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 YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Results

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*	**Change**
Revenue	**5,280,861**	3,464,573	**+52.4%**
Gross profit	**248,257**	279,819	**–11.3%**
Profit for the year	**101,888**	111,128	**–8.3%**
Profit attributable to owners of the parent	**81,782**	115,734	**–29.3%**
Basic earnings per share *(RMB cents)*	**3.95**	5.75	**–31.3%**

The board of directors (the "Board") of China Display Optoelectronics Technology Holdings Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 with the corresponding comparative figures for the year ended 31 December 2017 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December

	Notes	**2018** **RMB'000**	2017 RMB'000
REVENUE	*5*	**5,280,861**	3,464,573
Cost of sales		**(5,032,604)**	(3,184,754)
Gross profit		**248,257**	279,819
Other income and gains, net	*5*	**44,515**	49,340
Selling and distribution expenses		**(27,226)**	(42,147)
Administrative expenses		**(97,152)**	(115,194)
Impairment losses on financial assets		**(1,856)**	(8,033)
Other expenses		**(10,469)**	(901)
Finance costs	*7*	**(18,100)**	(31,321)
PROFIT BEFORE TAX	*6*	**137,969**	131,563
Income tax expense	*8*	**(36,081)**	(20,435)
PROFIT FOR THE YEAR		**101,888**	111,128
Attributable to:			
Owners of the parent		**81,782**	115,734
Non-controlling interests		**20,106**	(4,606)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic			
For profit for the year		**RMB3.95 cents**	RMB5.75 cents
Diluted			
For profit for the year		**RMB3.95 cents**	RMB5.70 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**101,888**	111,128
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**(670)**	2,012
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(670)**	2,012
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(670)**	2,012
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**101,218**	113,140
Attributable to:		
Owners of the parent	**81,112**	117,746
Non-controlling interests	**20,106**	(4,606)
	101,218	113,140

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *RMB'000*	31 December 2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**602,543**	463,204
Intangible assets		**5,664**	5,597
Deposits paid for purchase of items of property, plant and equipment		**60,736**	37,500
Deferred tax assets		**17,545**	15,333
Total non-current assets		**686,488**	521,634
CURRENT ASSETS			
Inventories	*11*	**574,606**	224,666
Trade and bills receivables	*12*	**2,145,233**	1,114,507
Prepayments and other receivables		**129,242**	90,531
Derivative financial instruments		**–**	726
Cash and cash equivalents		**277,437**	507,622
Total current assets		**3,126,518**	1,938,052
CURRENT LIABILITIES			
Trade payables	*13*	**2,256,864**	1,127,603
Other payables and accruals		**371,868**	206,533
Derivative financial instruments		**–**	752
Interest-bearing bank borrowings	*14*	**360,683**	389,610
Tax payable		**47,557**	35,685
Total current liabilities		**3,036,972**	1,760,183
NET CURRENT ASSETS		**89,546**	177,869
TOTAL ASSETS LESS CURRENT LIABILITIES		**776,034**	699,503

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	**31 December 2018** *RMB'000*	31 December 2017 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**776,034**	699,503
NON-CURRENT LIABILITIES			
Other borrowings		**24,000**	24,000
Deferred income		**10,357**	3,410
Bonds payable		**61,341**	58,506
Deferred tax liabilities		**–**	181
Total non-current liabilities		**95,698**	86,097
Net assets		**680,336**	613,406
EQUITY			
Equity attributable to owners of the parent			
Share capital	*15*	**169,768**	169,536
Reserves		**375,333**	328,766
		545,101	498,302
Non-controlling interests		**135,235**	115,104
Total equity		**680,336**	613,406

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same year as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

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*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The adoption of HKFRS 9 resulted in an additional impairment allowance of trade receivables amounting to RMB2,045,000 as at 1 January 2018. The adoption of the other new and revised HKFRSs has had no significant financial effect on the financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*
[2] *Effective for annual periods beginning on or after 1 January 2020*
[3] *Effective for annual periods beginning on or after 1 January 2021*
[4] *No mandatory effective date determined but available for adoption*

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019.

