COWELL

Cowell e Holdings Inc.

高偉電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1415)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

HIGHLIGHTS

Our revenue for the six months ended June 30, 2018 reached approximately US$253,860,000, representing a decrease of approximately 20.5% as compared to the corresponding period ended June 30, 2017.

Our net loss attributable to owners of the Company for the six months ended June 30, 2018 was approximately US$2,467,000, whereas our net profit attributable to owners of the Company for the six months ended June 30, 2017 was approximately US$9,205,000.

Loss per share for the financial period ended June 30, 2018 was US0.3 cent, whereas earnings per share for the financial period ended June 30, 2017 was US1.1 cents.

RESULTS

The Board (the "**Board**") of Directors (the "**Directors**") of Cowell e Holdings Inc. (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended June 30, 2018 together with comparative figures for the six months ended June 30, 2017. The interim financial results are unaudited, but have been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*", issued by the Hong Kong Institute of Certified Public Accountants, whose independent review report is included in the interim report to be sent to shareholders of the Company. The interim financial results have also been reviewed by the audit committee (the "**Audit Committee**") of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS — UNAUDITED

(Expressed in United States dollars)

		Six months ended June 30	
	Note	**2018**	2017
		$'000	*$'000*
Revenue	3 & 4	**253,860**	319,437
Cost of sales		**(235,609)**	(288,035)
Gross profit		**18,251**	31,402
Other revenue		**1,144**	1,423
Other net income/(loss)		**1,264**	(1,777)
Selling and distribution expenses		**(1,267)**	(1,453)
Administrative expenses		**(22,412)**	(19,247)
(Loss)/profit from operations		**(3,020)**	10,348
Finance costs	5(a)	**(169)**	(69)
Donation		**—**	(21)
(Loss)/profit before taxation	5	**(3,189)**	10,258
Income tax credit/(charge)	6	**722**	(1,053)
(Loss)/profit for the period		**(2,467)**	9,205
(Loss)/earnings per share	7		
Basic and diluted		**$ (0.003)**	$ 0.011

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — UNAUDITED

(Expressed in United States dollars)

	Six months ended June 30	
	2018	2017
	$'000	*$'000*
(Loss)/profit for the period	**(2,467)**	9,205
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(4,255)**	6,948
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit liability	**(5)**	—
Other comprehensive income for the period	**(4,260)**	6,948
Total comprehensive income for the period	**(6,727)**	16,153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

(Expressed in United States dollars)

	Note	**At June 30, 2018** **$'000**	At December 31, 2017 $'000
Non-current assets			
Property, plant and equipment	8	**119,325**	121,343
Intangible assets		**7,985**	8,079
Other receivables		**6,066**	6,628
Deferred tax assets		**763**	832
		134,139	136,882
Current assets			
Inventories		**49,593**	107,366
Trade and other receivables	9	**67,259**	139,904
Current tax recoverable		**1,361**	1,221
Pledged deposits		**3,287**	3,427
Bank deposits		**20,691**	21,409
Cash and cash equivalents		**111,784**	93,937
		253,975	367,264
Current liabilities			
Trade and other payables	10	**54,983**	117,952
Bank loans		**10,026**	47,114
Current tax payable		**1,750**	5,359
		66,759	170,425
Net current assets		**187,216**	196,839
Total assets less current liabilities		**321,355**	333,721

	Note	At **June 30, 2018** *$'000*	At December 31, 2017 *$'000*
Non-current liabilities			
Net defined benefit retirement obligation		**257**	225
		257	225
NET ASSETS		**321,098**	333,496
CAPITAL AND RESERVES			
Share capital		**3,326**	3,326
Reserves		**317,772**	330,170
TOTAL EQUITY		**321,098**	333,496

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in United States dollars unless otherwise indicated)

1 Basis of preparation

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on August 9, 2018.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The financial information relating to the financial year ended December 31, 2017 that is included in this announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

2 Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

The Group has been impacted by IFRS 9 in relation to measurement of credit losses.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity at January 1, 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9:

	At December 31, 2017	**Impact on initial application of IFRS 9**	**At January 1, 2018**
	$'000	*$'000*	**$'000**
Trade and other receivables	139,904	(114)	**139,790**
Reserves	(330,170)	114	**(330,056)**

3 Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Information about profit or loss

