2018, the Group had approximately US\$39.4 million and approximately US\$41.8 million respectively from bank loan and other borrowings.

As at 31 December 2019, the following were pledged to secure the Group's bank loan:

- (a) Share charge over Home Control Singapore Pte. Ltd.
- (b) Share pledge over Home Control Europe NV.
- (c) Share pledge over Premium Home Control Solutions LLC.
- (d) A minimum bank balance in the amount equivalent to the interest payable for the next six months.

Contingent liabilities

As at 31 December 2019, the Group did not have any contingent liabilities and guarantees.

Gearing ratio

Gearing ratio equals total debt divided by the adjusted total assets at the end of the year. Total debt includes all interest-bearing bank loan and other borrowings. Adjusted total assets excludes goodwill. The gearing ratios as at 31 December 2018 and 31 December 2019 are approximately 49.5% and approximately 39.7% respectively.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have other plans for material investments or capital assets as at 31 December 2019.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2019.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is United States dollar (“US\$”). The sales of the Group are mainly denominated in U.S. dollars while purchases are mainly denominated in U.S. dollars or RMB (only in the case of sales and purchases in the PRC). In addition, the Group has its headquarters in Singapore and operating subsidiaries in the U.S., Belgium, the PRC and Brazil, of which overheads are settled in local currencies and therefore the Group is exposed to foreign exchange risks. Fluctuations in foreign exchange rates may be caused by various factors such as change in government policies, change in domestic and international economic and political conditions, and is always unpredictable. The Group had not entered into any agreements to hedge its exchange rate exposure, as the Group’s results of operations has generally been partially mitigated by the natural offset of foreign currency receivables with foreign currency payables. Going forward, the Group expects that exchange rates of SGD, RMB and US\$ will continue to fluctuate. Changes in the foreign exchange rates between the Group’s functional currencies and reporting currency may have an adverse impact on the Group’s finance costs, sales and product margins, and may reduce the value of, and dividends payable on, the Shares. The Group’s business and financial position may be materially and adversely affected. The management of the Group will continue to monitor the Group’s foreign currency exchange exposure and will take prudent measures to minimise that currency exchange risk.

EMPLOYEES, REMUNERATION POLICY AND SHARE OPTION SCHEME

As at 31 December 2019, the Group had 191 employees. The employees benefit expense incurred during the year ended 31 December 2019 was approximately US\$14.2 million. As required by the applicable laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local government. The Group’s remuneration policy rewards employees and Directors based on individual’s performance, demonstrated capabilities, involvement, market comparable information and the performance of the Group. The Group improves the professional skills and management level of its employees through internal and external training. To ensure that the Group attracts and retains competent staff, remuneration packages are reviewed on a regular basis. Performance bonuses are offered to qualified employees based on individual and the Group’s performance. We did not experience any material labour disputes during the year ended 31 December 2019. The Company adopted a share option scheme on 1 May 2015 as incentive for eligible employees.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the date of this announcement, the Group had not entered into any off-balance sheet transactions.

USE OF PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date and the net proceeds raised from this initial public offering after deducting underwriting fees and other related listing expenses amounted to approximately HK\$84.93 million (equivalent to approximately US\$10.83 million) (the “**IPO Proceeds**”).

As stated in the prospectus of the Company (the “**Prospectus**”) dated 31 October 2019, the IPO Proceeds have been and will be used in the same manner as set out under the section headed “Future Plans and Use of Proceeds” in the Prospectus.

As at 31 December 2019, the Group had utilised the IPO Proceeds as set out in the table below:

		Planned use of IPO Proceeds (adjusted on a pro rata basis on the actual net proceeds) HKD' million	Planned use of IPO Proceeds (adjusted on a pro rata basis on the actual net proceeds) US\$' million	Amount utilised up to 31 December 2019 US\$' million
1	Strategic investments or acquisitions in the OTT system and/or smart home security products	23.01	2.93	0.00
2	Repayment of bank borrowing	21.12	2.69	2.69
3	R&D and develop the products for OTT segment and extend product lines in smart home products	14.27	1.82	0.00
4	Expansion of professional sales force to support business expansion	13.8	1.76	0.00
5	Strengthen the supply chain management and investment by extending beyond the PRC	6.57	0.84	0.84
6	Working capital and general corporate purposes	6.16	0.79	0.00
		<hr/>	<hr/>	<hr/>
		84.93	10.83	3.53

The Directors expect to improve the overall performance of the Group through the upcoming utilisation of the net proceeds from the Listing.

FINAL DIVIDEND

The Board recommended a payment of final dividend of US0.27 cents per Share (equivalent to approximately HK2.13 cents per Share) for the year ended 31 December 2019 to the Shareholders whose names appear on the register of members of the Company on Tuesday, 14 July 2020. The final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be payable on or around Friday, 31 July 2020.

EVENTS AFTER THE REPORTING PERIOD

At present, the Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

Saved as disclosed above, as at the date of this announcement, the Group has no other significant events that require additional disclosures or adjustments occurred after the financial year ended 31 December 2019.

