Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8311)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

CHARACTERISTICS OF GEM ("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.

HIGHLIGHTS

- The Group recorded a revenue of approximately HK$121.1 million for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK$183.4 million).

- Loss attributable to equity holders of the Company for the six months ended 30 June 2018 amounted to approximately HK$25.9 million (six months ended 30 June 2017: approximately HK$31.8 million).

- The Board does not declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

FINANCIAL RESULTS

The board of directors (the "Board") of Perfect Optronics Limited (the "Company") hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Three months ended 30 June		Six months ended 30 June	
		2018	2017	**2018**	2017
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	4	**52,344**	78,490	**121,066**	183,373
Cost of sales		**(58,226)**	(94,798)	**(126,390)**	(191,340)
Gross loss		**(5,882)**	(16,308)	**(5,324)**	(7,967)
Other gains, net	6	**444**	53	**498**	6
Distribution and selling expenses		**(3,215)**	(2,943)	**(6,042)**	(6,310)
General and administrative expenses		**(6,778)**	(7,877)	**(13,273)**	(15,382)
Research and development expenses		**(855)**	(625)	**(1,839)**	(1,009)
Operating loss		**(16,286)**	(27,700)	**(25,980)**	(30,662)
Finance income		**7**	41	**13**	67
Finance costs	7	**(5)**	(163)	**(8)**	(534)
Finance income/(costs), net		**2**	(122)	**5**	(467)
Loss before income tax	8	**(16,284)**	(27,822)	**(25,975)**	(31,129)
Income tax	9	**16**	(564)	**35**	(718)
Loss for the period		**(16,268)**	(28,386)	**(25,940)**	(31,847)
Other comprehensive (loss)/income:					
Items that may be reclassified subsequently to income statement					
Change in value of available-for-sale financial assets		**—**	39	**—**	22,534
Currency translation differences		**(381)**	113	**(75)**	295
Total comprehensive loss for the period		**(16,649)**	(28,234)	**(26,015)**	(9,018)
Loss for the period attributable to:					
Equity holders of the Company		**(16,268)**	(28,386)	**(25,940)**	(31,847)
Total comprehensive loss for the period attributable to:					
Equity holders of the Company		**(16,649)**	(28,234)	**(26,015)**	(9,018)
Basic and diluted loss per share	11	**HK(1.10) cents**	HK(1.91) cents	**HK(1.75) cents**	HK(2.15) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**30 June 2018 *HK$'000* (Unaudited)**	31 December 2017 *HK$'000* (Audited)
Assets			
Non-current assets			
Property, plant and equipment		**3,158**	3,005
Intangible assets		**3,122**	3,122
Financial asset at fair value through profit or loss	3.3	**54,777**	—
Financial asset at fair value through other comprehensive income	3.3	**2,678**	—
Available-for-sale financial assets	3.3	**—**	56,947
		63,735	63,074
Current assets			
Inventories		**90,660**	77,333
Trade and other receivables	12	**35,700**	48,973
Tax recoverable		**81**	—
Restricted bank deposits		**22,045**	20,948
Cash and cash equivalents		**50,818**	88,025
		199,304	235,279
Total assets		**263,039**	298,353
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital		**14,837**	14,837
Reserves		**117,252**	147,641
Retained earnings		**101,932**	97,558
Total equity		**234,021**	260,036
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**32**	69
		32	69
Current liabilities			
Trade and other payables	13	**28,043**	35,492
Bank borrowing		**943**	—
Current income tax liabilities		**—**	2,756
		28,986	38,248
Total liabilities		**29,018**	38,317
Total equity and liabilities		**263,039**	298,353

NOTES:

1. BASIS OF PREPARATION

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 shares are listed on the GEM.

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

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 (the "2018 Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The 2018 Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The 2018 Interim Financial Statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated; and have been prepared under the historical cost convention, except for financial asset classified as fair value through other comprehensive income ("FVOCI") and financial asset classified as fair value through profit or loss ("FVTPL") which have been measured at fair value.

The 2018 Interim Financial Statements have been reviewed by the audit committee of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the 2018 Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except as described below.

