China Display Optoelectronics Technology Holdings Limited
華顯光電技術控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 334)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2018	2017	**Change**
	RMB'000	*RMB'000*	
Revenue	**1,263,756**	1,497,294	-15.6%
Gross profit	**24,093**	142,910	-83.1%
(Loss)/Profit for the period	**(13,407)**	65,088	N/A
(Loss)/Profit attributable to owners of the parent	**(11,896)**	67,173	N/A
Basic (loss)/earnings per share *(RMB cents)*	**(0.58)**	3.35	N/A

The board of directors (the "Board") of China Display Optoelectronics Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**1,263,756**	1,497,294
Cost of sales		**(1,239,663)**	(1,354,384)
Gross profit		**24,093**	142,910
Other income and gains	*4*	**28,032**	7,592
Selling and distribution expenses		**(15,911)**	(20,805)
Administrative expenses		**(39,639)**	(38,939)
Other expenses		**(4,345)**	(1,143)
Finance costs	*6*	**(4,578)**	(16,523)
(LOSS)/PROFIT BEFORE TAX	*5*	**(12,348)**	73,092
Income tax expense	*7*	**(1,059)**	(8,004)
(LOSS)/PROFIT FOR THE PERIOD		**(13,407)**	65,088
Attributable to:			
Owners of the parent		**(11,896)**	67,173
Non-controlling interest		**(1,511)**	(2,085)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
For (loss)/profit for the period		**RMB(0.58) cents**	RMB3.35 cents
Diluted			
For (loss)/profit for the period		**RMB(0.58) cents**	RMB3.29 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE PERIOD	**(13,407)**	65,088
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods：		
Exchange differences on translation of foreign operations	**659**	690
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**659**	690
OTHER COMPREHENSIVE INCOME, NET OF TAX	**659**	690
TOTAL COMPREHENSIVE (LOSS)/INCOME, NET OF TAX	**(12,748)**	65,778
Attributable to:		
Owners of the parent	**(11,237)**	67,863
Non-controlling interest	**(1,511)**	(2,085)
	(12,748)	65,778

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	**30 June 2018 (Unaudited) *RMB'000***	31 December 2017 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**505,643**	463,204
Intangible assets		**5,338**	5,597
Deposits paid for purchase of items of property, plant and equipment		**60,948**	37,500
Deferred tax assets		**15,994**	15,333
Total non-current assets		**587,923**	521,634
CURRENT ASSETS			
Inventories		**235,413**	224,666
Trade and bills receivables	*10*	**856,795**	1,114,507
Prepayments, deposits and other receivables		**119,421**	90,531
Financial assets at fair value through profit or loss		**5,147**	726
Cash and cash equivalents		**221,765**	507,622
Total current assets		**1,438,541**	1,938,052
CURRENT LIABILITIES			
Trade and bills payables	*11*	**806,543**	1,127,603
Other payables and accruals		**235,242**	206,533
Financial liabilities at fair value through profit or loss		**1,094**	752
Interest-bearing bank borrowings	*12*	**224,210**	389,610
Tax payable		**35,426**	35,685
Dividend payable	*8*	**35,185**	–
Total current liabilities		**1,337,700**	1,760,183
NET CURRENT ASSETS		**100,841**	177,869
TOTAL ASSETS LESS CURRENT LIABILITIES		**688,764**	699,503

	Notes	**30 June 2018 (Unaudited) *RMB'000***	31 December 2017 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Other borrowings	*12*	**24,000**	24,000
Deferred income		**10,097**	3,410
Bonds payable		**59,017**	58,506
Deferred tax liabilities		**573**	181
Total non-current liabilities		**93,687**	86,097
Net assets		**595,077**	613,406
EQUITY			
Equity attributable to owners of the parent			
Share capital	*13*	**169,768**	169,536
Reserves		**281,708**	328,766
		451,476	498,302
Non-controlling interest		**143,601**	115,104
Total equity		**595,077**	613,406

Notes:

1. **BASIS OF PREPARATION**

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

2. **CHANGES TO THE GROUP'S ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments* that require restatement of previous financial statements. The analysis of the effect of these changes are disclosed below.

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

HKFRS 15 Revenue from Contracts with Customers

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

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

The Group adopted HKFRS 15 using the modified retrospective method of adoption.

The Group mainly engages in the business of sales of LCD modules. The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

The application of HKFRS 15 in the current interim period has had no impact on the amounts reported in these condensed consolidated financial statements.