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Camera module		**Optical components**		**Total**	
For the six months ended June 30	**2018**	2017	**2018**	2017	**2018**	2017
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**252,385**	316,540	**1,475**	2,897	**253,860**	319,437
Reportable segment revenue	**252,385**	316,540	**1,475**	2,897	**253,860**	319,437
Reportable segment (loss)/profit	**(1,512)**	11,757	**(1,304)**	(663)	**(2,816)**	11,094

Reporting segment (loss)/profit is the (loss)/profit before tax. To arrive at (loss)/profit before taxation, the Group's (loss)/earnings are further adjusted for items not specifically attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit or loss

	Six months ended June 30	
	2018	2017
	$'000	*$'000*
Reportable segment (loss)/profit	**(2,816)**	11,094
Unallocated head office and corporate expenses	**(373)**	(836)
Consolidated (loss)/profit before taxation	**(3,189)**	10,258

4 Seasonality of operations

The Group's camera module segment, on average experiences higher sales in the fourth quarter, compared to other quarters in the year, due to the increased retail demand for its products during the holiday season. As a result, this division of the Group typically reports lower revenues and segment results for the first half of the year than the second half.

For the twelve months ended June 30, 2018, the camera module segment reported reportable segment revenue of $671,450,000 (twelve months ended June 30, 2017: $925,977,000), and reportable segment profit of $20,363,000 (twelve months ended June 30, 2017: $46,184,000).

5 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Six months ended June 30	
	2018	2017
	$'000	*$'000*
(a) Finance costs		
Interest on bank borrowings	**169**	69
(b) Other items		
Amortisation	**551**	431
Depreciation	**11,756**	10,564
Research and development costs (other than depreciation)	**9,904**	7,843
Interest income	**(575)**	(446)
Net loss on disposal of plant and equipment	**32**	429
Reversal of impairment loss on trade receivables	**(2)**	—

6 Income tax

	Six months ended June 30	
	2018	2017
	$'000	*$'000*
Current tax — Hong Kong Profits Tax	**62**	—
Current tax — Overseas	**(849)**	998
Deferred taxation	**65**	55
Income tax (credit)/charge	**(722)**	1,053

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) to the six months ended June 30, 2018. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

7 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the parent of $2,467,000 (six months ended June 30, 2017: profit of $9,205,000) and weighted average of 831,519,000 ordinary shares (six months ended June 30, 2017: weighted average of 831,519,000 ordinary shares) in issue during the interim period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the parent of $2,467,000 (six months ended June 30, 2017: profit of $9,205,000) and the weighted average number of ordinary shares of 831,635,000 (six months ended June 30, 2017: weighted average of 831,519,000 ordinary shares) during the interim period of 2018.

8 Property, plant and equipment

(a) Acquisitions and disposals

During the six months ended June 30, 2018, the Group acquired items of plant and equipment with a cost of $11,322,000 (six months ended June 30, 2017: $8,054,000). Items of plant and equipment with a net book value of $59,000 were disposed of during the six months ended June 30, 2018 (six months ended June 30, 2017: $449,000), resulting in a loss on disposal of $32,000 (six months ended June 30, 2017: $429,000).

(b) Customer's equipment

A customer has provided machinery to the Group for production of goods to that customer. The original acquisition costs of machinery borne by the customer amounted to $116,618,000 (December 31, 2017: $116,618,000) and was not recognised as the Group's property, plant and equipment. There is no rental charge for the machinery and the management consider that the arrangement has been taken into account in determining sales prices with the customer.

9 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At June 30, 2018 ***$'000***	At December 31, 2017 *$'000*
Within 1 month	**32,360**	78,606
Over 1 to 2 months	**26,223**	38,630
Over 2 to 3 months	**2,813**	224
Over 3 months	**122**	859
Trade receivables, net of allowance for doubtful debts	**61,518**	118,319
Other receivables and prepayments	**5,741**	21,585
	67,259	139,904

Trade receivables are due within 30 to 90 days from the date of billing.

Trade receivables with carrying amount of $31,918,000 (December 31, 2017: $70,556,000) were used to secure the Group's bank loans.