The Group has adopted and applied, for the first time, the following new standards that have been issued and effective for the accounting periods beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

There have been changes to the Group's accounting policies as a result of adopting HKFRS 9 Financial Instruments. The Group has applied the new standard with effect from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 have not been restated. The impacts of the adoption of HKFRS 9 are disclosed below.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has classified its financial instruments into the appropriate HKFRS 9 categories. There is no significant impact on the classification and measurement of the available-for-sale ("AFS") financial assets elected to be classified as financial assets at 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 reclassified as financial assets at FVTPL, any fair value change is recognised in profit or loss as it arises.

The main effects resulting from this reclassification are as follows:

Financial assets — 1 January 2018	*Note*	**FVTPL** *HK$'000* (Unaudited)	**FVOCI** *HK$'000* (Unaudited)	**AFS** *HK$'000* (Unaudited)
Opening balance 1 January 2018 — HKAS 39		—	—	56,947
Reclassify investments from AFS to FVTPL	(a)	54,269	—	(54,269)
Reclassify non-trading equities from AFS to FVOCI	(b)	—	2,678	(2,678)
Opening balance 1 January 2018 — HKFRS 9		54,269	2,678	—

The impact of these changes on the Group's equity is as follows:

	Note	**Effect on AFS reserve** *HK$'000* (Unaudited)	**Effect on FVOCI reserve** *HK$'000* (Unaudited)	**Effect on retained earnings** *HK$'000* (Unaudited)
Opening balance 1 January 2018 — HKAS 39		30,386	—	—
Reclassify investments from AFS to FVTPL	(a)	(30,314)	—	30,314
Reclassify non-trading equities from AFS to FVOCI	(b)	(72)	72	—
Opening balance 1 January 2018 — HKFRS 9		—	72	30,314

Notes:

(a) Reclassification from AFS to FVTPL

The Group's investment in preferred shares was reclassified from AFS financial asset to financial asset at FVTPL (HK$54,269,000 as at 1 January 2018). They do not meet the criteria to be classified either as financial asset at FVOCI or at amortised cost. These preferred shares with a fair value of HK$54,269,000 were reclassified from AFS financial asset to financial asset at FVTPL and related fair value gain of HK$30,314,000 was reclassified from the AFS reserve to the retained earnings on 1 January 2018.

(b) Equity investment previously classified as AFS financial asset

The Group elected to present in other comprehensive income changes in the fair value of all its remaining equity investment previously classified as AFS financial asset, because such investment is held as long-term strategic investment that is not expected to be sold in the short to medium term. As a result, asset with a fair value of HK$2,678,000 was reclassified from AFS financial asset to financial asset at FVOCI and fair value gain of HK$72,000 was reclassified from the AFS reserve to the FVOCI reserve on 1 January 2018.

Impairment of financial assets

The new impairment model under HKFRS 9 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. The Group's trade receivables are financial assets that are subject to HKFRS 9's new expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group applies the HKFRS 9 simplified approach to measure ECL by using a lifetime expected loss allowance for all trade receivables. Since the Group's historical credit loss experience for its trade receivable was minimal, the restatement of the loss allowance for trade receivables on transition to HKFRS 9 as a result of applying the expected credit risk model was immaterial.

The adoption of other new standards, amendments to standards and interpretations did not have significant impact on the Group's accounting policies.

For those new standards, amendment to standards and interpretations which had been issued but not yet effective and have not been early adopted in prior accounting periods, the Group is in the process of assessing their impact on its results and financial position.

The preparation of the 2018 Interim Financial Statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2017.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk, liquidity risk and price risk.

The 2018 Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

There have been no changes in the risk management policies since 31 December 2017.

3.2 Liquidity risk

Compared to 31 December 2017, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

3.3 Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

At 30 June 2018	**Level 1** ***HK$'000*** **(Unaudited)**	**Level 2** ***HK$'000*** **(Unaudited)**	**Level 3** ***HK$'000*** **(Unaudited)**	**Total** ***HK$'000*** **(Unaudited)**
Financial asset at FVTPL				
— Preferred shares *(Note (a))*	**—**	**—**	**54,777**	**54,777**
Financial asset at FVOCI				
— Unlisted equity securities *(Note (b))*	**—**	**—**	**2,678**	**2,678**
	—	**—**	**57,455**	**57,455**

At 31 December 2017*	Level 1 *HK$'000* (Audited)	Level 2 *HK$'000* (Audited)	Level 3 *HK$'000* (Audited)	Total *HK$'000* (Audited)
AFS financial assets				
— Preferred shares *(Note (a))*	—	—	54,269	54,269
— Unlisted equity securities *(Note (b))*	—	—	2,678	2,678
	—	—	56,947	56,947

* See note 2 for details regarding the reclassification as a result of a change in accounting policy.

