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 2019

FINANCIAL HIGHLIGHTS

Unaudited results for the six months ended 30 June

	2019	2018	**Change**
	RMB'000	*RMB'000*	
Revenue	**3,516,593**	1,263,756	+178.3%
Gross profit	**76,981**	24,093	+219.5%
Profit/(Loss) for the period	**10,639**	(13,407)	N/A
Profit/(Loss) attributable to owners of the parent	**13,122**	(11,896)	N/A
Basic earnings/losses per share *(RMB cents)*	**0.63**	(0.58)	N/A

The board (the "Board") of directors (each a "Director", together the "Director(s)") of China Display Optoelectronics Technology Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June **2019** **(Unaudited)** ***RMB'000***	2018 (Unaudited) *RMB'000*
Revenue	*4*	**3,516,593**	1,263,756
Cost of sales		**(3,439,612)**	(1,239,663)
Gross profit		**76,981**	24,093
Other income and gains	*4*	**31,339**	28,032
Selling and distribution expenses		**(16,441)**	(15,911)
Administrative expenses		**(44,329)**	(39,639)
Other expenses		**(3,006)**	(4,345)
Finance costs	*6*	**(27,336)**	(4,578)
PROFIT/(LOSS) BEFORE TAX	*5*	**17,208**	(12,348)
Income tax expense	*7*	**(6,569)**	(1,059)
PROFIT/(LOSS) FOR THE PERIOD		**10,639**	(13,407)
Attributable to:			
Owners of the parent		**13,122**	(11,896)
Non-controlling interest		**(2,483)**	(1,511)
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
For profit/(loss) for the period		**RMB0.63 cents**	RMB(0.58) cents
Diluted			
For profit/(loss) for the period		**RMB0.63 cents**	RMB(0.58) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT/(LOSS) FOR THE PERIOD	**10,639**	(13,407)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**493**	659
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**493**	659
OTHER COMPREHENSIVE INCOME, NET OF TAX	**493**	659
TOTAL COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**11,132**	(12,748)
Attributable to:		
Owners of the parent	**13,615**	(11,237)
Non-controlling interest	**(2,483)**	(1,511)
	11,132	(12,748)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	**30 June 2019 (Unaudited) *RMB'000***	31 December 2018 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**623,665**	602,543
Intangible assets		**4,965**	5,664
Deposits paid for purchase of items of property, plant and equipment		**55,419**	60,736
Deferred tax assets		**19,360**	17,545
Right-of-use assets		**35,370**	–
Total non-current assets		**738,779**	686,488
CURRENT ASSETS			
Inventories		**375,059**	574,606
Trade and bills receivables	*10*	**2,779,681**	2,145,233
Prepayments and other receivables		**143,646**	129,242
Cash and cash equivalents		**671,138**	277,437
Total current assets		**3,969,524**	3,126,518
CURRENT LIABILITIES			
Trade payables	*11*	**2,156,607**	2,256,864
Other payables and accruals		**409,342**	371,868
Interest-bearing bank borrowings	*12*	**1,365,898**	360,683
Tax payable		**18,869**	47,557
Bonds payable		**8,797**	–
Total current liabilities		**3,959,513**	3,036,972
NET CURRENT ASSETS		**10,011**	89,546
TOTAL ASSETS LESS CURRENT LIABILITIES		**748,790**	776,034

	Notes	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Other borrowings	*12*	**24,000**	24,000
Other payables and accruals		**124**	–
Deferred income		**9,798**	10,357
Bonds payable		**–**	61,341
Deferred tax liabilities		**6,925**	–
Total non-current liabilities		**40,847**	95,698
Net assets		**707,943**	680,336
EQUITY			
Equity attributable to owners of the parent			
Share capital	*13*	**172,118**	169,768
Reserves		**403,067**	375,333
		575,185	545,101
Non-controlling interests		**132,758**	135,235
Total equity		**707,943**	680,336

Notes:

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has 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 information does 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 2018.

2. CHANGES TO THE GROUP'S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) 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 account for all leases under a single on-balance sheet model.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and accruals.