10 Trade and other payables

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At June 30, 2018	At December 31, 2017
	$'000	*$'000*
Within 1 month	**47,393**	57,437
Over 1 to 3 months	**83**	49,810
Over 3 to 6 months	**79**	20
Trade payables	**47,555**	107,267
Accrued charges and other payables	**7,428**	10,685
	54,983	117,952

11 Capital, reserves and dividends

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended June 30	
	2018	2017
	$'000	*$'000*
No interim dividend for the six months ended June 30, 2018 (six months ended June 30, 2017: HK1.7179 cents per share)	**—**	1,841

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended June 30	
	2018	2017
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK5.1553 cents per share (six months ended June 30, 2017: HK7.977 cents)	**5,524**	8,548

(b) Equity settled share-based transactions

On April 19, 2018 and May 24, 2018, 2,000,000 and 1,000,000 share options (six months ended June 30, 2017: 400,000 share options) were granted respectively for nominal consideration of HK$1 to employees of the Group under the Company's employee share option scheme. Each share option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on April 18, 2020 and May 7, 2020 and then exercisable until April 18, 2028 and May 7, 2028 respectively. The exercise price are HK$1.86 and HK$1.89 respectively, being the weighted average closing price of the Company's ordinary shares immediately before the grant.

During the six months ended June 30, 2018, no options (six months ended June 30, 2017: nil) were exercised and 2,400,000 share options (six months ended June 30, 2017: 50,000 share options) were cancelled under the share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is a major supplier of camera modules for mobile devices. The Group primarily engages in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Customers for the Group's camera modules include some of the leading mobile device manufacturers in the world such as Apple, LG Electronics and Samsung Electronics. The Group also designs, develops, manufactures and sells optical components used in a number of consumer electronics products. Major customers for the Group's optical components include subsidiaries or affiliates of leading global electronics companies such as LG Electronics and Hitachi.

The Group operates two production facilities at Hengkeng and Huanan in Dongguan, PRC, where the Group is able to take advantage of a high-quality labor force, extensive infrastructure for the Group's operations, and a strategic location to facilitate the transportation of products to the Group's customers.

In the first half ended June 30, 2018, the Group sold approximately 47.7 million units of camera modules and approximately 32.0 million units of optical components, compared to approximately 64.6 million units of camera modules and approximately 42.0 million units of optical components in the corresponding period of 2017. The Group's revenue amounted to US$253.9 million in the first half of 2018 as compared to US$319.4 million in the first half of 2017. The Group's net loss amounted to US$2.5 million in the first half of 2018 as compared to net profit amount to US$9.2 million in the first half of 2017.

Camera Modules

Camera module ("**CM**") revenue in the first half of 2018 decreased by 20.3% as compared to that in the correspondent period in 2017, which was mainly due to customers' decreased orders and growing competition in the supply chain. The demand for single front-end camera module in the first half of 2018 was largely influenced by the stagnant smartphone industry driven by the lengthened smartphone replacement cycle.

Optical Components

There are basically two product categories in our optical components product offerings: one is a DVD component and the other is 'Blue Filter' which is a camera modules component. The demand for DVD component has been decreasing due to the growing popularity of the internet based streaming service. Also the Group's blue filter sales decreased due to a stagnant smartphone industry and increased competition in the market. As a result, the Group's optical component sales in the first half of 2018 was down by 49.1% as compared to that in the same period of 2017.

The following table presents a breakdown of the Group's revenue by product type and changes therein for the periods indicated.

	Six months ended June 30		Changes	
	2018	2017	**Amount**	**%**
	(US$ in millions, except percentages)			
Revenue				
CM	**252.4**	316.5	(64.1)	(20.3)%
Optical components	**1.5**	2.9	(1.4)	(48.3)%
Total	**253.9**	319.4	(65.5)	(20.5)%

OUTLOOK AND FUTURE STRATEGIES

The Group's view on the second half of 2018 is positive due mainly to the seasonality of the business and improved production yield of new products and operational efficiency.

Notwithstanding the above, the business environment for the second half of 2018 is uncertain due to the following risk and opportunity factors identified by the Group:

Risk Factors:

— lengthening smartphone replacement cycle; and

— growing competition among camera module suppliers.

Opportunity Factors:

— increasing level of customers' sophistication for camera functions in the areas of virtual reality and augmented reality; and

— increasing number of camera modules for smartphone, which is currently considered as a main differentiating factor among major smartphone makers

In order to cope with the aforementioned risks and opportunities, the Group will continue to focus on technology and new product development, production efficiency and customer services, which will, in turn, strengthen business relationship with the Group's existing customers and grow the Group's business with them. The Group has intention to develop new product offerings based on suggestions from the Group's major customers and strives to capture larger share of the growing demand for camera modules as well as mandates for new product projects.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at June 30, 2018, the Group had total assets of US$388.1 million (December 31, 2017: US$504.1 million); net current assets of US$187.2 million (December 31, 2017: US$196.8 million) and total equity of US$321.1 million (December 31, 2017: US$333.5 million).