Notes:

(a) The balance comprised 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 was no addition and disposal of such a private equity investment since the Group acquired it in January 2015. Mobvoi further issued its new preferred shares to a new investor in late March 2017 and the Group's shareholding in Mobvoi was diluted to approximately 1.53% (on a fully diluted and as converted basis). The financial results of Mobvoi are not included in and have no impact on the Group's consolidated income statement. No dividend has been received by the Group from Mobvoi since its investment.

(b) In May 2017, the Group subscribed 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% of the shareholding of such company.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. During the six months ended 30 June 2018, there were no transfers amongst levels 1, 2 and 3 (six months ended 30 June 2017: Nil).

The Group's other financial assets, including cash and cash equivalents, restricted bank deposits, and trade and other receivables; and the Group's financial liabilities, including trade and other payables, and bank borrowing, are not measured at fair value in the consolidated statement of financial position. The fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2018.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2018:

	Financial asset at FVTPL *HK$'000* **(Unaudited)**	**Financial asset at FVOCI** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
Opening balance 1 January 2018	**54,269**	**2,678**	**56,947**
Gains recognised in other gains, net*	**508**	**—**	**508**
Closing balance 30 June 2018	**54,777**	**2,678**	**57,455**
* includes unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	**508**	**—**	**508**

Movements of the Group's AFS financial assets during the six months ended 30 June 2017 are as follows:

	Preferred shares *HK$'000* (Unaudited)	Unlisted equity securities *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
At 1 January 2017	31,671	—	31,671
Addition	—	2,606	2,606
Net gains transfer to equity	22,534	—	22,534
At 30 June 2017	54,205	2,606	56,811

The following table summarises the valuation techniques used and the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	**Valuation technique**	**Significant unobservable input**	**Value**	**Relationship of unobservable inputs to fair value**
(a) Preferred shares issued by a private entity	Market comparable companies and equity value allocation with option-pricing method that is estimated based on recent transaction prices, volatility, risk-free interest rate, and dividend yield	Volatility	45.33%	10% increase/decrease in the volatility would result in decrease/increase in fair value by approximately HK$44,000/HK$26,000
(b) Ordinary shares issued by a private entity	Discounted cash flow method	Weighted average cost of capital ("WACC")	12.81%	10% increase/decrease in the WACC would result in decrease/increase in fair value by approximately HK$364,000/HK$468,000
		Discount for lack of marketability	25%	10% increase/decrease in the discount would result in decrease/increase in fair value by approximately HK$78,000/HK$104,000

Valuations of the above financial assets held by the Group as at the end of the reporting period were performed by independent valuers. There were no changes made to any of the valuation techniques applied as of 31 December 2017.

4. REVENUE

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

5. 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 have determined the operating segments based on these reports.

The Group has two reportable operating segments, including the display products segment and the 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 six months ended 30 June 2018 is as follows:

	Display products		**Optics products**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue (all from external customers)	**116,668**	172,512	**4,398**	10,861	**121,066**	183,373
Segment results	**(6,131)**	(12,396)	**(1,032)**	3,420	**(7,163)**	(8,976)
Unallocated operating costs					**(18,817)**	(21,686)
Finance income/(costs), net					**5**	(467)
Loss before income tax					**(25,975)**	(31,129)

(b) The Group's revenues from its major products for the six months ended 30 June 2018 are as follows:

	Six months ended 30 June	
	2018	2017
	HK\$'000	*HK\$'000*
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	**104,779**	160,033
Optics products	**4,398**	10,861
Polarisers	**2,389**	2,338
Driver integrated circuits ("ICs")	**1,704**	6,849
Others	**7,796**	3,292
	121,066	183,373

(c) Segment revenue by customers' geographical location

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong	**102,304**	180,663
The People's Republic of China (the "PRC")	**17,568**	2,710
Taiwan	**1,194**	—
	121,066	183,373

