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Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8311)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of Perfect Optronics Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2017 amounted to approximately HK$371.5 million, representing a decrease of 68% as compared with that of approximately HK$1,150.0 million in 2016.
- Loss attributable to equity holders of the Company for the year ended 31 December 2017 amounted to approximately HK$98.3 million (year ended 31 December 2016: profit of approximately HK$90.7 million).
- The board of directors of the Company does not recommend declaring any final dividend for the year ended 31 December 2017.

RESULTS

The board of directors (the "Board") of Perfect Optronics Limited announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Revenue	4	**371,518**	1,149,998
Cost of sales		**(425,311)**	(1,037,263)
Gross (loss)/profit		**(53,793)**	112,735
Other (losses)/gains, net	5	**(47)**	47,067
Distribution and selling expenses		**(11,939)**	(16,636)
General and administrative expenses		**(28,973)**	(37,729)
Research and development expenses		**(2,565)**	(6,559)
Operating (loss)/profit		**(97,317)**	98,878
Finance income		**169**	417
Finance costs		**(603)**	(1,765)
Finance costs, net		**(434)**	(1,348)
(Loss)/profit before income tax	6	**(97,751)**	97,530
Income tax expense	7	**(578)**	(9,195)
(Loss)/profit for the year		**(98,329)**	88,335
Other comprehensive income:			
Items that may be reclassified subsequently to income statement			
Change in value of available-for-sale financial assets		**22,670**	570
Currency translation differences		**573**	(476)
Total comprehensive (loss)/income for the year		**(75,086)**	88,429
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(98,329)**	90,729
Non-controlling interests		**—**	(2,394)
		(98,329)	88,335
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		**(75,086)**	90,823
Non-controlling interests		**—**	(2,394)
		(75,086)	88,429
Basic and diluted (loss)/earnings per share	8	**HK(6.63) cents**	HK6.12 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	**2017**	2016
		HK$'000	*HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**3,005**	3,193
Intangible assets		**3,122**	3,122
Available-for-sale financial assets	10	**56,947**	31,671
		63,074	37,986
Current assets			
Inventories		**77,333**	167,523
Trade and other receivables	11	**48,973**	97,785
Restricted bank deposits		**20,948**	24,702
Cash and cash equivalents		**88,025**	174,126
		235,279	464,136
Total assets		**298,353**	502,122
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital	12	**14,837**	14,837
Reserves		**147,641**	124,398
Retained earnings		**97,558**	210,724
Total equity		**260,036**	349,959

	Note	2017 HK$'000	2016 HK$'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**69**	137
		69	137
Current liabilities			
Trade and other payables	13	**35,492**	149,371
Current income tax liabilities		**2,756**	2,655
		38,248	152,026
Total liabilities		**38,317**	152,163
Total equity and liabilities		**298,353**	502,122

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 13 June 2013, as an exempted company with limited liability under the Companies Law (as Revised) of the Cayman Islands. The Company's immediate and ultimate holding company is Winful Enterprises Limited, a company incorporated in the British Virgin Islands (the "BVI"), and ultimately controlled by Mr. Cheng Wai Tak ("Mr. Cheng"). The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Company's shares are listed on the GEM of the Stock Exchange.

The Company is an investment holding company and the Group is principally engaged in the trading and processing of display panels, development and sale of optics products and trading of related electronic components.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets which have been measured at fair value.

Changes in accounting policy and disclosures

New standards and amendments to standards adopted by the Group:

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 January 2017. The adoption of these new standards and amendments to standards does not have any significant impact to the results and financial position of the Group:

Hong Kong Accounting Standard ("HKAS") 7 Amendment	Statement of Cash Flows
HKAS 12 Amendment	Income Taxes
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

New standards and amendments to standards not yet adopted:

The following are new standards and amendments to standards which have been issued but are not effective and have not been early adopted. The Group plans to adopt these new standards and amendments to standards when they become effective:

		Effective for accounting periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customer and the related Amendments	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle	1 January 2018
Amendments to HKAS 40	Transfers of Investment Property	1 January 2018
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of assessing the potential impact of these standards, and amendments which were in issue but not yet effective. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except as discussed below. The actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied.