The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB9,773,000 and lease liabilities of RMB9,773,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment being the display products segment which 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

	2018	2017
	RMB'000	*RMB'000*
Mainland China*	**4,179,043**	2,178,586
Other countries/areas	**1,101,818**	1,285,987
	5,280,861	3,464,573

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 RMB2,580,597,000 during the year ended 31 December 2018 (2017: RMB533,206,000) was derived from sales to fellow subsidiaries.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**5,280,861**	3,464,573

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

For the year ended 31 December 2018

Segments	**LCD modules**
	RMB'000
Type of goods	
Sale of goods	**5,280,861**
Geographical markets	
Turkey	**2,202**
Taiwan	**4,783**
South Korea	**357,524**
Hong Kong	**737,309**
Mainland China	**4,179,043**
Total revenue from contracts with customers	**5,280,861**
Timing of revenue recognition	
Goods transferred at a point in time	**5,280,861**

	2018	2017
	RMB'000	*RMB'000*
Other income, net		
Bank interest income	**5,738**	4,195
Subsidy income*	**7,749**	39,817
Gain on disposal of raw materials, samples and scraps	**21,337**	4,504
Gain on a litigation compensation	**1,647**	850
	36,471	49,366
Gains/(losses), net		
Fair value gains/(losses), net:		
Derivative financial instruments		
– transactions not qualifying as hedges	**8,044**	(26)
	44,515	49,340

* *Subsidy income represents various government grants received from the relevant government authorities to support the development of the relevant project of the Group in Mainland China. In the opinion of management, there are no unfulfilled conditions or contingencies relating to these grants.*

6. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold*	**5,032,604**	3,184,754
Depreciation	**72,013**	48,054
Amortisation of intangible assets	**1,301**	457
Auditor's remuneration	**1,168**	1,150
Research and development costs^:		
Current year expenditures	**34,792**	34,545
Minimum lease payments under operating leases	**12,702**	8,378
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**244,453**	204,951
Equity-settled share option expense	**950**	4,165
Equity-settled share award expense	**542**	55,328
Pension scheme contributions**	**45,762**	23,800
	291,707	288,244
Exchange losses, net	**2,727**	3,642
Impairment of trade and bills receivables	**1,856**	8,033
Write-down of inventories to net realisable value***	**5,206**	19
Loss on disposal of items of property, plant and equipment	**5,288**	335

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

* *Amount included wages and salaries, depreciation, amortization and lease payments of RMB321,408,000 (2017: RMB204,112,000) in aggregate which have been included in the respective expense items disclosed below.*

** *As at 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).*

*** *Write-down of inventories to net realisable value are included in "Cost of sales" in the consolidated statement of profit or loss.*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans and bonds	**11,667**	16,125
Interest on discounted bills	**6,433**	15,196
	18,100	31,321

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (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.

	2018	2017
	RMB'000	*RMB'000*
Current		
Charge for the year	**41,036**	30,249
Adjustment in respect of current tax of previous periods	**(3,073)**	(12,226)
Deferred	**(1,882)**	2,412
Total tax charge for the year	**36,081**	20,435

9. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends recognised as distribution	**34,446**	35,275
Proposed final 2017 dividend – 2.00 HK cents per ordinary share	**–**	34,491
	34,446	69,766

The Board does not recommend to declare any final dividends for the year ended 31 December 2018.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share amount for the year ended 31 December 2018 is based on the profit for the year attributable to ordinary equity holders of the parent of RMB81,782,000 (2017: RMB115,734,000), and the weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the year of 2,070,804,618 (2017: 2,011,524,418).

The calculation of the diluted earnings per share amount for the year ended 31 December 2018 is based on the profit for the year attributable to ordinary equity holders of the parent of RMB81,782,000 (2017: RMB115,734,000) as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year of 2,070,804,618 (2017: 2,011,524,418), as used in the basic earnings per share calculation, and the weighted average of 169,907 (2017: 2,192,659) ordinary shares under Share Award Scheme and nil ordinary shares under Share Option Scheme (2017: 18,128,633) assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares. The share options had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2018 and were ignored in the calculation of diluted earnings per share.