(d) Revenues from major customers who have individually contributed to 10% or more of the total revenue of the Group for the six months ended 30 June 2018 are disclosed as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**33,410**	62,040
Customer B	**19,655**	—
	53,065	62,040

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

(e) An analysis of the Group's non-current segment assets (other than financial asset at FVTPL, financial asset at FVOCI, and AFS financial assets) by location of assets is as follows:

	Hong Kong	**The PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 30 June 2018 (Unaudited):			
Non-current assets			
Property, plant and equipment	**1,102**	**2,056**	**3,158**
Intangible assets	**2,000**	**1,122**	**3,122**
	3,102	**3,178**	**6,280**
As at 31 December 2017 (Audited):			
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

6. OTHER GAINS, NET

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Fair value changes in financial asset at FVTPL	**508**	—
Net exchange loss	**(109)**	(64)
Others	**99**	70
	498	6

7. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowing	**5**	—
Factoring charges	**3**	534
	8	534

8. LOSS BEFORE INCOME TAX

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**122,992**	164,906
Provision for obsolete inventories, net	**203**	14,733
Depreciation of property, plant and equipment	**958**	633

9. INCOME TAX

The amount of income tax credited/(charged) to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax	**(2)**	(752)
Deferred income tax	**37**	34
	35	(718)

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit during the period arising in or derived from Hong Kong (six months ended 30 June 2017: provided at the rate of 16.5% on the estimated assessable profit). Taxation on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

10. DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

11. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company *(HK$'000)*	**(25,940)**	(31,847)
Weighted average number of ordinary shares in issue *(thousands)*	**1,483,687**	1,483,687
Basic and diluted loss per share *(HK cent per share)*	**HK(1.75) cents**	HK(2.15) cents

No adjustment has been made to the basic loss per share amount for the six months ended 30 June 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during these periods.

12. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables *(Note)*	**30,653**	44,411
Bills receivables *(Note)*	**—**	446
	30,653	44,857
Prepayments, deposits and other receivables	**5,047**	4,116
	35,700	48,973

Note:

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**1,906**	42,601
31–60 days	**680**	1,559
61–90 days	**5,266**	697
91–180 days*	**155**	—
181 days – 12 months*	**22,646**	—
	30,653	44,857

* The balances with ageing over 90 days were fully settled subsequent to 30 June 2018.

13. TRADE AND OTHER PAYABLES

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables *(Note (a))*	**19,875**	14,077
Deposits received from customers	**4,996**	6,206
Accruals and other payables	**3,172**	4,679
Provision for onerous contract *(Note (b))*	**—**	10,530
	28,043	35,492

Notes:

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**18,955**	13,504
31–60 days	**918**	319
61–90 days	**1**	—
91–180 days	**1**	254
	19,875	14,077

(b) As at 31 December 2017, the Group recognised a provision of HK$10,530,000 for onerous contract in relation to certain non-cancellable purchase orders for inventories. Such balance was off-set against the purchase cost of inventories during the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the trading of display components of electronics. 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.

During the six months ended 30 June 2018 (the "Period"), the business environment for the sales of the Group's mobile phone display panels remained depressed and has made a profound impact on the Group's performance. The Group recorded a decrease in revenue during the six months ended 30 June 2018, as compared with the corresponding period in 2017. During the Period, the Group's revenue amounted to approximately HK$121,066,000, dropped by approximately 34% as compared with the corresponding period in 2017 of approximately HK$183,373,000. Loss attributable to equity holders of the Company for the Period amounted to approximately HK$25,940,000, represented a decrease in loss of approximately HK$5,907,000 as compared with the six months ended 30 June 2017 of approximately HK$31,847,000.

Display Products Segment

The Group's display products business continued to decline during the Period. According to a report published by China Academy of Information and Communications Technology, China's domestic mobile phone shipments reached 196.1 million units and the number of new model release reached 397 during the Period, down by 17.8% and 30.0% year-over-year respectively. Both shipments and the number of new model release decreased during the Period as compared with the corresponding period in 2017. The downtrend revealed that the demand of mobile phones in the market has become mature and the consumers' purchase and change frequency of mobile phones slowed down. The period of flourishing mobile phones' brands in China has gone, and China's domestic mobile phone market share has been concentrated in several major brands, which led to a significant decrease in scattered non-mainstream or second-tier mobile phone manufacturers in the market. Since the Group is mainly engaged in the supply chain which supplies products to these scattered non-mainstream or second-tier mobile phone manufacturers, such transformation seriously affected the Group's revenue and financial performance.