HKFRS 15, 'Revenue from contracts with customers'

Nature of change

HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management is currently assessing the effects of applying the new standard on the Group's consolidated financial statements and does not expect a significant impact on the recognition of revenue.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 9, 'Financial instruments'

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- an equity instrument currently classified as available-for-sale ("AFS") for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for this asset, and

- an equity instrument currently classified as AFS will be reclassified as fair value through profit or loss ("FVTPL").

The Group does not expect the new guidance to have a significant impact on the classification and measurement of the AFS elected to be FVOCI. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

With respect to the Group's financial assets currently classified as AFS that will be reclassified as FVTPL, the Group plans to recognise any fair value changes in profit or loss as they arise.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 16, 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. The Group is still assessing the impact and the Group has not yet determined to what extent the Group's operating lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources and determine the operating segments based on these reports.

The directors determine that the Group has two reportable operating segments as follows:

(a) Display products segment; and

(b) Optics products segment

The directors assess the performance of the operating segments based on a measure of revenue and results of each segment and do not assess the performance based on segment assets and liabilities.

(a) The segment information provided to the directors for the reportable segments for the year ended 31 December 2017 is as follows:

	Display products		**Optics products**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue (all from external customers)	**354,739**	1,123,950	**16,779**	26,048	**371,518**	1,149,998
Segment results	**(57,886)**	95,335	**1,528**	58,560	**(56,358)**	153,895
Unallocated operating costs					**(40,959)**	(55,017)
Finance costs, net					**(434)**	(1,348)
(Loss)/profit before income tax					**(97,751)**	97,530
Other segment information:						
Gain on disposal of subsidiaries	—	—	—	26,481	—	26,481
Gain on Profit Guarantee	—	—	—	21,238	—	21,238

(b) The Group's revenues from its major products for the year ended 31 December 2017 are as follows:

	2017	2016
	HK$'000	*HK$'000*
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	**330,304**	1,051,095
Optics products	**16,779**	26,048
Driver integrated circuits	**11,400**	58,032
Polarisers	**5,896**	7,871
Others	**7,139**	6,952
	371,518	1,149,998

(c) Segment revenue by customers' geographical location

During the year ended 31 December 2017, most of the Group's revenues were derived in Hong Kong, where the Group's products were delivered by the Group to its customers.

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**358,378**	1,132,080
The People's Republic of China (the "PRC")	**11,522**	17,424
Taiwan	**1,618**	494
	371,518	1,149,998

(d) Revenues from major customers who have individually contributed to 10% or more of the total revenue of the Group are disclosed as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**113,243**	112,459
Customer B	**41,185**	192,748
Customer C	**38,992**	—
	193,420	305,207

The above three customers are included in the display products segment.

(e) An analysis of the Group's non-current segment assets (other than available-for-sale financial assets) by location of assets is as follows:

	Hong Kong	**The PRC**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
As at 31 December 2017:			
Non-current assets			
Property, plant and equipment	**1,438**	**1,567**	**3,005**
Intangible assets	**2,000**	**1,122**	**3,122**
	3,438	**2,689**	**6,127**
As at 31 December 2016:			
Non-current assets			
Property, plant and equipment	2,123	1,070	3,193
Intangible assets	2,000	1,122	3,122
	4,123	2,192	6,315

4. REVENUE

Revenue represents the sales of display panels, optics products and related electronic components to external parties.

5. OTHER (LOSSES)/GAINS, NET

	2017	2016
	HK$'000	*HK$'000*
Gain on disposal of subsidiaries	**—**	26,481
Gain on Profit Guarantee *(Note)*	**—**	21,238
Net exchange loss	**(156)**	(769)
Others	**109**	117
	(47)	47,067

Note:

Under an agreement dated 22 January 2015 between Rightone Resources Limited ("Rightone"), a wholly-owned subsidiary of the Company for the sale and purchase of the entire equity interest in Perfect Shiny Technology Limited ("Perfect Shiny") from Mr. Cheng, Mr. Cheng warranted and guaranteed to Rightone that the sum of the audited consolidated profit attributable to the equity holders of Perfect Shiny for the two financial years ending 31 December 2016 shall be not less than HK$34,000,000 ("Profit Guarantee").