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**81,782**	115,734

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the year used in the basic earnings per share calculation	**2,070,804,618**	2,011,524,418
Effect of dilution – weighted average number of ordinary shares:		
Awarded shares	**169,907**	2,192,659
Share options	**–**	18,128,633
	2,070,974,525	2,031,845,710

11. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**329,779**	157,569
Work in progress	**63,540**	27,770
Finished goods	**181,287**	39,327
	574,606	224,666

12. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,819,415**	793,264
Bills receivable	**337,752**	329,276
Impairment	**(11,934)**	(8,033)
	2,145,233	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 and bills receivables balances. Trade and bills receivables are non-interest-bearing.

Included in the Group's trade and bills receivables are amounts due from the Group's fellow subsidiaries of RMB760,658,000 (2017: RMB57,768,000), which are unsecured, interest-free and repayable on demand.

An ageing analysis of the trade and bills receivables as at the end of the year, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**965,618**	276,174
1 to 2 months	**819,391**	481,594
2 to 3 months	**152,122**	235,240
Over 3 months	**208,102**	121,499
	2,145,233	1,114,507

The movement in the loss allowance for impairment of trade receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**(8,033)**	–
Effect of adoption of HKFRS 9	**(2,045)**	–
At beginning of year (restated)	**(10,078)**	–
Impairment losses	**(1,856)**	(8,033)
At end of year	**(11,934)**	(8,033)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Less than 6 month	**Over 6 months**	**Total**
Expected credit loss rate	0.21%	98.42%	0.66%
Gross carrying amount (*RMB'000)*	1,811,237	8,178	1,819,415
Expected credit losses *(RMB'000)*	3,886	8,048	11,934

The Group's bills receivable have been accepted by notable banks with high credit ratings. As at 31 December 2018, the probability of default and the loss given default were estimated to be minimal.

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade and bills receivables of RMB8,033,000, with a carrying amount before provision of RMB80,333,000.

The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *RMB'000*
Neither past due nor impaired	1,003,121
Less than 1 month past due	39,064
1 to 3 months past due	22
	1,042,207

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

During the year, the Group had pledged certain trade receivables amounting to RMB48,040,000 (2017: RMB279,273,000) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB35,000,000 (2017: RMB231,876,000) were accounted for as collateralised bank advances until the trade receivables were collected or the Group made good on any losses incurred by the banks.

13. TRADE PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**2,256,864**	1,127,603

An ageing analysis of the trade payables as at the end of the year, based on the invoice date, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**1,795,450**	704,203
31 to 60 days	**209,835**	296,081
61 to 90 days	**243,594**	105,751
Over 90 days	**7,985**	21,568
	2,256,864	1,127,603

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 150 days.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans – secured	**3.40-3.60**	**2019**	**220,682**	4.40-5.00	2018	157,734
Collateralised bank advances – unsecured	**3.70-5.44**	**2019**	**105,001**	–	–	–
Collateralised bank advances – secured	**4.20**	**2019**	**35,000**	2.26-4.35	2018	231,876
			360,683			389,610
Non-current						
Other borrowings	**0.44**	**2020**	**24,000**	0.44	2020	24,000
			384,683			413,610
Analysed into:						
Bank loans repayable						
Within one year			**360,683**			389,610
Other borrowings repayable						
In the second year			**24,000**			24,000
			384,683			413,610

Notes:

(a) The Group had banking facilities of RMB3,495,223,600 (2017: RMB2,647,300,000), of which RMB546,921,265 (2017: RMB1,074,784,000) has been utilised as at the end of the year.

(b) The Group's interest-bearing bank borrowings were secured by trade receivables of RMB48,040,000 (2017: RMB279,273,000) as at 31 December 2018.

In addition, the Company's ultimate holding company has guaranteed certain of the Group's interest-bearing bank borrowings of up to RMB360,683,000 (2017: RMB389,610,000) as at the end of the year.

(c) The other borrowings are with a tenure of 3 years starting from 2017. Interest is chargeable at 0.44% per annum and payable annually in arrears.

(d) Except for the 3.80% secured bank loan of RMB38,265,000 (2017: RMB71,876,000), which is denominated in US$, all borrowings are in RMB.