The right-of-use assets were 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 1 January 2019. All the assets were assessed for any impairment. The Group elected to present the right-of-use assets separately in the statement of financial position.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase
	RMB'000
	(Unaudited)
Assets:	
Increase in right-of-use assets	9,773
Increase in total assets	9,773
Liabilities:	
Increase in other payables and accruals – current	9,385
Increase in other payables and accruals – non-current	388
Increase in total liabilities	9,773

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	Increase
	RMB'000
	(Unaudited)
Operating lease commitments as at 31 December 2018:	10,028
Weighted average incremental borrowing rate as at 1 January 2019	4.374%
Discounted operating lease commitments as at 1 January 2019	9,773
Lease liabilities as at 1 January 2019	9,773

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "other payables and accruals"), and the movement during the period are as follow:

	Right-of-use assets			
	Lands	**Plants and properties**	**Subtotal**	**Lease liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	–	9,773	9,773	9,773
Additions	30,168	820	30,988	820
Depreciation charge	(201)	(5,215)	(5,416)	–
Interest expense	–	–	–	186
Payments	–	–	–	(5,035)
Exchange realignment	–	25	25	25
As at 30 June 2019	29,967	5,403	35,370	5,769

(b) 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. Since the Group had considered the uncertain tax positions arising from the transfer pricing at each year end, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Mainland China*	**3,205,897**	758,636
Other countries/areas	**310,696**	505,120
	3,516,593	1,263,756

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 RMB2,287,055,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB263,732,000) was derived from sales to related companies.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers

Disaggregated revenue information

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segments	**LCD modules**	LCD modules
Type of goods and services		
Sale of goods	**3,496,846**	1,263,756
Processing services	**19,747**	–
Total revenue from contracts with customers	**3,516,593**	1,263,756
Geographical markets		
Mainland China	**3,205,897**	758,636
Hong Kong	**238,355**	298,006
South Korea	**69,026**	203,405
Turkey	**3,024**	–
Thailand	**291**	–
Taiwan	**–**	3,709
Total revenue from contracts with customers	**3,516,593**	1,263,756
Timing of revenue recognition		
Goods transferred at a point in time	**3,496,846**	1,263,756
Services transferred over time	**19,747**	–
Total revenue from contracts with customers	**3,516,593**	1,263,756

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other income, net		
Bank interest income	**4,067**	2,607
Subsidy income*	**1,526**	5,205
Gains on disposal of raw materials, samples and scraps	**14,970**	12,296
Others	**10,776**	3,942
	31,339	24,050
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. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**3,186,445**	1,089,671
Depreciation	**58,056**	30,611
Amortisation of intangible assets	**741**	633
Depreciation of right-of-use assets	**5,416**	–
Research and development costs:		
current period expenditures*	**9,699**	15,662
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**186,682**	95,440
Pension scheme contributions	**29,887**	18,594
Equity-settled share award expense	**20**	484
Equity-settled share option expense	**(232)**	454
	216,357	114,972
Exchange differences, net	**981**	2,556
Reversal of impairment of trade and bills receivables	**(1,578)**	–
Reversal of write-down of inventories to net realisable value**	**(4,109)**	(292)

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

** Reversal of write-down of inventories to net realisable value is 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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank loans and bonds	**3,979**	4,578
Interest on discounted notes with recourses and factored trade receivables	**23,357**	–
	27,336	4,578

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current – Hong Kong		
Charge for the period	**204**	4,213
Current – Mainland China		
Charge for the period	**3,546**	–
Adjustment in respect of current tax of previous periods	**(2,291)**	(3,397)
Deferred	**5,110**	243
Total tax charge for the period	**6,569**	1,059

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 2019 (six months ended 30 June 2018: Nil).

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final 2018 dividend – nil (Final 2017 dividend: 2.00 HK cents) per ordinary share	**–**	35,185

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

The calculation of the basic earnings/(losses) per share amount for the six months ended 30 June 2019 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB13,122,000 (six months ended 30 June 2018: the loss of RMB11,896,000), and the weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the period of 2,084,049,501 (six months ended 30 June 2018: 2,045,097,077).

During the six months ended 30 June 2019, the share options had an anti-dilutive effect on the basic earnings per share, no adjustment has been made to the basic earnings per share amounts in respect of a dilution.