The shortfall of the Profit Guarantee was approximately HK$2,233,000, which resulted in a gain of approximately HK$21,238,000 by the Group, being the compensation payable by Mr. Cheng to Rightone. Such gain was recognised in the consolidated income statement of the Group for the year ended 31 December 2016. Part of the compensation by Mr. Cheng was settled against the outstanding amount payable to Mr. Cheng under the above sale and purchase agreement of HK$10,000,000. The remaining compensation receivable from Mr. Cheng of approximately HK$11,238,000 was settled in cash on 22 March 2017.

6. (LOSS)/PROFIT BEFORE INCOME TAX

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

	2017	2016
	HK$'000	*HK$'000*
Cost of inventories sold	**360,744**	935,418
Provision for obsolete inventories	**37,609**	14,390
Provision for onerous contract *(Note 13(b))*	**10,530**	—
Depreciation of property, plant and equipment	**1,856**	2,173
Amortisation of intangible assets	**—**	471

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit during the year arising in or derived from Hong Kong. Taxation on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries/jurisdictions in which the Group operates.

	2017	2016
	HK$'000	*HK$'000*
Current income tax:		
Current income tax on profits for the year	**533**	9,331
Adjustments in respect of prior years	**113**	(44)
Total current income tax	**646**	9,287
Deferred income tax — Origination and reversal of temporary differences	**(68)**	(92)
Income tax expense	**578**	9,195

8. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share for the year is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	**(98,329)**	90,729
Weighted average number of ordinary shares in issue *(thousands)*	**1,483,687**	1,483,687
Basic and diluted (loss)/earnings per share *(HK cents per share)*	**(6.63)**	6.12

For the purpose of determining the diluted (loss)/earnings per share amount, no adjustment has been made to the basic (loss)/earnings per share amount for the years ended 31 December 2017 and 2016 as the Group had no potentially dilutive ordinary shares in issue during these years.

9. DIVIDENDS

The Board does not recommend declaring any final dividend for the year ended 31 December 2017 (2016: proposed final dividend of HK1.0 cent per ordinary share, amounted to approximately HK$ 14,837,000).

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**31,671**	32,285
Additions	**2,606**	—
Disposal of subsidiaries	**—**	(1,184)
Net gains transferred to equity	**22,670**	570
At 31 December	**56,947**	31,671

Available-for-sale financial assets include the following:

	2017	2016
	HK$'000	*HK$'000*
Unlisted equity investments denominated in United States dollar *(Note (a))*	**54,269**	31,671
Unlisted equity investments denominated in New Taiwan dollar *(Note (b))*	**2,678**	—
	56,947	31,671

Notes:

(a) The balance comprised the holding of certain preferred shares in Mobvoi Inc. ("Mobvoi"), a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. There have been no addition to or disposal of such private equity investment since the Group acquired it in January 2015. The most recent issue by Mobvoi of new preferred shares to a new investor took place in late March 2017 and the Group's shareholding in Mobvoi was diluted to approximately 1.53% (on a fully diluted basis and as converted basis). The financial results of Mobvoi are not included in and have no impact on the Group's consolidated income statement. The change in fair value of the Group's investment in Mobvoi is recognised in other comprehensive income of the Group. No dividend has been received by the Group from Mobvoi since the Group made its investment. The fair value of the unlisted equity investment was assessed based on comparable transaction method and equity value allocation with option-pricing method performed by an independent valuer. The fair value is within level 3 of the fair value hierarchy.