The Group had a solid financial position and continued to maintain a strong and steady inflow from operating activities. As of June 30, 2018, the Group reported US$111.8 million in unencumbered cash and cash equivalents. Management believes that the Group's current cash and cash equivalents and expected cash flow from operations, will be sufficient to support the Group's operational requirements.

PLEDGE OF THE GROUP'S ASSETS

The Group had pledged its assets as securities for bank loans and other borrowings and banking facilities which were used to finance daily business operation and purchase of machinery. As at June 30, 2018, trade receivables with a net carrying value of US$31.9 million (December 31, 2017: US$70.6 million) has been pledged to bank to secure banking facilities.

CAPITAL EXPENDITURES AND COMMITMENTS

The Group's capital expenditures (equivalent to the cash the Group spent to purchase property, plant and equipment) for the six months ended June 30, 2018 amounted to US$11.3 million, compared to US$8.1 million for the six months ended June 30, 2017. The Group's capital expenditures in the first half of 2018 mainly reflected purchases of additional equipment to produce more advanced flip-chip camera modules. The Group intends to fund the Group's planned future capital expenditures through a combination of cash flow from operating activities and possible fund raising exercise.

CONTINGENT LIABILITIES

As at June 30, 2018, the Group had no significant contingent liabilities except for the guarantees issued by the Company to secure the banking facilities granted by banks to certain subsidiaries amounting to US$30.0 million (December 31, 2017: US$70.0 million).

HUMAN RESOURCES

The Group employed a total of 2,771 full-time employees as of June 30, 2018 (December 31, 2017: 4,267). Total staff costs for the six months ended June 30, 2018, excluding Directors' remuneration were approximately US$23.1 million (first half of 2017: US$24.9 million).

The Group provides living, entertainment, dining and training facilities for the Group's employees. The scope of training includes management skills and technology training, as well as other areas.

The Group has an emolument policy with respect to long-term incentive schemes. The basis of determining emoluments payable to the Directors is made on a discretionary basis with reference to the Company's operating results, individual performance and comparable market statistics. Furthermore, the remuneration committee is authorized by the Board to review and make recommendations on the remuneration of the Directors and senior management of the Company. The emolument policy of the Group is considered by the remuneration committee on the basis of their merit, qualifications and competence.

SUPPLEMENTARY INFORMATION

Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2018.

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 during the six months ended June 30, 2018.

Corporate governance

The Board reviewed the corporate governance of the Group in accordance with the code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**CG Code**") and considered that, for the six months ended June 30, 2018 (the "**Current Period**"), the Company regulated its operation and carried out appropriate corporate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions during the Current Period, save for the deviations as disclosed below.

Pursuant to Code Provision A.2.1 of the CG Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, during part of the Current Period, the Company did not have a separate chairman and chief executive and Mr. Seong Seokhoon had been performing these two roles at the same time. The Board had considered that having Mr. Seong acting as both the chairman of the Board and the Company's chief executive officer would provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. The Board had taken into account Mr. Seong's extensive experience in the industry, personal profile and critical role in the Group and its historical development.

Upon Mr. Seong Seokhoon's resignation from his position as chief executive officer with the Company on April 19, 2018, Mr. Seong has been remained as the Company's chairman of the board and Mr. Lee Kyung Koo was newly appointed as the Company's chief executive officer with effect from April 19, 2018.

Save as disclosed above, the Directors consider that the Company has fully complied with the applicable Code Provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 during the Current Period.

Audit Committee

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited consolidated financial report for the six months ended June 30, 2018. Based on this review, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended June 30, 2018.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry of all Directors that they have fully complied with the required standard set out in the Model Code throughout the Current Period.

Events after the Reporting Period

There were no significant events affecting the Company nor any of its subsidiaries after the end of the financial period requiring disclosure in this announcement.

Publication of 2018 Interims Results and Interim Report

The interim results announcement is published on the website of the Company (http://www.cowelleholdings.com) and the website of the Stock Exchange (http://www.hkex.com.hk). The interim report of the Company for the six months ended June 30, 2018 will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
Cowell e Holdings Inc.
Seong Seokhoon
Chairman

Hong Kong, August 9, 2018

As at the date of this announcement, the Board comprises Mr. Seong Seokhoon and Mr. Lee Dong Goo as executive Directors; and Mr. Kim Chan Su, Dr. Song Si Young and Mr. Andrew Look as independent non-executive Directors.