The calculation of basic earnings per share is based on:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings/(losses)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(losses) per share calculations	**13,122**	(11,896)

	Number of shares For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme during the period used in the basic earnings/(losses) per share calculations	**2,084,049,501**	2,045,097,077

10. TRADE AND BILLS RECEIVABLES

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade receivables	**1,676,726**	1,819,415
Bills receivable	**1,105,279**	337,752
Impairment	**(2,324)**	(11,934)
	2,779,681	2,145,233

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 2019, the Group had pledged certain trade receivables amounting to RMB48,407,000 (31 December 2018: RMB48,040,000) and sales orders of RMB103,120,000 (31 December 2018: nil) to banks with recourse in exchange for cash. The proceeds from pledging the trade receivables of RMB42,000,000 (31 December 2018: RMB35,000,000) and proceeds from pledging the sales orders of RMB60,000,000 (31 December 2018: nil) were accounted for as collateralised bank advances until the trade receivables or sales orders were collected or the Group made good of any losses incurred by the banks (note 12).

As at 30 June 2019, the Group had discounted certain bills receivables and factored certain trade receivables amounting to RMB1,263,898,000 (31 December 2018: RMB220,682,000) to bank in exchange for cash. The proceeds from discounting the bills receivables and factoring the trade receivables of RMB1,263,898,000 (31 December 2018: RMB220,682,000) were accounted for as bank loans until the bill receivables and trade receivables were collected (note 12).

11. TRADE PAYABLES

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	RMB'000	*RMB'000*
Trade payables	**2,156,607**	2,256,864

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	RMB'000	*RMB'000*
Within 30 days	**1,417,152**	1,795,450
31 to 60 days	**201,024**	209,835
61 to 90 days	**185,124**	243,594
Over 90 days	**353,307**	7,985
	2,156,607	2,256,864

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

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans – secured	**3.08-4.35**	**2019**	**1,263,898**	3.40-3.60	2019	220,682
Collateralised bank advances – unsecured	**–**	**–**	**–**	3.70-5.44	2019	105,001
Collateralised bank advances – secured	**3.55-3.60**	**2019**	**102,000**	4.20	2019	35,000
			1,365,898			360,683
Non-current						
Other borrowings	**0.44**	**2022**	**24,000**	0.44	2020	24,000
			1,389,898			384,683
Analysed into:						
Bank loans repayable						
Within one year			**1,365,898**			360,683
Other borrowings repayable						
In the second year			**–**			24,000
In the third to fifth years, inclusive			**24,000**			–
			1,389,898			384,683

Notes:

(a) The Group had banking facilities of RMB2,760,000,000 (31 December 2018: RMB3,495,224,000), of which RMB596,868,000 (31 December 2018: RMB546,921,000) had been utilised as at the end of the review period.

(b) The Company's ultimate holding company has guaranteed certain of the Group's interest-bearing bank borrowings up to RMB1,365,898,000 (31 December 2018: RMB360,683,000) as at the end of the review period.

(c) The other borrowings are with a tenure of 5 years (31 December 2018: 3 years) starting from 2017. Interest is chargeable at 0.44% per annum and payable annually in arrears.

(d) All borrowings are denominated in RMB as at 30 June 2019.

13. SHARE CAPITAL

	30 June 2019	31 December 2018
Authorised:		
4,000,000,000 (31 December 2018: 4,000,000,000) ordinary shares of HK$0.10 each (HK$'000)	**400,000**	400,000
Issued and fully paid:		
2,114,117,429 (31 December 2018: 2,086,718,219) ordinary shares (HK$'000)	**211,412**	208,672
Equivalent to RMB'000	**172,118**	169,768

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 2019	2,086,718,219	169,768	58,000
Share options exercised *(Note (a))*	27,399,210	2,350	21,331
At 30 June 2019	2,114,117,429	172,118	79,331

Note:

(a) The subscription rights attaching to 27,399,210 share options were exercised at the subscription price of HK$0.74 per share, resulting in the issue of 27,399,210 shares for a total cash consideration, before expenses, of RMB17,392,000. An amount of RMB6,289,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

INDUSTRY REVIEW

The first half of 2019 was a turbulent time for world politics and the global economy. Owing to the intensified Sino-US trade frictions, the demand for smartphones remained weak, which adversely affected the development of the smartphone industry. In addition, the overall shipment volume decreased significantly due to the lengthening cycle of smartphone replacement and the declining desire for new smartphone purchases. According to the latest report from global market researcher IDC, the global smartphone shipment volume for the second quarter of 2019 was approximately 333 million units, dropped by 2.3% as compared with last year, but representing an increase of 6.5% as compared with the previous quarter. As the declines became less severe, it might indicate some recovery was underway in the market. The data from the China Academy of Information and Communications Technology also showed that the smartphone shipment volume in China was 178 million units for the first half of 2019, representing a decrease of 4.3% year-on-year.