(b) In May 2017, the Group subscribed for certain ordinary shares issued by a private company principally engaged in the research and development, manufacturing and sale of separator which is a key component in lithium battery at approximately HK$2,606,000, representing an approximately 3.33% shareholding of such company. The fair value of the unlisted equity investment was assessed based on discounted cash flows method performed by an independent valuer. The fair value is within level 3 of the fair value hierarchy.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**44,411**	47,696
Bills receivables	**446**	32,956
	44,857	80,652
Receivable from Mr. Cheng *(Note 5)*	**—**	11,238
Prepayments, deposits and other receivables	**4,116**	5,895
	48,973	97,785

The Group generally grants credit periods of 30 to 120 days. The ageing analysis of trade and bills receivables based on invoice date is as follows:

	2017	2016
	HK$'000	*HK$'000*
0–30 days	**42,601**	41,777
31–60 days	**1,559**	29,091
61–90 days	**697**	7,138
91–180 days	**—**	2,646
	44,857	80,652

12. SHARE CAPITAL

	31 December 2017 and 31 December 2016	
	Number of shares *(thousands)*	**Amount** *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each	5,000,000	50,000

	Number of shares	**Ordinary shares of HK$0.01 each** *HK$'000*
Issued and fully paid:		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	**1,483,687,151**	**14,837**

There were no movements in the Company's share capital during the year (2016: Nil).

13. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables *(Note (a))*	**14,077**	85,553
Bills payables *(Note (a))*	**—**	33,415
	14,077	118,968
Deposits received from customers	**6,206**	22,089
Accruals and other payables	**4,679**	8,314
Provision for onerous contract *(Note (b))*	**10,530**	—
	35,492	149,371

Notes:

(a) The ageing analysis of trade and bills payables based on invoice date is as follows:

	2017	2016
	HK$'000	*HK$'000*
0–30 days	**13,504**	98,283
31–60 days	**319**	17,416
61–90 days	**—**	3,269
91–180 days	**254**	—
	14,077	118,968

(b) As at 31 December 2017, the Group recognised a provision of HK$10,530,000 (2016: Nil) for onerous contract in relation to certain non-cancellable purchase orders for inventories.

BUSINESS REVIEW

The Group is principally engaged in the trading of display components for electronics, many of which are applied on mobile phones. In addition, it is also engaged in the development and sale of optics products and related electronic components. The Group also processes some of the products which it trades.

Under the increasing challenges of the business environment for the sales of mobile phone display components, the Group recorded a significant decrease in revenue and incurred significant loss during the year ended 31 December 2017. During the year, the Group's revenue amounted to approximately HK$371,518,000, down by approximately 68% as compared to previous year (2016: HK$1,149,998,000). Affected by the significant drop in revenue, the Group recorded a consolidated loss attributable to equity holders of the Company during the year ended 31 December 2017, which amounted to approximately HK$98,329,000, as compared with the consolidated profit attributable to equity holders of the Company of approximately HK$90,729,000 for the year ended 31 December 2016 (excluding the non-recurring items of gain on disposal of subsidiaries of approximately HK$26,481,000 and gain on profit guarantee of approximately HK$21,238,000 in 2016, profit for 2016 amounted to approximately HK$43,010,000).

Display products segment

The Group recorded a revenue of approximately HK$354,739,000 from its display products segment during 2017, down by approximately 68% as compared with approximately HK$1,123,950,000 in 2016. Sales of TFT-LCD panels and modules showed a drop of 69% and amounted to approximately HK$330,304,000 in 2017 (2016: HK$1,051,095,000). Driver integrated circuits and polarisers recorded revenue of approximately HK$11,400,000 (2016: HK$58,032,000) and HK$5,896,000 (2016: HK$7,871,000), respectively.

The revenue drop in this segment was mainly due to the fierce competition in the market and the changes in specification of smartphone display panels during the year. As driven by government policy support and technological improvement, domestic China display panel manufacturers continued to increase their market share in the mobile phone display panels market. Market advantages in both product superiority and pricing of imported display panels began to decrease which affected the Group's display panel business which mainly supplies imported products.