15. SHARE CAPITAL

	2018	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

	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**
At 31 December 2018	**2,086,718,219**	**169,768**	**58,000**

	Number of shares in issue	Share capital *RMB'000*	Share premium account *RMB'000*
At 1 January 2017	2,031,368,800	165,065	236,758
Issue of new shares under Share Award Scheme *(Note (c))*	44,813,829	3,818	–
Vesting shares under the Share Award Scheme *(Note (a))*	–	–	50,874
Share options exercised *(Note (b))*	7,667,990	653	5,936
Transfer of share premium	–	–	(237,632)
At 31 December 2017	2,083,850,619	169,536	55,936

Notes:

(a) An amount of RMB5,973,000 (2017: RMB50,874,000) was credited to the share premium account from the awarded share reserve and an amount of RMB6,053,000 (2017: Nil) was debited to share premium from shares held for Share Award Scheme during the period upon the vesting of shares under Share Award Scheme.

(b) The subscription rights attaching to 2,867,600 (2017: 7,667,990) share options were exercised at the subscription price of HK$0.74 per share, resulting in the issue of 2,867,600 (2017: 7,667,990) shares for a total cash consideration, before expenses, of RMB1,718,000 (2017: RMB4,829,000). An amount of RMB658,000 (2017: RMB1,760,000) was transferred from the share option reserve to share premium account upon the exercise of the share options.

(c) Under the Share Award Scheme, 44,813,829 ordinary shares of HK$0.10 each were issued at par value.

INDUSTRY REVIEW

For the twelve months ended 31 December 2018 (the "Review Period"), changes in trade policies and heightened geopolitical tensions led to subdued global economic growth and lacklustre demand for smartphones in developed countries and Mainland China. According to the report published by global market researcher IDC, global smartphone shipments recorded a total of 1.4 billion units in 2018, a year-on-year decline of 4.1%. As the world's largest smartphone market, Mainland China recorded a particularly notable drop due to its consumers' increasing emphasis on products' price-performance ratio and the rise of rational consumption. According to the data issued by the China Academy of Information and Communications Technology, 390 million units of smartphones were shipped in Mainland China in 2018, marking a year-on-year decline of 15.5%. At the same time, according to IDC, smartphone shipments from the top 4 manufacturers (Huawei, OPPO, vivo, Xiaomi) accounted for 78% of the overall domestic market, up from 66% in 2017, which signified a rise in sectoral concentration in the domestic smartphone industry and the intensification of the competition in the downstream smartphone market.

During the Review Period, full-screen products with Low Temperature Poly-silicon ("LTPS") or Active-Matrix Organic Light-Emitting Diode ("AMOLED") panel continued to be the leading products in the market. As the domestic supply of foldable AMOLED progressively increased, first-tier homegrown smartphone brands started to apply foldable AMOLED panel in their flagship products. According to the data issued by IHS Markit, a market researcher, 160 million units of foldable AMOLED panel were shipped in 2018, more than triple the amount of 46.5 million units in 2015, representing a compound annual growth rate of 50%. However, the demand for foldable AMOLED panel is still at an initial stage owing to its higher cost, and higher requirement for quality and stability.

BUSINESS REVIEW

During the Review Period, the Group recorded a revenue of RMB5.28 billion, representing a year-on-year increase of 52.4%, of which the revenue of laminated LCD module products registered a rise by 101.6% year-on-year to RMB4.38 billion. Revenue of non-laminated LCD module products was RMB900 million, marking a decrease of 30.3% year-on-year. The increase in the Group's revenue was due to the following reasons: (i) the Group's annual sales volume was up by 13.1% year-on-year to 60.4 million units as driven by the orders placed by new first-tier brand customers in the second half of 2018; (ii) the Group continuously optimised its product mix and increased the proportion of high-end products, so that the portion of laminated products rose from 40.5% for same period last year to 68.9% in terms of sales volume, with the overall average selling price up by 34.7% year-on-year to RMB87.5.