As the domestic supply of foldable Active-Matrix Organic Light-Emitting Diode ("AMOLED") progressively increased, certain smartphone manufacturers have launched foldable smartphones. However, the maturity level of the technology and market penetration were not satisfactory. In the first half of 2019, full-screen products with Low Temperature Poly-silicon ("LTPS") or AMOLED panel remained the leading products in the market.

BUSINESS REVIEW

For the six months ended 30 June 2019 (the "Review Period"), driven by the increasing orders from major customers, the Group's sales volume increased by 182.3% year-on-year to 49.6 million units. During the Review Period, the Group recorded a revenue of RMB3.52 billion, representing a year-on-year increase of 178.3%; of which the revenue of laminated LCD module products (excluding processing LCD modules) recorded a rise by 206.4% year-on-year to RMB2.90 billion, revenue of non-laminated LCD module products was RMB598 million, representing an increase of 88.4% year-on-year. During the Review Period, the raw materials of certain products were provided by customers directly and thus the cost of such raw materials was not reflected in the selling price for the relevant products which resulted in a lower selling price. However, the overall average selling price increased by 2.1% year-on-year to RMB73.4 (excluding processing LCD modules), due to the improvement of the product mix.

The Group started providing processing service in June 2019. The new business model enabled the Group to drive down procurement costs and inventory management costs, resulting in a higher gross profit margin as compared to that of selling LCD modules manufactured by the Group, as well as reducing the risk of cost fluctuation of raw materials. During the Review Period, the income from processing service amounted to RMB20 million and accounted for 4.0% of the total sales volume.

Benefited from the growth in sales volume, the Group's gross profit during the Review Period was RMB77.0 million, increased by 219.5% year-on-year. The gross profit margin increased by 0.3 percentage point year-on-year to 2.2%. The improvement in gross profit margin was not considerable because: 1) the Group had adopted a relatively aggressive pricing strategy in order to actively seize the market share, increase the scale of the sales, and establish long-term and stable relationships with customers; 2) raw material costs remained high. During the Review Period, the Group's profit attributable to owners of the parent was RMB13.1 million.

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

(Unaudited)	**For the six months ended 30 June**				
	2019		2018		**Change**
	RMB'000	*%*	*RMB'000*	*%*	*%*
Sale of TFT LCD module					
– Non-laminated modules	**598,222**	**17.0**	317,604	25.1	+88.4
– Laminated modules	**2,898,624**	**82.4**	946,152	74.9	+206.4
Processing TFT LCD modules					
– Laminated modules	**19,747**	**0.6**	–	–	N/A
Total	**3,516,593**	**100.0**	1,263,756	100.0	+178.3

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

(Unaudited)	For the six months ended 30 June				
	2019		2018		**Change**
	'000 units	*%*	*'000 units*	*%*	*%*
Sale of TFT LCD module					
– Non-laminated modules	**13,859**	**27.9**	7,257	41.3	+91.0
– Laminated modules	**33,775**	**68.1**	10,315	58.7	+227.4
Processing TFT LCD modules					
– Laminated modules	**1,975**	**4.0**	–	–	N/A
Total	**49,609**	**100.0**	17,572	100.0	+182.3

During the Review Period, due to new orders placed by the brand customers, sales markets were more concentrated. Revenue derived from China was RMB3.21 billion, accounted for 91.1% of the Group's total revenue, becoming the largest single market of the Group. Revenue derived from Hong Kong and other areas (including South Korea, Thailand and Turkey, etc.) amounted to RMB238 million and RMB72.3 million, representing a decrease of 20.0% and 65.1%, respectively.