HKFRS 9 Financial Instruments

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

The Group has applied HKFRS 9 retrospectively with the initial application date of 1 January 2018. The Group selected not to adjust the comparative information for the period beginning from 1 January 2017.

(a) Classification and measurement

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity, loans and receivables and available-for-sale.

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

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

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

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

- Financial assets at FVPL comprise derivative instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKFRS 9, the Group's debt instruments were classified as financial assets at fair value through profit or loss.

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

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

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade receivables and Other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained earnings.

The statement of financial position at 1 January 2018 was restated, resulting in decrease in trade and bills receivables and retained profits amounting to RMB2,045,000 and RMB1,534,000 and increase in deferred tax asset amounting to RMB511,000, respectively.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment as follows:

The display products segment principally engages in the manufacture and sale of LCD module products.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Mainland China*	**758,636**	857,061
Other countries/areas	**505,120**	640,233
	1,263,756	1,497,294

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

* *Mainland China means any part of the PRC excluding Hong Kong, Macau and Taiwan.*

(b) ***Non-current assets***

All significant operating assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

Information about major customers

Revenue of approximately RMB263,732,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB408,295,000) was derived from sales to fellow subsidiaries.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,263,756**	1,497,294
Other income, net		
Bank interest income	**2,607**	2,196
Subsidy income*	**5,205**	5,657
Gains/(loss) on disposal of raw materials, samples and scraps	**12,296**	(261)
Others	**3,942**	–
	24,050	7,592
Gains, net		
Fair value gains, net:		
Financial assets/liabilities at fair value through profit or loss	**3,982**	–

* *Subsidy income represented various government grants received by the Group in Mainland China. In the opinion of management, there are no unfulfilled conditions or contingencies relating to these grants.*

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**1,089,671**	1,263,218
Depreciation	**30,611**	22,555
Amortisation of intangible assets	**633**	45
Research and development costs:		
current period expenditures*	**15,662**	10,767
Minimum lease payments under operating leases	**4,089**	3,923
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**95,440**	78,737
Pension scheme contributions	**18,594**	15,628
Equity-settled share award expense	**484**	5,597
Equity-settled share option expense	**454**	2,259
	114,972	102,221
Write-back of inventory provision**	**(292)**	–
Write-down of inventories to net realisable value**	**–**	270
Exchange loss, net	**2,556**	984

* *Research and development costs are included in "Administrative expenses" in the interim condensed consolidated statement of profit or loss.*

** *Write-back of inventory provision and write-down of inventories to net realisable value are included in "Cost of sales" in the interim condensed consolidated statement of profit or loss.*

6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank loans and bonds	**4,578**	7,774
Interest on discounted bills	**–**	8,749
	4,578	16,523

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current – Hong Kong		
Charge for the period	**4,213**	6,331
Current – Mainland China		
Charge for the period	**–**	12,718
Adjustment in respect of current tax of previous periods	**(3,397)**	(12,452)
Deferred	**243**	1,407
Total tax charge for the period	**1,059**	8,004

8. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend by the Company for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final 2017 dividend – 2.00 HK cents (Final 2016 dividend: 2.00 HK cents) per ordinary share	**35,185**	35,275

The final dividend for the financial year of 2017 had been approved by the Company's shareholders at the annual general meeting on 8 June 2018.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount for the six months ended 30 June 2018 is based on the loss for the period attributable to ordinary equity holders of the parent of RMB11,896,000 (six months ended 30 June 2017: the profit of RMB67,173,000), and the weighted average number of ordinary shares in issue less shares held for the share award scheme during the period of 2,045,097,077 (six months ended 30 June 2017: 2,006,056,531).

During the six months ended 30 June 2018, as anti-dilutive effect is resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts in respect of a dilution.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	**(11,896)**	67,173

	Number of shares For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme during the period used in the basic (loss)/earnings per share calculations	**2,045,097,077**	2,006,056,531
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	14,327,530
Awarded shares	**–**	19,232,624
	2,045,097,077	2,039,616,685

10. TRADE AND BILLS RECEIVABLES

	30 June 2018	31 December 2017
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade receivables	**702,151**	793,264
Bills receivable	**164,722**	329,276
Impairment	**(10,078)**	(8,033)
	856,795	1,114,507

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is normally required. The credit period is generally 30 to 90 days, depending on the size and credibility of the customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 30 June 2018, the Group had pledged certain trade receivables amounting to RMB194,916,000 (31 December 2017: RMB279,273,000) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB140,000,000 (31 December 2017: RMB231,876,000) were accounted for as collateralised bank advances until the trade receivables were collected or the Group made good of any losses incurred by the banks (note 12).

11. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Trade payables	**806,543**	1,127,603

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

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Within 30 days	**493,228**	704,203
31 to 60 days	**296,822**	296,081
61 to 90 days	**12,240**	105,751
Over 90 days	**4,253**	21,568
	806,543	1,127,603

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 120 days.

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans – secured	**–**	**–**	**–**	4.40-5.00	2018	157,734
Collateralised bank advances – secured	**2.99-5.00**	**2018**	**224,210**	2.26-4.35	2018	231,876
			224,210			389,610
Non-current						
Other borrowings	**0.44**	**2020**	**24,000**	0.44	2020	24,000
			248,210			413,610
Analysed into:						
Bank loans repayable						
Within one year			**224,210**			389,610
Other borrowings repayable						
In the second to forth years, inclusive			**24,000**			–
In the third to fifth years, inclusive			**–**			24,000
			248,210			413,610

Notes:

(a) The Group had banking facilities of RMB3,080,000,000 (31 December 2017: RMB2,647,300,000), of which RMB447,952,000 (31 December 2017: RMB1,074,784,000) had been utilised as at the end of the reporting period.

(b) The Group's interest-bearing bank borrowings originally are secured by trade receivables of RMB194,916,000 (31 December 2017: RMB279,273,000).

In addition, the Company's ultimate holding company has guaranteed certain of the Group's interest-bearing bank borrowings up to RMB224,210,000 (31 December 2017: RMB389,610,000) as at the end of the reporting period.

(c) The other borrowings are with a tenure of 3 years. Interest is chargeable at 0.44% per annum and payable annually in arrears.

(d) Except for the secured bank loan with effective interest rate of 2.99% amounting to RMB52,933,000 (31 December 2017: RMB71,876,000) which is denominated in US$, all borrowings are in RMB.

13. SHARE CAPITAL

	30 June 2018	31 December 2017
Authorised:		
4,000,000,000 (31 December 2017: 4,000,000,000) ordinary shares of HK$0.10 each *(HK$'000)*	**400,000**	400,000
Issued and fully paid:		
2,086,718,219 (31 December 2017: 2,083,850,619) ordinary shares *(HK$'000)*	**208,672**	208,385
Equivalent to RMB'000	**169,768**	169,536

A summary of movements in the Company's share capital during the current period is as follows:

	Number of shares in issue	**Share capital** *RMB'000*	**Share premium account** *RMB'000*
At 1 January 2018	2,083,850,619	169,536	55,936
Vesting shares under the share award scheme *(Note (a))*	–	–	(80)
Share options exercised *(Note (b))*	2,867,600	232	2,144
Transfer of share premium	–	–	–
At 30 June 2018	2,086,718,219	169,768	58,000

Notes:

(a) An amount of RMB5,973,000 was credited to share premium account from the awarded share reserve and an amount of RMB6,053,000 was debited to share premium from shares held for the share award scheme during the period upon the vesting of shares under the share award scheme.

(b) The subscription rights attaching to 2,867,600 share options were exercised at the subscription price of HK$0.74 per share, resulting in the issue of 2,867,600 shares for a total cash consideration, before expenses, of RMB1,718,000. An amount of RMB658,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

INDUSTRY REVIEW

In the first half of 2018, owing to a series of trade protectionist measures implemented by the US, the exchange rate fluctuated as China-US trade tensions heated up. As a result, the world's economy has been facing new uncertainties and challenges, which adversely affected the development of the smartphone industry. Due to the launch of full-screen devices in 2017, the upstream components suppliers delayed their shipments to the fourth quarter of 2017 to accommodate new products development for end customers, resulting in weak sales in the smartphone market in early 2018. According to the latest report from IDC, a global market researcher, the global shipment of smartphones in the second quarter of 2018 was 340 million units, down by 1.8% year-on-year, representing year-on-year declines for three consecutive quarters. In 2018, full-screen products entered the market mainstream, but the supply shortage of some of the upstream components, such as TDDI (Touch and Display Driver Integration) IC (Integrated Circuit) products, led to a delay in the shipment of downstream products. The panel and module prices have undergone cyclical changes brought about by varying market supply and demand, which started to fall in June 2017 and had continued the downward trend for nearly one year. However, with the increasing popularity of notch-cutting products and their limited production capacity, the prices for some of the mid– to high-end display panels and modules, such as low-temperature poly-silicon ("LTPS") products, have stabilised.