Despite the full recovery made by the Group in its sales volume and gross profit margin in the second half of 2018, the weak sales performance in the first half of 2018 resulted in a decrease in the Group's gross profit margin by 3.4 percentage points year-on-year to 4.7%. Gross profit was RMB248 million, representing a decrease of 11.3% year-on-year. Due to the significant year-on-year decrease in net profits in the first half of 2018, the Group's profit attributable to owners of the parent dropped by 29.3% year-on-year to RMB81.8 million, with basic earnings per share of RMB3.95 cents, decreasing by 31.3% year-on-year.

Sales volume by product segment and their respective year-on-year comparisons:

	For the year ended 31 December				
	2018		2017		Change
	'000 units	***%***	*'000 units*	*%*	*%*
TFT LCD module					
Non-laminated modules	**18,788**	**31.1**	31,767	59.5	–40.9
Laminated modules	**41,596**	**68.9**	21,606	40.5	+92.5
Total	**60,384**	**100.0**	53,373	100.0	+13.1

Revenue by product segment and their respective year-on-year comparisons:

	For the year ended 31 December				
	2018		2017		Change
	RMB'000	***%***	*RMB'000*	*%*	*%*
TFT LCD module					
Non-laminated modules	**900,028**	**17.0**	1,291,789	37.3	–30.3
Laminated modules	**4,380,833**	**83.0**	2,172,784	62.7	+101.6
Total	**5,280,861**	**100.0**	3,464,573	100.0	+52.4

Revenue by geographical segment and their respective year-on-year comparisons:

	For the year ended 31 December				
	2018		2017		Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
Hong Kong	**737,309**	**14.0**	988,624	28.5	–25.4
China	**4,179,043**	**79.1**	2,178,586	62.9	+91.8
South Korea	**357,524**	**6.8**	284,553	8.2	+25.6
Others	**6,985**	**0.1**	12,810	0.4	–45.5
Total	**5,280,861**	**100.0**	3,464,573	100.0	+52.4

During the Review Period, China remained the major market for the Group. Benefited from the orders from new brand customers, revenue derived from China was RMB4.18 billion, increased by 91.8% year-on-year and accounted for 79.1% of the Group's total revenue. Due to change of customer base, revenue derived from Hong Kong was RMB737 million, decreased 25.4% year-on-year. South Korea was the third largest market for the Group as fueled by the sales to LG, a renowned South Korean consumer electronics company. Revenue derived from South Korea was RMB358 million, representing a year-on-year increase of 25.6%.

Parent Company's Increase in Shareholding Created Closer Relationship with CSOT

From October to November 2018, TCL Corporation ("TCL Corporation"), the controlling shareholder of the Company, increased its shareholding in the Company through the acquisition of approximately 260 million ordinary shares of the Company ("Shares") (representing approximately 12.46% of the total number of issued shares of the Company) ("Increase in Shareholding") by High Value Ventures Limited on the market. High Value Ventures Limited is an indirect subsidiary of Shenzhen China Star Optoelectronics Technology Co., Ltd* ("Shenzhen CSOT", 深圳市華星光電技術有限公司, together with its subsidiaries, "CSOT"), which is ultimately owned by TCL Corporation. Approximately 250 million shares were acquired on 1 November 2018 at HK$0.85 per share, representing a premium of approximately 21.4% over the closing price of HK$0.70 per Share on 31 October 2018. Following the Increase in Shareholding, TCL Corporation's stake reached approximately 65.05% of the total issued number of shares of the Company. The Increase in Shareholding was a testament indicating TCL Corporation's confidence in the Company's prospects and was expected to enhance the synergistic benefits brought by the vertically integrated supply chain jointly established by the Group and CSOT.

Sustained Efforts to Improve the Synergies with CSOT

1. 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 its core competitiveness. To keep abreast of the market trend, the Group has cooperated with CSOT to develop and launch a variety of high-end full-screen notch-cutting module products. During the Review Period, the Group's full-screen products accounted for approximately 64% of the overall sales volume and the proportion of the sales volume of LTPS products increased from 29% for the same period last year to 64%.