The Group recorded a revenue of approximately HK$116,668,000 from its display products segment during the Period, down by approximately 32% as compared with the six months ended 30 June 2017. Sales of TFT-LCD panels and modules amounted to approximately HK$104,779,000 during the Period, down by approximately 35% as compared with the corresponding period in 2017. For other display products such as driver ICs and polarisers, the Group's revenue from its driver ICs and polarisers amounted to approximately HK$1,704,000 (six months ended 30 June 2017: HK$6,849,000) and HK$2,389,000 (six months ended 30 June 2017: HK$2,338,000) respectively during the Period.

In order to alleviate the severe impacts of the declining in sales revenue of mobile phone display panels and the dilemma of the small-size display panel market, the Group continued to expand product categories and enrich its product portfolio. During the Period, the Group increased to a large extent its sales of medium-to-large size display products, such as display modules for computer notebooks, monitors and television. Sales of medium-to-large size display products became the major revenue driver of the Group during the Period. Nevertheless, the gross profit margins for the Group's sales of these products were relatively low, which was a factor that contributed to the gross loss of the Group during the Period.

Optics Products Segment

During the Period, the Group's optics products segment recorded a revenue of approximately HK$4,398,000, showed an approximately 60% decrease as compared with the corresponding period in 2017 of approximately HK$10,861,000. Content development in the virtual reality ("VR") market remains immature and there is fierce price competition among similar products in the market. The Group faced difficult challenges in promoting its self-developed automotive head-up display devices and VR entertainment headsets. Meanwhile, the sales of optics components decreased during the Period, which led to the decrease in revenue of the optics products segment as compared with the corresponding period in 2017.

Investment

As for the Group's investment in Mobvoi, Mobvoi has not raised a new round of funding and as mentioned in note 3.3 above, there was no material change in the fair value of the Group's investment in Mobvoi during the Period. Mobvoi enriched its product lines and launched certain new products, including the new model of Android wear watches and portable smart speakers, which enhanced its revenue base during the Period. In the near future, Mobvoi is going to further enrich its product lines, expand offline channels and global footprint.

Prospects

For the second half of 2018, display products segment is expected to remain as the Group's core business. The Group will endeavor to improve its revenue performance by executing flexible market strategies to face the market challenges. The Group will continue to explore new markets and enrich product portfolio. Currently, the Group is exploring Hong Kong market for different display products such as advertising devices. Meanwhile, the Group is also exploring and reinforcing the business relationships with new suppliers and customers in Mainland China to boost up the overall revenue of the Group.

In terms of optics products segment, the market for augmented reality ("AR") and VR products are not yet to flourish, as bottlenecked by limitation of applicable contents and software. The Group believes that the market will grow strong in the long run when AR and VR technologies and associated software as well as content support become mature. The Group will keep updating its technologies from time to time and grab any opportunity to make profit from them.

Financial Review

Revenue

For the six months ended 30 June 2018, total revenue of the Group amounted to approximately HK$121,066,000, decreased by about 34% as compared with the corresponding period in 2017 of approximately HK$183,373,000. Both sales revenue of display products, including TFT-LCD panels and modules and driver ICs, and optics products decreased.

Gross loss

Gross loss amounted to approximately HK$5,324,000 was recorded for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK$7,967,000). The significant drop in the Group's revenue and low gross profit margins of the products sold during the Period led to the gross loss.

Expenses

The Group's distribution and selling expenses for the six months ended 30 June 2018 amounted to approximately HK$6,042,000, representing an approximately 4% decrease as compared with the corresponding period in 2017 of approximately HK$6,310,000. The decrease was mainly attributable to the reduced sales activities during the Period.

The Group's general and administrative expenses for the six months ended 30 June 2018 amounted to approximately HK$13,273,000, representing an approximately 14% decrease as compared with the corresponding period in 2017 of approximately HK$15,382,000. The decrease was mainly due to the decrease in professional fees and staff costs during the Period.