BUSINESS REVIEW

During the six months ended 30 June 2018 (the "Review Period"), the Group recorded sales volume of 17.6 million units, representing a year-on-year decline of 17.5%. The decrease in sales volume was mainly due to: (i) the global demand for smartphones remained weak; (ii) supply shortage of some upstream components; and (iii) delay in certain of the Group's orders as a result of the adjustment in product strategy by end customers of the Group in view of the change in market demand following the launch of full screen devices in the smartphone market. During the Review Period, the Group's revenue amounted to RMB1.26 billion, representing a drop of 15.6% year-on-year, of which the revenue of laminated LCD module products was RMB946 million, an increase of 10.1% year-on-year; while that of non-laminated LCD module products was RMB318 million, a decrease of 50.2% year-on-year. The Group proactively adjusted the product mix so that the sales volume proportion of laminated products jumped to 58.7% with their unit price up slightly by 2.3% to RMB71.9.

During the Review Period, the Group reported gross profit of RMB24.1 million, representing a fall of 83.1% year-on-year. Gross profit margin was 1.9%, representing a decrease of 7.6 percentage points year-on-year and leading to a loss of RMB11.9 million. The loss was mainly attributable to: (i) the increase in marginal costs due to decrease in sales of LCD module products; (ii) the decrease in gross profit margin mainly due to the increase in the cost of raw materials and the increase in labour costs as a result of rise in wages of domestic workers and decreased order visibility.

Year-on-year comparison of revenue by product segment:

(Unaudited)	**For the six months ended 30 June**				
	2018		2017		Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
TFT LCD module					
Non-laminated modules	**317,604**	**25.1**	638,302	42.6	-50.2
Laminated modules	**946,152**	**74.9**	858,992	57.4	+10.1
Total	**1,263,756**	**100.0**	1,497,294	100.0	-15.6

Year-on-year comparison of sales volume by product segment:

(Unaudited)	**For the six months ended 30 June**				
	2018		2017		Change
	'000 units	*%*	*'000 units*	*%*	*%*
TFT LCD module					
Non-laminated modules	**7,257**	**41.3**	12,620	59.3	-42.5
Laminated modules	**10,315**	**58.7**	8,678	40.7	+18.9
Total	**17,572**	**100.0**	21,298	100.0	-17.5

During the Review Period, Hong Kong and China remained the major markets for the Group. Revenue derived from Hong Kong and China was RMB298 million and RMB759 million respectively, which in aggregate accounted for 83.6% of the Group's total revenue. Revenue from South Korea has benefited from the growth in orders from LG, a globally renowned South Korean consumer electronics brand, and increased by 40.6% year-on-year to RMB203 million.

Year-on-year comparison of revenue by geographical segments:

(Unaudited)	**For the six months ended 30 June**				
	2018		2017		Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
Hong Kong	**298,006**	**23.6**	495,565	33.1	-39.9
China	**758,636**	**60.0**	857,061	57.2	-11.5
South Korea	**203,405**	**16.1**	144,668	9.7	+40.6
Others	**3,709**	**0.3**	–	–	N/A
Total	**1,263,756**	**100.0**	1,497,294	100.0	-15.6

Optimised Product Mix to Strengthen Core Competitiveness

During the Review Period, the Group actively devoted its efforts to the research and development of new products and new technologies to increase the sales proportion of mid– to high-end products and strengthen core competitiveness. In order to meet the rising market demand of full-screen products, the Group became the first manufacturer in China to mass produce full-screen and full-screen notch-cutting module products, including LTPS products, in July 2017 and February 2018, respectively. During the Review Period, the Group's full-screen products accounted for 30.7% of the Group's sales volume, while the proportion of LTPS products rose from 16.2% for same period last year to 38.1% in terms of sales volume. The Group will continue to make use of its outstanding market responsiveness and continuous technology investment to further propel the development of LTPS and active-matrix organic light-emitting diode ("AMOLED") technology, as well as the sales of on-cell/in-cell LCD products and full-screen module products to meet market demand.