2. Breaking into the Direct Supply Chain of First-tier Brand Customers

The Group has been striving to deepen its cooperation with CSOT so as to win first-tier brand customers through the one-stop business model that combines panel and module from each party. After winning a new brand customer Xiaomi in 2017, the Group, during the Review Period, has built partnerships with a number of first-tier brand customers, including Samsung, Huawei, vivo and OPPO, thus establishing a solid customer base. Given that the market share in the global smartphone industry has become increasingly concentrated, the Group will continue to strengthen its synergy with CSOT by leveraging its progressively sophisticated panel production techniques so as to deepen partnerships with numerous first-tier brand customers, and propel the long-term and stable development of the Group.

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

According to the report published by global market intelligence firm IDC, the global shipment of smart home devices is anticipated to increase from 644 million units in 2018 to 1.3 billion units in 2022, with the interactive touch display screens 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. In March 2018, the Group launched a partnership with Baidu to introduce its first smart speaker with interactive touch display module, which marked the Group's first foray into the smart home market. In addition, the Group expanded 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 Achieve Sustainable Development

In order to fully optimise production line efficiency and enhance management innovation and decision-making capabilities, the Group purchased software and equipment from Foxconn Technology Group and its subsidiaries (collectively, the "Foxconn Group") to gradually set up a smart factory by leveraging the technical skills of the Foxconn Group. The first phase of this project was formally launched in May 2018 in Huizhou and the renovation of production line is expected to be completed by the end of 2019. Through the cooperation with the Foxconn Group, the Group will build on its existing production line to enhance 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 lines management, improve product quality, and effectively reduce costs to achieve sustainable business development.

OUTLOOK

In 2019, the impact of trade conflicts and geopolitical tensions continues and global economy still faces long-term risks. The report published by market researcher TrendForce showed that the year-on-year decline in global smartphone shipments may reach 5% in 2019 as a result of persistently weak demand. Despite market uncertainties, the Group will continue to be committed, through deepening the cooperation with CSOT, to responding to customers' needs proactively and offering customised products to first-tier brand customers in order to strengthen our customer base. At the same time, the Group, with its business acumen, will strengthen its research and development by joining hands with CSOT, and consistently enhance the capabilities in the LTPS and AMOLED display technology. The Group expects the sales of high-end products will rise further, laying a solid foundation for future business development.

Foldable smartphones will be the key product in the next generation of smartphone development as the market for smartphones has reached saturation. WitsView (an optoelectronics research arm under TrendForce) anticipated the official launch of foldable smartphones in 2019, and the ongoing evolution of foldable AMOLED panels. As the 6th generation production lines of foldable LTPS-AMOLED of CSOT is scheduled to commence production in the first half of 2019, the Group will ride on the growth momentum of foldable AMOLED display panel with Wuhan CSOT and tap into the development potential of foldable smartphones to become a forerunner in technological innovation.

In addition, with the official launch of the international 5G standard in 2018, a number of manufacturers have announced to unveil their first 5G smartphones in 2019, creating favourable conditions for the industry. The Group will actively explore the Internet of Things ecosystem to develop a variety of display products horizontally. The Group will continue to increase its presence in the automotive display and smart home markets, dedicating resources for research and development to capture the immense opportunities in those markets. In the long run, the Group remains cautiously optimistic about the development prospects of the display module business and believes in its ability to maintain a balance between sales and healthy development in the midst of challenges, so as to create greater 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 and interest-bearing bank loans.

The Group's cash and cash equivalents balance as at 31 December 2018 amounted to RMB277 million, of which 51.4% was in US dollar, 47.6% was in RMB and 1.0% was in HK dollar.

As at 31 December 2018, the Group's interest-bearing bank loans were RMB361 million, which are denominated in RMB and US dollar with variable interest rate, and are all repayable within one year. The Group's other borrowings were RMB24 million, which are denominated in RMB with a fixed interest rate, and are repayable in 2020.

As at 31 December 2018, total equity attributable to owners of the parent was RMB545 million (31 December 2017: RMB498 million), and the gearing ratio was 11.7% (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.

Pledge of Assets

During the year, the Group pledged trade receivables of RMB48,040,000 (2017: RMB279,273,000) to banks with recourse in exchange for cash.

As at 31 December 2018, the pledged trade receivables were fully collected while the collateralised bank advance were unmatured.

Capital Commitments and Contingent Liabilities

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Contracted, but not provided for:		
Plant and equipment	**80,179**	119,473

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

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2018.

