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Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8311)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of Perfect Optronics Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

HIGHLIGHTS

- The Group recorded a revenue of approximately HK$183.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: approximately HK$574.1 million).
- Loss attributable to equity holders of the Company for the six months ended 30 June 2017 amounted to approximately HK$31.8 million (six months ended 30 June 2016: profit of approximately HK$10.6 million).
- The Board does not declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

FINANCIAL RESULTS

The board of directors (the "Board") of Perfect Optronics Limited (the "Company") hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 together with the comparative unaudited figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Three months ended 30 June		**Six months ended 30 June**	
		2017	2016	**2017**	2016
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*4*	**78,490**	279,046	**183,373**	574,105
Cost of sales	*8*	**(94,798)**	(259,164)	**(191,340)**	(533,263)
Gross (loss)/profit		**(16,308)**	19,882	**(7,967)**	40,842
Other gains/(losses), net	*6*	**53**	(221)	**6**	(462)
Distribution and selling expenses		**(2,943)**	(3,596)	**(6,310)**	(7,638)
General and administrative expenses		**(7,877)**	(9,144)	**(15,382)**	(16,676)
Research and development expenses		**(625)**	(1,844)	**(1,009)**	(3,835)
Operating (loss)/profit		**(27,700)**	5,077	**(30,662)**	12,231
Finance income		**41**	100	**67**	256
Finance costs	*7*	**(163)**	(460)	**(534)**	(997)
Finance costs, net		**(122)**	(360)	**(467)**	(741)
(Loss)/profit before income tax	*8*	**(27,822)**	4,717	**(31,129)**	11,490
Income tax expense	*9*	**(564)**	(836)	**(718)**	(2,243)
(Loss)/profit for the period		**(28,386)**	3,881	**(31,847)**	9,247
Other comprehensive income:					
Items that may be reclassified subsequently to income statement					
Change in value of available-for-sale financial assets	*12*	**39**	16	**22,534**	58
Currency translation differences		**113**	(180)	**295**	(145)
Total comprehensive (loss)/income for the period		**(28,234)**	3,717	**(9,018)**	9,160

	Note	Three months ended 30 June		Six months ended 30 June	
		2017	2016	**2017**	2016
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss)/profit for the period attributable to:					
Equity holders of the Company		**(28,386)**	4,434	**(31,847)**	10,554
Non-controlling interests		**—**	(553)	**—**	(1,307)
		(28,386)	3,881	**(31,847)**	9,247
Total comprehensive (loss)/ income for the period attributable to:					
Equity holders of the Company		**(28,234)**	4,262	**(9,018)**	10,438
Non-controlling interests		**—**	(545)	**—**	(1,278)
		(28,234)	3,717	**(9,018)**	9,160
Basic and diluted (loss)/earnings per share	*11*	**HK(1.91) cents**	HK0.30 cent	**HK(2.15) cents**	HK0.71 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**4,050**	3,193
Intangible assets		**3,122**	3,122
Available-for-sale financial assets	*12*	**56,811**	31,671
		63,983	37,986
Current assets			
Inventories		**174,820**	167,523
Trade and other receivables	*13*	**13,604**	97,785
Restricted bank deposits		**20,863**	24,702
Cash and cash equivalents		**101,793**	174,126
		311,080	464,136
Total assets		**375,063**	502,122
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**14,837**	14,837
Reserves		**147,227**	124,398
Retained earnings		**164,040**	210,724
		326,104	349,959
Non-controlling interests		**—**	—
Total equity		**326,104**	349,959
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**103**	137
		103	137
Current liabilities			
Trade and other payables	*14*	**45,483**	149,371
Current income tax liabilities		**3,373**	2,655
		48,856	152,026
Total liabilities		**48,959**	152,163
Total equity and liabilities		**375,063**	502,122

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 13 June 2013, as an exempted company with limited liability under the Companies Law (as Revised) of the Cayman Islands. The Company's shares are listed on the GEM.

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

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 (the "2017 Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The 2017 Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The 2017 Interim Financial Statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated; and have been prepared under the historical cost convention, except for available-for-sale financial assets which have been measured at fair value.

The 2017 Interim Financial Statements have been reviewed by the audit committee of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the 2017 Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except as described below.