Broadened the Production Capacity of Medium Sized Display Modules to Explore the Smart Home Market

According to the report published by IDC, a global market researcher, the global shipment of smart home devices is anticipated to increase from 150 million units in 2018 to 300 million units in 2022, and the interactive touch screens are expected to become one of the major components of smart home products. During the Review Period, the Group keenly grasped the opportunities brought by the development of smart home market and Internet of Things (IoT). In March 2018, the Group launched a partnership with Baidu to introduce its first smart speakers with interactive touch screen module, which marked the Group's first foray into the smart home market. The Group is planning to expand the production capacity of 8 to 17-inch medium sized display modules for smart home products and devices by adding new dedicated production lines, so as to further explore the smart home market.

Upgraded Production Line Automation to Enhance Management Efficiency

In order to fully optimise production efficiency and enhance the company's management innovation and decision-making capabilities, the Group has leveraged on the technological expertise of Foxconn Technology Group and its affiliates (collectively "Foxconn Group"), by purchasing softwares and equipments from Foxconn Group to evolve into a smart factory. The first phase of this project was formally launched in May 2018 in Huizhou and the renovation of the Huizhou production line is expected to be completed by the end of this year. Through the cooperation with Foxconn Group, the Group will build on its existing production line to raise its equipment data collection and analysis capabilities, and develop big data applications to gradually increase the interconnectivity between labour and machines. It is anticipated that this project will help the Group to further enhance transparency in production line management, improve product quality, and effectively reduce costs to achieve sustainable business development.

Deepened the Cooperation and Amplified the Synergies with CSOT

Wuhan China Display Optoelectronics Technology Co., Ltd., the joint venture between the Group and Wuhan China Star Optoelectronics Technology Co., Ltd.* ("Wuhan CSOT", 武漢華星光電技術有限公司), commenced mass production in the fourth quarter of 2017 to provide customers with one-stop solutions from panel to module. The Group will continue to deepen the cooperation with Wuhan CSOT in the second half of 2018, so as to expedite the feedback to customers, provide first-tier customers with customised panels and module products, and expand branded customer base. On the other hand, the Group aims to leverage on the expertise and the increasingly stable panel resources of Wuhan CSOT to lift the sales proportion of high-end products such as LTPS products and in-cell products and continue to optimise the product mix during the industry consolidation stage.

Outlook

Looking ahead, the global smartphone demand will remain weak, and economic developments in countries around the world are facing challenges and risks caused by the intensifying China-US trade war. The Group expects these unfavourable factors affecting the Group's operations to persist in the second half of 2018. In the midst of an uncertain market environment, the Group will actively implement effective measures to improve current business, so as to achieve healthy operation and regain business growth. Such measures include: (i) to reduce risks brought by increasing raw material and labour costs, the Group will further adjust sales prices and control costs to gradually transfer the pressure of rising costs to customers so as to maintain a stable financial position; (ii) to alleviate the pressure from shortage of upstream raw materials, the Group will continue to establish good cooperative relationships with other key upstream material manufacturers in the hope of forging long-term in-depth synergies; (iii) to ensure the Group's sustainable development, it will continue to invest in smart factories and automation enhancement to scale up its production capacities, improve operational efficiency and production yield, and optimise labour costs by adopting an employee downsizing policy; (iv) as the mobile market is getting more centralised, the Group will continue to leverage on the synergies with Wuhan CSOT to provide one-stop solutions and strengthen the strategic cooperation with downstream mobile terminal manufacturers to tap into the opportunities brought by market integration and attain more top-tier branded customers.

* *for identification only*

As the industry enters its peak season in the second half of the year, on the one hand, while the Group foresees a better performance in its sales volume and gross profit and will strive to achieve a turnaround in the second half of 2018 as compared to the Review Period; on the other hand the smartphone market in the second half of 2018 is not expected to be as prosperous as the same period last year. Coupled with the significant year-on-year decrease in net profits for the first half of 2018 , such adverse impact is likely to sustain throughout the second half of 2018 and affect the Group's overall profitability for year 2018.

Although the operating environment in 2018 is relatively difficult, the Group believes that with challenge comes opportunity. With the sixth generation flexible LTPS-AMOLED display panel production line of Wuhan CSOT expected to commence production in the first half of 2019, the Group will collaborate with Wuhan CSOT to step up efforts in the research and development of AMOLED products, laying solid foundation for future operation development. In the meantime, the Group will actively deploy the IoT ecosystem and develop different types of display products. The capacity of the medium-sized display module expanded during the year will be partially applied to smart home products in the second half of the year. In the long term, the Group remains cautiously optimistic towards the prospect of display module business, and believes that it will maintain a balance between sales growth and healthy operations amidst challenges, thus bringing more value for the Group and its shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group maintained robust liquidity position during the Review Period. The Group's principal financial instruments comprise cash and cash equivalents, factorings and interest-bearing bank loans.