According to the report published by China Academy of Information and Communications Technology, in 2017, China's domestic mobile phone shipments reached 491.1 million units and the number of new model release reached 1,054, down 12.3% and 27.1% year-over-year, respectively. It indicated that the period of flourishing mobile phone brands in mainland China had passed and the market share had been concentrated to several major brands. The decrease in scattered non-mainstream or second-tier mobile phones manufacturers in the market affected the supply chain which the Group is involved. In addition, bargaining power of major brands mobile phone manufacturers towards panel manufacturers continue to increase. The Company understood that one of the Group's major suppliers increased its direct supply of display modules to major brand mobile phone manufacturers in China, which further affected the Group's revenue.

Another factor which contributed to the Group's sluggish performance was that the introduction of new 18:9 aspect ratio display panels to smartphone market during the year has weakened the demand of traditional 16:9 display panels. Sales volume of traditional 16:9 display panels dropped rapidly. As worsened by the price war in the market happened during the year, prices of traditional 16:9 display panels dropped significantly during the year. These seriously affected the Group's financial performance during the year. Due to the rapid price drop in the market, the Group made a provision of obsolete inventories of approximately HK$37,609,000 (2016: HK$14,390,000) during the year. Meanwhile, provision for onerous contract of approximately HK$10,530,000 was made for certain non-cancellable 16:9 display panels purchase orders of which the expected selling price of the relevant display panels as at end of year 2017 was lower than the committed purchase price. Such amounts were included in the cost of sales of the Group's consolidated income statement for the year ended 31 December 2017, which contributed to the gross loss of the Group during the year.

Optics products segment

In 2017, the Group continued to promote its self-developed automotive head-up display devices and virtual reality ("VR") entertainment headsets, as well as trading optics products components. However, the market is expected to take longer time for content development and technical support to become more mature which dragged down its performance during the year. Although the optics products segment still recorded profit in 2017, the Group's optics products segment revenue amounted to approximately HK$16,779,000 in 2017, represented a 36% decrease as compared with segment revenue of approximately HK$26,048,000 in 2016.

Investment

To explore potential business opportunities, the Group made a new investment in 2017. In May 2017, the Group invested in a private company in Taiwan at approximately HK$2,606,000, representing approximately 3.33% of the shareholding of the investee company. The investee company is principally engaged in the research and development, manufacture and sale of the separator, which is a key component in the lithium battery. The high demand for lithium batteries in different industries such as portable electronics, electric vehicles, medical devices etc. is estimated to lead to the market growth. This investment is expected to facilitate appropriate business opportunities or cooperation to the Group.

The Group subscribed for certain preferred shares of Mobvoi in early 2015. Mobvoi is a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. The Group's investment in Mobvoi is classified as available-for-sale financial asset and is carried at fair value on the Group's consolidated statement of financial position. No dividend has been received by the Group from Mobvoi since its investment. In March 2017, Volkswagen AG ("Volkswagen") (through its affiliate) subscribed for another round of new preferred shares of Mobvoi and the Group's shareholding proportion in Mobvoi was diluted to approximately 1.53% (on a fully diluted and as converted basis). The latest investment by Volkswagen enabled Mobvoi to obtain capital for developing new products and expanding into the market of automotive related devices and systems, by forming a joint venture in the PRC on artificial intelligence car-sharing and on-demand and ride-sharing transportation services business with an affiliate of Volkswagen. The fair value of the Group's investment in Mobvoi increased following the investment by Volkswagen. To date, Mobvoi has raised several rounds of funding, led by firms including SIG, Sequoia Capital, Zhenfund, Google and Volkswagen. Current consumer products launched by Mobvoi included its self-developed Android wear watches and portable smart speakers with virtual assistant built-in. Through its creation of critically acclaimed consumer products in wearables, automobile and home product categories, Mobvoi's rich accumulation of experience in the application of Artificial Intelligence has in turn driven continued innovation in its core voice-based technologies. The Group expects potential opportunities from this investment in the long run.