The Group has adopted and applied, for the first time, the following amendments to standards that have been issued and effective for the accounting periods beginning on 1 January 2017:

HKAS 7 Amendment	Statement of Cash Flows
HKAS 12 Amendment	Income Taxes
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

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

The preparation of the 2017 Interim Financial Statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

3.1 Financial risk factors

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

The 2017 Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management policies since year end.

3.2 Liquidity risk

Compared to the year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

3.3 Fair value estimation

Financial instruments carried at fair value are analysed by valuation method. The different levels have been defined as follows:

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

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

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

The carrying amounts of the Group's financial assets, including cash and cash equivalents, restricted bank deposits and trade and other receivables; and the Group's financial liabilities, including trade and other payables, approximate their fair values due to their short maturities.

As at 30 June 2017, the Group's available-for-sale financial assets at fair value amounted to approximately HK$56,811,000 (31 December 2016: HK$31,671,000) which are included in level 3. The Group did not have any financial assets measured at fair value which are included in level 1 and level 2 as at 30 June 2017 (31 December 2016: Nil). The Group's financial instruments included in level 3 are unlisted available-for-sale equity investments which consist of (i) preferred shares issued by a private entity; and (ii) ordinary shares issued by another private entity in May 2017. The fair value of the preferred shares held is derived by using option-pricing methods to allocate the equity value of the entity, which is implied from the issue prices of recent transactions and justified by comparable company valuation multiples approach.

Below is a summary of significant unobservable inputs to the valuation of the preferred shares held, together with a quantitative sensitivity analysis:

Valuation technique and key inputs	**Significant unobservable input**	**Value**	**Sensitivity of fair value to the input**
Market Comparable Companies and equity value allocation with option-pricing method that are estimated based on recent transaction prices, volatility, risk-free interest rate, time-to-maturity, and dividend yield	Volatility	39.59%	10% increase/decrease in the volatility would result in increase/decrease in fair value by approximately HK$25,000/HK$60,000

During the six months ended 30 June 2017, there were no transfers amongst levels 1, 2, and 3 (six months ended 30 June 2016: Nil).

There were no other changes in valuation techniques during the period.

4. REVENUE

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

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.

The Group has two reportable operating segments, including the Display Products segment and the Optics Products segment.

The directors assess the performance of the operating segments based on a measure of revenue and results of each segment and do not assess the performance based on segment assets and liabilities.

(a) The segment information provided to the directors for the reportable segments for the six months ended 30 June 2017 and 2016 is as follows:

	Display Products		**Optics Products**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue (all from external customers)	**172,512**	568,811	**10,861**	5,294	**183,373**	574,105
Segment results	**(12,396)**	36,541	**3,420**	466	**(8,976)**	37,007
Unallocated operating costs					**(21,686)**	(24,776)
Finance costs, net					**(467)**	(741)
(Loss)/profit before income tax					**(31,129)**	11,490

(b) The Group's revenue from its major products for the six months ended 30 June 2017 and 2016 were as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	**160,033**	522,304
Optics products	**10,861**	5,294
Driver integrated circuits ("ICs")	**6,849**	37,944
Polarisers	**2,338**	5,667
Others	**3,292**	2,896
	183,373	574,105

(c) Segment revenue by customers' geographical location

During the six months ended 30 June 2017 and 2016, most of the Group's revenues were derived in Hong Kong, where the Group's products were delivered by the Group to its customers.

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong	**180,663**	562,868
The People's Republic of China (the "PRC")	**2,710**	10,905
Taiwan	**—**	332
	183,373	574,105

(d) Revenues from major customers who have individually contributed to 10% or more of the total revenue of the Group are disclosed as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**62,040**	66,520
Customer B	**34,999**	89,143
	97,039	155,663

The above two customers are included in the Display Products segment.