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

(Unaudited)	For the six months ended 30 June				
	2019		2018		**Change**
	RMB'000	*%*	*RMB'000*	*%*	*%*
China	**3,205,897**	**91.1**	758,636	60.0	+322.6
Hong Kong	**238,355**	**6.8**	298,006	23.6	–20.0
Others	**72,341**	**2.1**	207,114	16.4	–65.1
Total	**3,516,593**	**100.0**	1,263,756	100.0	+178.3

The Group has been striving to deepen its cooperation with Shenzhen China Star Optoelectronics Technology Co., Ltd.*（深圳市華星光電技術有限公司）, the parent company of the Group, and its subsidiaries (collectively "CSOT"), so as to win first-tier brand customers through the one-stop business model that combines panel and module from both parties. Following the Group's entry into the supply chain of China's first-tier brands with CSOT in 2017, the Group has been able to establish partnerships with a number of international first-tier brand customers, which is expected to assist in the formation of a solid and strong customer base in the long run . As the Group took on more order form first-tier brands as customers through co-operating with CSOT, the proportion of high-end products in the Group's overall sales volume consistently increased. The sales volume of LTPS products increased from 38% for the same period last year to 88%; while the sales volume of full-screen products went up to 90%.

Meanwhile, in order to fulfill the growing demand from first-tier brand customers, Wuhan China Display Optoelectronics Technology Co., Ltd., ("Wuhan CDOT", the joint venture between the Group and Wuhan China Star Optoelectronics Technology Co., Ltd.*, 武漢華星光電技術有限公司) has been remodeling the equipment and production line of its manufacturing plant since the second half of 2018. The expanded production line will have an annual production capacity of approximately 60 million and 120 million units in 2019 and 2020 respectively. With the capacity expansion, the Group will be able to accept more processing orders from customers, which will in turn propel the Group's business as an original design manufacturer and enhance the effective utilization of resources.

OUTLOOK

Looking ahead, the international political and economic landscape will continue to be clouded by uncertainties. The escalation of Sino-US trade frictions is reducing the market's investment intentions and the global display industry is experiencing downward pressure, which induces a sense of reluctance to commit to the market among market players. Although the Group has achieved fruitful results in deepening the vertical integration with CSOT, the imbalance between supply and demand in the semiconductor industry will result in intensifed market competition, before the commercialization of 5G technology and the foldable AMOLED end products gaining wide acceptance.

By capitalizing on the existing partnerships, the Group will continue to strengthen its customer base and increase its market share. The Group will also actively reduce costs and increase efficiency to maximize production efficacy and effectiveness while expanding the production capacity of Wuhan CDOT. At the same time, the Group will elevate its research and development capabilities to enhance and prepare for advanced display technology, including in-display fingerprint and AMOLED technologies, so as to lay a solid foundation for future operation. Meanwhile, the Group is also increasing its presence in the smart home and automotive display markets to capture the immense opportunities therein, as well as expanding its business horizontally.

In the long run, the Group still remains cautiously optimistic about the development prospects of the display module business and believes in its ability to maintain a balance between sales growth and healthy progress amidst challenges, so as to create greater value for the Group and its shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the Review Period, the Group's principal financial instruments comprised cash and cash equivalents, factorings and interest-bearing bank loans.

The Group's cash and cash equivalents balance as at 30 June 2019 amounted to RMB671 million, of which 3.6% was in US dollar, 94.5% was in RMB and 1.9% was in HK dollar.

As at 30 June 2019, the Group's interest-bearing bank loans were RMB1.37 billion, which were denominated in RMB with variable interest rates, and were all repayable within one year. The Group's other borrowings were RMB24 million, which were denominated in RMB with a fixed interest rate, and a tenure of 5 years.

As at 30 June 2019, total equity attributable to owners of the parent was RMB575 million (31 December 2018: RMB545 million), and the gearing ratio was 29.7% (31 December 2018: 11.7%). The gearing ratio was 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 RMB48,407,000 (31 December 2018: RMB48,040,000) and sales orders of RMB103,120,000 (31 December 2018: nil) to banks with recourse in exchange for cash.

Capital Commitments and Contingent Liabilities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Plant and equipment	**77,295**	80,179

As at 30 June 2019, the Group had no significant contingent liabilities (31 December 2018: 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 arising from 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. 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 2019.

Significant Investments Held

There was no significant investment held as at 30 June 2019.

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 2019, the Group had a total of 5,972 employees. During the Review Period, the total staff costs amounted to RMB216 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 36,769,220 shares remained outstanding as at 30 June 2019.

INTERIM DIVIDEND

The Board does not recommend to pay any interim dividend for the six months ended 30 June 2019 (2018: Nil).

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 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2019, 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 2019, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations of the Company as the contact person 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 person(s) assigned, so as 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, save as disclosed below, 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 2019.

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 of the Company ("Shares") (representing approximately 0.0038% of the then 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 would 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 continue to 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 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 2019 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, 12 August 2019

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.