PROSPECTS

The display products market is expected to become more challenging in the coming years, the Group will make more efforts to improve the revenue performance by executing flexible market strategies.

Display products segment is expected to remain as the Group's core business and the Group will take effective strategies to face the market challenges. In order to widen its revenue base and minimise the impact of the difficult situation of the mobile phone display components market, the Group has begun to expand its business channels to various display products, such as display modules for computer notebooks, monitors, as well as televisions. The Group will dedicate to enhance the product diversity, widen customer base and introduce new suppliers to turnaround.

For optics products segment, despite the fact that the markets for augmented reality ("AR") and VR are not yet mature, according to an international research firm, market size of the global AR/VR market is expected to surge to approximate US$215 billion until 2021, compared to US$9.4 billion in 2017. The Group is optimistic towards the market development in the long run.

Meanwhile, the Group will maintain a flexible business strategy to explore new business opportunities for the development of the Group.

FINANCIAL REVIEW

Revenue

Total revenue of the Group for the year ended 31 December 2017 amounted to approximately HK$371,518,000, decreased by approximately 68% as compared to approximately HK$1,149,998,000 in 2016. Decrease in total revenue was mainly attributable to the significant decrease in revenue from the Group's sales of display products, including TFT-LCD panels and modules, driver ICs and polarisers.

Cost of sales

Cost of sales during the year mainly consisted of purchase costs, processing and subcontracting charges, scrap loss, provision for obsolete inventories, provision for onerous contracts and other direct costs. Except for provision for obsolete inventories and provision for onerous contract which amounted to approximately HK$37,609,000 (2016: HK$14,390,000) and HK$10,530,000 (2016: Nil) respectively, during the year ended 31 December 2017, associated with the decrease in revenue, purchase costs, processing and subcontracting charges, scrap loss and other direct costs decreased during the year ended 31 December 2017. Total cost of sales for the year ended 31 December 2017 amounted to approximately HK$425,311,000, decreased by approximately 59% as compared to approximately HK$1,037,263,000 in 2016.

Gross loss/profit

Gross loss amounted to approximately HK$53,793,000 was recorded for the year ended 31 December 2017 as compared with gross profit of approximately HK$112,735,000 for the year ended 31 December 2016. The significant drop in the Group's revenue and market prices of the Group's major products during the year and provision of obsolete inventories of approximately HK$37,609,000 and provision for onerous contract of approximately HK$10,530,000 charged to the Group's consolidated cost of sales led to the gross loss during the year ended 31 December 2017.

Other losses/gains, net

Net other losses of approximately HK$47,000 (2016: net gains of HK$47,067,000) was recorded during the year ended 31 December 2017. The net other losses for the year ended 31 December 2017 mainly comprised exchange losses, while the net other gains for the year ended 31 December 2016 included the gain on disposal of subsidiaries of approximately HK$26,481,000, gain on profit guarantee of approximately HK$21,238,000, after deducting exchange losses incurred.

Distribution and selling expenses

The Group's distribution and selling expenses for the year ended 31 December 2017 amounted to approximately HK$11,939,000, representing an approximately 28% decrease as compared to approximately HK$16,636,000 in 2016. The decrease was mainly due to the decrease in staff costs attributable to decrease in headcount and the reduced sales activities during the year ended 31 December 2017.

General and administrative expenses

The Group's general and administrative expenses decreased by approximately 23% from approximately HK$37,729,000 in 2016 to approximately HK$28,973,000 in 2017. The decrease was mainly attributable to the decrease in staff costs, bank charges and professional fees during the year ended 31 December 2017. More professional fees, including compliance adviser fee and expenses related to the application for transfer of listing of the Company's shares from GEM to Main Board of the Stock Exchange, were incurred in 2016.

Research and development expenses

The Group's research and development ("R&D") expenses amounted to approximately HK$2,565,000 in 2017, representing an approximately 61% decrease as compared with 2016 of approximately HK$6,559,000. The decrease was mainly due to the disposal in late 2016 of a subsidiary, Shinyoptics Corporation, which incurred much R&D expenses.