(e) An analysis of the Group's non-current segment assets (other than available-for-sale financial assets) by location of assets is as follows:

	Hong Kong	**The PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 30 June 2017 (Unaudited):			
Non-current assets			
Property, plant and equipment	**1,781**	**2,269**	**4,050**
Intangible assets	**2,000**	**1,122**	**3,122**
	3,781	**3,391**	**7,172**
As at 31 December 2016 (Audited):			
Non-current assets			
Property, plant and equipment	2,123	1,070	3,193
Intangible assets	2,000	1,122	3,122
	4,123	2,192	6,315

6. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net exchange loss	**(64)**	(514)
Others	**70**	52
	6	(462)

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings	**—**	156
Factoring charges	**534**	841
	534	997

8. (LOSS)/PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**164,906**	478,874
Provision for obsolete inventories *(Note)*	**14,733**	2,209
Depreciation of property, plant and equipment	**633**	1,098
Amortisation of intangible assets	**—**	257

Note: Provision for obsolete inventories for the six months ended 30 June 2017 mainly relates to the write-down of the Group's certain TFT-LCD panels to their net realisable values. Such amount is included in "Cost of sales" in the condensed consolidated income statement.

9. INCOME TAX EXPENSE

The amount of income tax charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax	**752**	2,329
Deferred income tax	**(34)**	(86)
	718	2,243

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. Taxation on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

10. DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

Final dividend for the year ended 31 December 2016 of approximately HK$14,837,000 was paid in June 2017.

11. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to equity holders of the Company (HK$'000)	**(31,847)**	10,554
Weighted average number of ordinary shares in issue (thousands)	**1,483,687**	1,483,687
Basic and diluted (loss)/earnings per share (HK cent per share)	**HK(2.15) cents**	HK0.71 cent

For the purpose of determining the diluted (loss)/earnings per share amount, no adjustment has been made to the basic (loss)/earnings per share amount for the six months ended 30 June 2017 and 2016 as the Group had no potentially dilutive ordinary shares in issue during these periods.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
At 1 January	**31,671**	32,285
Additions	**2,606**	—
Net gains transfer to equity	**22,534**	58
At 30 June	**56,811**	32,343
Less: Current portion	**—**	—
Non-current portion	**56,811**	32,343

Available-for-sale financial assets include the following:

	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Unlisted equity investments, at fair value		
— Mobvoi Inc. *(Note (a))*	**54,205**	31,671
— Other investment *(Note (b))*	**2,606**	—
	56,811	31,671

Notes:

(a) The balance comprised the holding of certain preferred shares in Mobvoi Inc. ("Mobvoi"), a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. There have been no addition to or disposal of such private equity investment since the Group acquired it in January 2015. The most recent issue by Mobvoi of new preferred shares to a new investor took place in late March 2017 and the Group's shareholding in Mobvoi was diluted to approximately 1.53% (on a fully diluted basis and as converted basis). The financial results of Mobvoi are not included in and have no impact on the Group's condensed consolidated income statement. The change in fair value of the Group's investment in Mobvoi is recognised in other comprehensive income of the Group. No dividend has been received by the Group from Mobvoi since the Group made its investment. The fair value of this unlisted equity investment was assessed based on comparable transaction method and equity value allocation with option-pricing method performed by an independent valuer.

(b) In May 2017, the Group subscribed for certain ordinary shares issued by a private company principally engaged in the research and development, manufacturing and sale of separator which is a key component in lithium battery at approximately HK$2,606,000, representing an approximately 3.33% shareholding of such company.

Further details of the Group's available-for-sale financial assets are included in "Management Discussion and Analysis" section of this announcement.

13. TRADE AND OTHER RECEIVABLES

	30 June 2017 *HK\$'000* **(Unaudited)**	31 December 2016 *HK\$'000* (Audited)
Trade receivables *(Note (a))*	**10,840**	47,696
Bills receivables *(Note (a))*	**—**	32,956
	10,840	80,652
Receivable from Mr. Cheng Wai Tak ("Mr. Cheng") *(Note (b))*	**—**	11,238
Prepayments, deposits and other receivables	**2,764**	5,895
	13,604	97,785

Notes:

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

	30 June 2017 *HK\$'000* **(Unaudited)**	31 December 2016 *HK\$'000* (Audited)
0–30 days	**7,798**	41,777
31–60 days	**1,782**	29,091
61–90 days	**1,220**	7,138
91–180 days	**40**	2,646
	10,840	80,652

(b) The balance as at 31 December 2016 represented the outstanding balance of the profit guarantee compensation due from Mr. Cheng, a director and controlling shareholder of the Company. Such balance was settled on 22 March 2017.

14. TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables *(Note)*	**16,563**	85,553
Bills payables *(Note)*	**18,978**	33,415
	35,541	118,968
Deposits received from customers	**6,194**	22,089
Accruals and other payables	**3,748**	8,314
	45,483	149,371

Note:

The ageing analysis of trade and bills payables based on invoice dates is as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**15,059**	98,283
31–60 days	**603**	17,416
61–90 days	**340**	3,269
91–180 days	**19,539**	—
	35,541	118,968

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the trading of display components for electronics, which are the major display components applied on mobile phones. In addition, it is also engaged in the development and sale of optics products and related electronic components. The Group also processes some of the products which it trades.

The first half of 2017 was a difficult period for the Group. The Group recorded a significant decrease in revenue and loss was incurred during the six months ended 30 June 2017 (the "Period"). During the Period, the Group's revenue amounted to approximately HK$183,373,000, dropped by approximately 68% as compared with the corresponding period in 2016. Affected by the significant drop in revenue, the Group recorded a consolidated loss attributable to equity holders of the Company during the Period, which amounted to approximately HK$31,847,000 (six months ended 30 June 2016: profit of approximately HK$10,554,000).

Display Products segment

The Group recorded approximately HK$172,512,000 of revenue from its display products segment during the Period, dropped by approximately 70% year-over-year. Sales of TFT-LCD panels and modules amounted to approximately HK$160,033,000 during the Period, decreased by approximately 69% year-over-year. For other display products such as driver ICs and polarisers, the Group's revenue from its driver ICs and polarisers amounted to approximately HK$6,849,000 (six months ended 30 June 2016: HK$37,944,000) and HK$2,338,000 (six months ended 30 June 2016: HK$5,667,000) respectively during the Period.

The Group's display products business was seriously affected by the fierce competition and weak demand in the market during the Period. According to a recent report published by China Academy of Information and Communications Technology, during the Period, the number of China domestic mobile phone shipments reached 238.6 million units and the number of new models release reached 565, decreased by 5.9 % and 26.0% year-over-year, respectively. Major Chinese smartphone brands lowered their production volume targets and reduced components purchases during the Period. Specifications of smartphone display panels are also changing in the market. Smartphones makers plan to introduce the new 18:9 aspect ratio products in the second half of this year which resulted in a weak demand for 16:9 display panel during the Period. Such transformation, which led a number of customers to postpone their orders until the debut of models with the new specifications, significantly affected the entire display products supply chain during the Period. Stocks of mobile phone display panels piled up in the market. Besides, regional display panel suppliers, including those the Group has been cooperating with, faced challenges from rising domestic display panel manufacturers in the PRC. The market share taken up by PRC display panel manufacturers is increasing. Even worse, some PRC display panel manufacturers engaged in a price war during the Period, which led to a significant drop in the market prices of mobile phone display panels and severely worsened the Group's performance. In view of the drop in market prices of mobile phone display panels, provision of approximately HK$14,733,000 was made against the Group's inventories during the Period. Such amount was included in the cost of sales of the Group's condensed consolidated income statement, which attributed to the gross loss of the Group during the Period.

Optics Products segment

For the Group's optics product business, the Group continued to promote its self-developed automotive head-up display devices and virtual reality ("VR") entertainment headsets, as well as trading optics products components, during the Period. The market had growing pains as the number of shipments of optics products was lower than expected during the Period. It is expected to take time for the content development and technical supports such as all-day battery life, mobile connectivity, app ecosystem and so on to improve or mature so that the augmented reality ("AR")/VR potential can be fully realised. Revenue for the Group's optics products segment amounted to approximately HK$10,861,000 during the Period, which increased by one-fold as compared to the relatively low base of the revenue for the corresponding period in 2016 of approximately HK$5,294,000.

In early 2015, the Group subscribed for certain preferred shares of Mobvoi. The Group's investment in Mobvoi is classified as available-for-sale financial asset and is carried at fair value on the Group's consolidated statement of financial position. During the Period, Volkswagen AG ("Volkswagen") (through its affiliate) subscribed for another round of new preferred shares of Mobvoi and the Group's shareholding proportion in Mobvoi became approximately 1.53% (on a fully diluted and as converted basis). Such investment by Volkswagen enables Mobvoi to obtain new capital for developing new products and expanding into the market of automotive related devices and systems, by forming a joint venture in the PRC on artificial intelligence car-sharing and on-demand and ride-sharing transportation services business with an affiliate of Volkswagen. Fair value of the Group's investment in Mobvoi further increased during the Period following the investment by Volkswagen (please refer to note 12 above). Meanwhile, the Group can also benefit through its established strategic cooperation with Mobvoi.