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. The Group also used forward currency contracts to reduce the foreign currency exposures. In addition, pursuant to prudent financial management, the Group has not conducted or engaged in any high-risk derivative transactions.

Significant Investments Held

There were no significant investment held as at 31 December 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 31 December 2018, the Group had a total of 4,032 employees. During the Review Period, the total staff costs amounted to RMB292 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 Scheme and Share Award Scheme respectively. Share options carrying rights to subscribe for a total of 65,180,430 Shares remained outstanding as at 31 December 2018.

ENVIRONMENTAL POLICY AND COMPLIANCE

The Group is devoted to achieve environmental sustainability and incorporates its philosophy of corporate social responsibility into daily operations. The Group operates its in-house manufacturing facilities in compliance with all applicable local environmental regulations.

The Group encourages to protect the environment. To promote environmental awareness among employees, new staff shall attend induction training on energy saving. During the Review Period, the Group improved its management efficiency and implemented various energy saving measures, which effectively reduced the use of resources and further created a safe and healthy workplace and living environment for its staff.

The Group continuously implements fine-tuned strategy to shoulder its corporate environmental, social and ethical responsibility and improve corporate governance, in an effort to create greater value for all of the Group's stakeholders including shareholders, customers and employees as well as the communities where it operates.

The Environmental, Social and Governance Report of the Company for the year ended 31 December 2018 prepared in accordance with Appendix 27 to the Listing Rules will be published separately pursuant to the requirements under Appendix 27 to the Listing Rules.

CUSTOMERS AND SUPPLIERS

The Group recognises maintaining good and stable relationship with customers and business partners is key for the sustainable development of the Group. Therefore, the Group keeps good partnership with its major customers. During the year, the Group's largest customer and the top five customers contributed approximately 44% and 77% (for the year ended 31 December 2017: 26% and 70%) to the revenue of the Group, respectively. Those customers have been cooperating with the Group for 2-7 years. The Group's largest supplier and the top five suppliers accounted for approximately 17% and 41% (for the year ended 31 December 2017: 11% and 43%) of the purchases of the Group, respectively. Those suppliers have been cooperating with the Group for 3-8 years.

Major customers

The Group's major customers are all from consumer mobile device industry, which is characterised by its cycles of integration and emergence of new brands. Any loss of or changes in market position of any of these customers may materially and adversely affect the business, financial conditional and operating results of the Group. In light of this, the Group adopts the following strategies to reduce the risk from reliance on one single customer. On one hand, the Group strengthens the relationship with its existing customers. One of the major customers is a subsidiary of TCL Corporation, the ultimate controlling shareholder of the Company, and has established solid partnership with the Group over the years. The other major customers also make relatively stable contribution to the revenue of the Group. On the other hand, the Group endeavours to expand business and acquire new customers by improving product mix and integrating industry chain. Given the synergies generated with CSOT, the Group has been producing modules for major brand customers, including Samsung, Huawei, Xiaomi, OPPO and vivo, since the second half of 2018.

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 credit limit. The Group also maintains credit insurance for trade receivables from customers.

Suppliers

There are numerous suppliers providing materials required for the Group's production and other businesses operations. However, the Group can only rely on a limited number of suppliers for certain materials which are exclusively manufactured by certain suppliers. Failure of suppliers to timely deliver adequate production materials may disrupt the Group's production process, and hence adversely affect to the business and financial performance of the Group. The Group therefore adopts multiple sourcing policy and strategic inventory management to ensure sufficient supply of materials for production. In addition, one of the major suppliers, Wuhan CSOT, is the Group's fellow subsidiary, which helps to stabilise the upstream panel supply of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Pursuant to the rules of the restricted Share Award Scheme adopted by the Company on 17 March 2016, the Company instructed the trustee for the scheme to purchase from the market a total of 1,664,000 Shares being the restricted shares which have been awarded to the relevant grantees during the year. The total amount paid to acquire such Shares was approximately RMB1,518,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

FINAL DIVIDEND

The Board do not recommend the payment of any dividend by the Company, for the year ended 31 December 2018 (2017: 2.00 HK cents).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the entitlements of the shareholders of the Company to attend and vote at the AGM, the deadline for share registration will be 31 May 2019, Friday and the register of members of the Company will be closed from 3 June 2019, Monday to 6 June 2019, Thursday (both dates inclusive). No transfer of the Shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 31 May 2019, Friday.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 6 June 2019, Thursday. The notice of annual general meeting will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited and despatched to the shareholders of the Company in due course.