Finance costs, net

The Group's finance costs for the year ended 31 December 2017 mainly represented factoring charges. Net finance costs of approximately HK$434,000 was recorded in 2017, representing a decrease of approximately 68% as compared with 2016 of approximately HK$1,348,000, mainly due to the decrease in factoring charges attributable to the decrease in sales and decrease in interest income during the year.

Income tax expense

Income tax expense of the Group during the year ended 31 December 2017 mainly represented income tax incurred in Hong Kong. As the Group incurred loss in 2017, income tax expense decreased significantly as compared with 2016.

Loss/profit attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the year ended 31 December 2017 amounted to approximately HK$98,329,000, as compared with profit of approximately HK$90,729,000 for the year ended 31 December 2016. It was mainly due to the significant decrease in the Group's revenue, provision for obsolete inventories and provision for onerous contract made in 2017. Moreover, profit attributable to equity holders of the Company for the year ended 31 December 2016 included the non-recurring items of gain on disposal of subsidiaries of approximately HK$26,481,000 and gain on profit guarantee of approximately HK$21,238,000.

Other comprehensive income — change in value of available-for-sale financial assets

Change in value of available-for-sale financial assets during the year ended 31 December 2017 amounted to approximately HK$22,670,000, mainly attributable to the increase in fair value of the Group's unlisted equity investment in Mobvoi in 2017.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's funds are principally used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had unrestricted bank deposits, bank balances and cash in aggregate of approximately HK$88,025,000 as at 31 December 2017 (2016: HK$174,126,000).

The Group has no bank borrowings as at 31 December 2017 and 31 December 2016.

GEARING RATIO

As the Group has no interest-bearing debt, the Group's gearing ratio as at 31 December 2017 was 0% (2016: 0%), which is calculated based on the Group's total interest-bearing debt divided by the Group's total equity.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

CHARGE OF ASSETS

As at 31 December 2017, the Group had pledged its bank deposits of approximately HK$20,948,000 (2016: HK$24,702,000) to certain banks in Hong Kong to secure the banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group did not have any significant capital commitments (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2017, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, save as set out below, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules.

Throughout the year ended 31 December 2017, the Company has complied with all the code provisions of the CG Code, except the deviation as disclosed under the section headed "Chairman and Chief Executive Officer" below.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

Under the current management structure of the Company, Mr. Cheng Wai Tak is the Chairman and Chief Executive Officer. With Mr. Cheng's extensive experience in the industry, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would provide the Company with strong and consistent leadership, allow for effective and efficient planning and implementation of business decisions and strategies, and would be beneficial to the business prospects and management of the Group.

Although Mr. Cheng performs both the roles of Chairman and Chief Executive Officer, the division of responsibilities between the Chairman and Chief Executive Officer is clearly established. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the Chief Executive Officer is responsible for the management of the business of the Group. The two roles are performed by Mr. Cheng distinctly. The Board also considers that the current management structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

AUDIT COMMITTEE

The Company has established an audit committee on 20 January 2014 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision C.3 of the CG Code. The audit committee consists of three independent non-executive Directors, namely, Mr. Wong Yik Chung John, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Wong Chi Chiu and Mr. Li Shui Yan. The audited annual results of the Group for the year ended 31 December 2017 have been reviewed by the audit committee.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "AGM") will be held on Friday, 4 May 2018. A notice convening the AGM will be published and despatched to the shareholders of the Company in the manner required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 27 April 2018 to Friday, 4 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 26 April 2018.

By order of the Board
Perfect Optronics Limited
Cheng Wai Tak
Chairman

Hong Kong, 22 March 2018

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Cheng Wai Tak, Mr. Liu Ka Wing and Mr. Tse Ka Wing and three independent non-executive directors, namely, Mr. Wong Yik Chung John, Mr. Wong Chi Chiu and Mr. Li Shui Yan.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its posting and on the Company's website at http://www.perfect-optronics.com.