CORPORATE GOVERNANCE CODE

The Group is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for Shareholders.

The Company has adopted the Corporate Governance Policy with provisions no less exacting than the Corporate Governance Code. Throughout the period from the Listing Date to 31 December 2019, the Company has adopted and applied the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices and, in the opinion of the Directors, the Company has complied with all applicable code provisions set out in the Corporate Governance Code, save and except for code provision C.3.3(e)(i).

C.3.3(e)(i) Regular Audit Committee Meeting

Code Provision C.3.3(e)(i) of the Corporate Governance Code stipulates that audit committee must meet, at least twice a year, with the auditors and the Company. As the Company was only listed on the Listing Date, no meeting was held for the audit committee of the Company during the period from the Listing Date to 31 December 2019. Going forward, the audit committee of the Company will fully comply with the requirement under the Code Provision C.3.3(e)(i) of the Corporate Governance Code and its terms of reference.

Saved as disclosed above, the Company has complied with all the code provisions of the Corporate Governance Code since the Listing Date.

Full details of the Company's corporate governance practices will be set out in the Company's annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors and relevant employees. Upon specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code since the Listing Date and up to 31 December 2019.

REVIEW OF FINANCIAL INFORMATION BY THE AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Corporate Governance Code. As at the date of this announcement, the audit committee of the Company consists of the three independent non-executive Directors, namely, Mr. Shou Kang CHEN (Chairman), Mr. Werner Peter VAN ECK and Mr. Edmond Ming Siang JAUW.

The audit committee of the Company has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019 and discussed with the management the accounting principles and practices adopted by the Group, risk management and internal controls and financial reporting matters of the Group and results announcement in conjunction with the Company's external auditor.

SCOPE OF WORK OF THE AUDITORS ON THE ANNUAL RESULTS ANNOUNCEMENT

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditors of the Company, Ernst & Young, in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. The financial information has been reviewed by the audit committee of the Company and approved by the Board.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the "AGM") of the Company will be held on Friday, 26 June 2020 and the notice of the AGM will be published and despatched to the Shareholders in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

To ensure the eligibility to attend and vote at the AGM and the entitlement to the proposed final dividend, the register of members of the Company will be closed on the following dates:

For ascertaining shareholders' right to attend and vote at the AGM:

Latest time to lodge transfers : 4:30 p.m. on Thursday, 18 June 2020

Book closure dates : Friday, 19 June 2020 to Friday, 26 June 2020 (both days inclusive)

Record date : Friday, 26 June 2020

For ascertaining shareholders' entitlement to the proposed final dividends:

Latest time to lodge transfers : 4:30 p.m. on Thursday, 9 July 2020

Book closure dates : Friday, 10 July 2020 to Tuesday, 14 July 2020 (both days inclusive)

Record date : Tuesday, 14 July 2020

Payment date of the final dividends : on or about Friday, 31 July 2020

To be eligible to attend and vote at the AGM and qualify for the final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date of this announcement.

PUBLICATION OF RESULT ANNOUNCEMENT AND ANNUAL REPORT

This annual result announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.omnirenotes.com/>). An annual report for the year ended 31 December 2019 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

PROPOSED AMENDMENTS TO MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF THE AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

The Board also proposes to seek the approval of the Shareholders at the AGM by way of special resolutions for the amendments to the existing memorandum and articles of association of the Company (the “**Memorandum and Articles of Association**”) and the adoption of the amended and restated Memorandum and Articles of Association, so as to update the address of the registered office of the Company in the Cayman Islands.

Further details in respect of the proposed amendments to the Memorandum and Articles of Association will be despatched together with the notice of AGM to the Shareholders in due course.

DEFINITIONS

“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China, excluding, Hong Kong, Macau and Taiwan
“Company”	Home Control International Limited, a company incorporated in the Cayman Islands on 24 December 2014 as an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1747)
“Corporate Governance Code”	code on corporate governance practices as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Group” or “we”, “us”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares of the Company on the Main Board of the Stock Exchange
“Listing Date”	14 November 2019
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules

“Philips”	Koninklijke Philips N.V., one of the largest electronics companies in the world, incorporated under the laws of the Netherlands and headquartered in Amsterdam
“RMB”	Renminbi, the lawful currency of the PRC
“S\$” or “SGD”	Singapore Dollar, the lawful currency of the Republic of Singapore
“Share(s)”	ordinary share(s) with nominal value of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Share(s) of the Company
“Singapore”	the Republic of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“U.S.” or “United States”	the United States of America
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States

On behalf of the Board
Home Control International Limited
Gao Yu
Chairman and Non-executive Director

Hong Kong, 20 March 2020

As of the date of this announcement, the Board comprises Mr. Alain Perrot as executive Director; Mr. Yu Gao and Mr. Kwok King Kingsley Chan as non-executive Directors; and Mr. Werner Peter Van Eck, Mr. Shou Kang Chen and Mr. Edmond Ming Siang Jauw as independent non-executive Directors.