Research and development expenses amounted to approximately HK$1,839,000 for the six months ended 30 June 2018, increased by approximately HK$830,000 as compared with the corresponding period in 2017 of approximately HK$1,009,000. The increase was mainly due to the increase in staff costs and development fees incurred for products development.

Loss for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the six months ended 30 June 2018 amounted to approximately HK$25,940,000, representing a decrease of approximately HK$5,907,000 as compared with the corresponding period in 2017 of approximately HK$31,847,000, which was mainly attributable to the decrease in provision for obsolete inventories and reduction in operating expenses during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are 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 cash and cash equivalents of approximately HK$50,818,000 as at 30 June 2018 (31 December 2017: HK$88,025,000).

	30 June 2018 *HK$'000*	31 December 2017 *HK$'000*
Total bank deposits, bank balances and cash	**72,863**	108,973
Less: Restricted bank deposits included in current assets	**(22,045)**	(20,948)
Cash and cash equivalents	**50,818**	88,025

The carrying amounts of the Group's cash and cash equivalents and restricted bank deposits are denominated in the following currencies:

	30 June 2018 *HK$'000*	31 December 2017 *HK$'000*
United States dollars	**65,620**	89,761
Hong Kong dollars	**5,064**	15,424
Renminbi	**1,405**	2,913
New Taiwan dollars	**774**	875
	72,863	108,973

As at 30 June 2018, the Group's bank borrowing comprised fixed interest rate bank loan of approximately HK$943,000 (31 December 2017: Nil), which was denominated in Renminbi. The scheduled repayment date of the Group's bank loan as at 30 June 2018, as set out in the loan agreement and without considering the effect of any repayment on demand clauses, was within one year.

GEARING RATIO

The Group's gearing ratio (calculated based on the Group's total interest-bearing debt divided by the Group's total equity) was 0.4% as at 30 June 2018 (31 December 2017: 0%).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

CHARGE OF ASSETS

As at 30 June 2018, the Group had pledged its bank deposits of approximately HK$22,045,000 (31 December 2017: HK$20,948,000) to banks to secure the banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2018, the Group did not have any significant capital commitments (31 December 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2018, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any shares of the Company.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2018.

NON-COMPETITION UNDERTAKING

On 20 January 2014, each of Mr. Cheng Wai Tak and Winful Enterprises Limited, the controlling shareholders of the Company (collectively, the "Covenantors") have entered into a deed of non-competition undertaking ("Non-Competition Deed") in favour of the Company (for itself and for and on behalf of all members of the Group), pursuant to which each of the Covenantors, irrevocably and unconditionally, undertakes and covenants with the Company that with effect from the listing date of the Company and for as long as the shares of the Company remain so listed on the Stock Exchange and he/it, individually or collectively with any other Covenantor(s), is, directly or indirectly, interested in 30% or more of the shares of the Company in issue, or is otherwise regarded as a controlling shareholder (as defined under the GEM Listing Rules from time to time) of the Company, he/it shall not, and shall procure that none of his/its associates (for the purpose of the Non-Competition Deed, shall have the meaning as defined under Rule 1.01 of the GEM Listing Rules but excluding the Group) shall:

(a) directly or indirectly (other than through the Group) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with existing business activity of the Group and any business activities undertaken by the Group from time to time (the "Restricted Business") except for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any publicly listed company; and

(b) take any direct or indirect action which constitutes an interference with or a disruption to the Restricted Business including, but not limited to, solicitation of the Group's customers, suppliers or staff.

Further details of the Non-Competition Deed have been set out in the section headed "Relationship with the Controlling Shareholders" of the prospectus of the Company dated 24 January 2014.

COMPETING INTERESTS

Based on the information available to the Company and within the knowledge and belief of the Directors, none of the Directors or the controlling shareholders of the Company (as defined under the GEM Listing Rules) have any business or interest which competes or may compete with the business of the Group, or have any other conflict of interest which any such person has or may have with the Group throughout the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. Throughout the six months ended 30 June 2018, the Company has complied with all the code provisions of the CG Code, except the deviation stipulated below.

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 ("Mr. Cheng") is the Chairman of the Board (the "Chairman") and Chief Executive Officer of the Company (the "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 with written terms of reference in compliance with the code provision C.3.3 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 audit committee has reviewed this announcement and has provided advice and comments thereon.

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

Hong Kong, 8 August 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.