CORPORATE GOVERNANCE

During the year ended 31 December 2018, the Company has complied with the Code Provisions (the "Code Provision") of the CG Code as set out in Appendix 14 to the Listing Rules except for the following deviations:

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 ("CTR").

During the year ended 31 December 2018, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations Department of the Company and Mr. PENG Bo, the Legal Manager of the Company as the contact persons with Ms. Cheung to ensure that information in relation to the performance, financial position and other major developments of the Group are speedily delivered to Ms. Cheung through the contact persons assigned, to enable the company secretary to get hold of the Group's development promptly without material delay. With CTR's respective expertise and experience, the Company is confident that having Ms. Cheung as its company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company had not, throughout the year ended 31 December 2018, fully complied with the code provisions set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code for Securities Transactions by directors of Listed Issuers (the "Model Code"), as set out in Appendix 10 to the Listing Rules). 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 year ended 31 December 2018.

After the year ended 31 December 2018, on 25 February 2019, Mr. Li Jian, then executive Director and chief executive officer of the Company, (i) exercised option ("Option") granted to him on 18 March 2016 pursuant to the Share Option Scheme of the Company to subscribe for 80,000 Shares (representing approximately 0.0038% of the total number of issued Shares as at 25 February 2019) at the exercise price of HK$0.74 per Share (which was determined at the time of grant), and (ii) disposed on-market of the same parcel of 80,000 Shares at a price of HK$0.75 per Share ("Disposal") without first notifying the designated Director pursuant to Appendix 10 to the Listing Rules. Whilst the exercise of Option did not constitute a dealing under the Model Code, the Disposal constituted a dealing within the Blackout Period and hence a breach of Rule A.3(a)(i) of the Model Code.

Mr. Li confirmed that he had inadvertently instructed the broker to place such order for the Disposal before notifying and obtaining clearance from the designated Director under Appendix 10 to the Listing Rules. Mr. Li undertook with the Company that he will comply with the required standards as set out in Appendix 10 to the Listing Rules in future. Mr. Li has resigned as an executive Director and all positions he held in the Company with effect from 7 March 2019.

The Board is of the view that the Company has maintained an effective system in monitoring the Directors' dealings (including a notification mechanism) to ensure compliance with Appendix 10 to the Listing Rules. In particular, the Company has on 10 January 2019 notified all Directors of the Blackout Period. In order to avoid similar incidents in the future, the Company has implemented and will implement the following actions:

(i) Remind all Directors the importance of complying with Appendix 10 to the Listing Rules in their dealings of the Shares and in particular the importance of giving written notice prior to conducting any intended dealings. The Company will also provide briefings to develop and refresh the Directors' knowledge and enhance their awareness of good corporate governance practices.

(ii) As all options granted by the Company to the Directors pursuant to its Share Option Scheme are managed by a broker designated by the Company, the Company has (with consent of and on behalf of the Directors) instructed the relevant broker to refrain from processing and carrying out any instructions for exercising options and any subsequent dealings in such Shares by Directors during any prohibition period under Appendix 10 to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles adopted by the Group, with the Company's management. The Audit Committee comprises three members, namely Ms. HSU Wai Man, Helen (Chairman), Mr. XU Yan and Mr. LI Yang, all being independent non-executive directors of the Company.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditors on the preliminary announcement.

On behalf of the Board
LIAO Qian
Chairman

Hong Kong, 19 March 2019

The English transliteration of the Chinese name(s) in this announcement, where indicated with "", is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese names.*

As at the date of this announcement, the Board comprises Mr. LIAO Qian as Chairman and non-executive Director Mr. OUYANG Hongping, Mr. WEN Xianzhen and Mr. ZHAO Jun as executive Directors; and Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang as independent non-executive Directors.