The Group's cash and cash equivalents balance as at 30 June 2018 amounted to RMB222 million, of which 54.4% was in US dollar, 44.4% was in RMB and 1.2% was in HK dollar.

As at 30 June 2018, the Group's interest-bearing bank loans were RMB224 million, which were denominated in RMB and USD with variable interest rate, and were all repayable within one year. The Group's other borrowings was RMB24 million, which are denominated in RMB with a fixed interest rate, and a tenure of 3 years.

As at 30 June 2018, total equity attributable to owners of the parent was RMB451 million (31 December 2017: RMB498 million), and the gearing ratio was 15.2% (31 December 2017: 19.2%). The gearing ratio is calculated based on the Group's total interest-bearing loans (including bank borrowings, other borrowings and bonds payable) divided by total assets. Please refer to note 12 to the financial statements for further details in respect of borrowings of the Group during the Review Period.

Pledge of Assets

During the Review Period, the Group had pledged certain trade receivables amounting to RMB194,916,000 (31 December 2017: RMB279,273,000) to banks with recourse in exchange for cash.

Capital Commitments and Contingent Liabilities

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Contracted, but not provided for:		
Plant and equipment	**103,632**	119,473

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

Foreign Exchange Risk

The Group's business and operations is facing the international market, thus it is inevitable for the Group to be exposed to the risk of foreign exchange transactions and conversion.

The Group is committed to striking a balance among trades, assets and liabilities that are denominated in foreign currencies to achieve a natural hedging effect. During the Review Period, the Group has entered into various forward currency contracts to manage its exchange rate exposure. These forward currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. In addition, pursuant to prudent financial management, the Group has not conducted or engaged in any high-risk derivative transactions or leveraged foreign exchange contracts.

Pending Litigation

The Group had not been involved in any material litigation for the six months ended 30 June 2018.

Significant Investments Held

There was no significant investment held as at 30 June 2018.

Material Acquisitions and Disposals

The Group did not undertake any other significant acquisition or disposal of subsidiaries or assets during the Review Period.

Employees and Remuneration Policies

As at 30 June 2018, the Group had a total of 2,693 employees. During the Review Period, the total staff costs amounted to RMB115 million. The Group has reviewed the remuneration policy by reference to the existing legislations, market conditions, as well as the performances of employees and the Company. In order to align the interests of staff with those of shareholders, share options and restricted shares would be granted to relevant grantees, including employees of the Group, under the Company's share option and share award scheme respectively. Share options carrying rights to subscribe for a total of 65,704,930 shares remained outstanding as at 30 June 2018.

INTERIM DIVIDEND

The Board does not recommend to pay any interim dividend for the six months ended 30 June 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2018, the Company has complied with the code provisions (the "Code Provisions") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for deviations from Code Provision F.1.1. The reasons for deviations are as follows:

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

The company secretary of the Company, Ms. CHEUNG Bo Man, is a partner of the Company's legal advisor, Cheung Tong & Rosa Solicitors.

During the six months ended 30 June 2018, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations of the Company and Mr. PENG Bo, the Legal Manager of the Company as the contact persons with Ms. Cheung thereafter to ensure that information in relation to the performance, financial position and other major developments of the Group are speedily delivered to Ms. Cheung thereafter through the contact persons assigned, to enable the company secretary to get hold of the Group's development promptly without material delay and with her expertise and experience, the Company is confident that having Ms. Cheung as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry with all directors, the directors confirmed that they have complied with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three members, namely, Ms. HSU Wai Man, Helen (as the chairlady), Mr. LI Yang and Mr. XU Yan, all of whom are independent non-executive directors of the Company. The Group's unaudited consolidated financial statements and the interim report for the six months ended 30 June 2018 have been reviewed by the audit committee, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 22 August 2018

As at the date of this announcement, the Board comprises Mr. Liao Qian as Chairman and non-executive Director (Mr. Li Jian as his alternate); Mr. Li Jian, Mr. Ouyang Hongping, Mr. Wen Xianzhen and Mr. Zhao Yong as executive Directors; and Ms. Hsu Wai Man Helen, Mr. Xu Yan and Mr. Li Yang as independent non-executive Directors.