Apart from the investment in Mobvoi, in May 2017 the Group subscribed for certain ordinary shares issued by a private company in Taiwan at approximately HK$2,606,000, representing an approximately 3.33% shareholding of such company. Such investment is also classified as available-for-sale financial asset. The investee company is principally engaged in the research and development, manufacturing and sale of separator, which is a key component in lithium battery. The Group considers that the high demand in lithium batteries in different areas such as portable electronics, vehicles, medical devices etc. will lead to the growth in the separator's market. It is expected that such investment will facilitate future business cooperation between the investee company and the Group.

Prospects

Looking forward, the prospects of the Group's display products business are challenging. Keen competition and uncertainties in the market are expected. Nevertheless, the Group is expected to somehow be able to benefit from the trend of consumers' replacement for high-end smartphones. The Group will continue to optimise its product diversity in the face of changing market conditions.

For the optics products business, the Group believes that the market will grow strong in the long run as AR and VR technologies and associated software as well as content support become mature. The Group will keep updating its technology from time to time to prepare for the next hot wave in the AR and VR market. The Group will also seek for partnerships in addition to self-branded development in the long run.

Facing the ongoing challenges, the Group will strive to explore market opportunities and new developments, introduce new products, suppliers and customers, improve operation efficiency, and capture appropriate growth opportunities.

Financial Review

Revenue

For the six months ended 30 June 2017, total revenue of the Group amounted to approximately HK$183,373,000, decreased by about 68% as compared with the corresponding period in 2016 of approximately HK$574,105,000. Decrease in total revenue was mainly due to the decrease in revenue from the Group's sales of display products, including TFT-LCD panels and modules, driver ICs and polarisers.

Gross (loss)/profit

Gross loss of approximately HK$7,967,000 was recorded for the six months ended 30 June 2017 as compared with gross profit of approximately HK$40,842,000 for the six months ended 30 June 2016. The significant drop in the Group's revenue and provision of obsolete inventories of approximately HK$14,733,000 charged to the consolidated cost of sales led to the gross loss during the Period.

Expenses

The Group's distribution and selling expenses for the six months ended 30 June 2017 amounted to approximately HK$6,310,000, representing an approximately 17% decrease as compared with the corresponding period in 2016 of approximately HK$7,638,000. The decrease was mainly attributable to the decrease in staff costs attributable to decrease in headcount and the reduced sales activities during the Period.

The Group's general and administrative expenses for the six months ended 30 June 2017 amounted to approximately HK$15,382,000, representing an approximately 8% decrease as compared with the corresponding period in 2016 of approximately HK$16,676,000. The decrease was mainly due to the decrease in bank charges and professional fees during the Period.

Research and development ("R&D") costs amounted to approximately HK$1,009,000 for the six months ended 30 June 2017, representing an approximately 74% decrease as compared with the corresponding period in 2016 of approximately HK$3,835,000. The decrease was mainly due to the disposal in late 2016 of a subsidiary, Shinyoptics Corporation, which incurred much R&D expenses.

(Loss)/profit for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the six months ended 30 June 2017 amounted to approximately HK$31,847,000 (six months ended 30 June 2016: profit of approximately HK$10,554,000), which was mainly attributable to the decrease in revenue and provision for obsolete inventories made during the Period.

Other comprehensive income — change in value of available-for-sale financial assets

Change in value of available-for-sale financial assets during the six months ended 30 June 2017 amounted to approximately HK$22,534,000, being the increase in fair value of the Group's unlisted equity investment in Mobvoi during the Period as mentioned above.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. As at 30 June 2017, the Group's financial position remained solid. The Group had cash and cash equivalents of approximately HK$101,793,000 as at 30 June 2017 (31 December 2016: HK$174,126,000).

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Total bank deposits, bank balances and cash	**122,656**	198,828
Less: Restricted bank deposits included in current assets	**(20,863)**	(24,702)
Cash and cash equivalents	**101,793**	174,126

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

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
United States dollars	**90,286**	137,819
Hong Kong dollars	**27,905**	55,135
Renminbi	**3,461**	4,847
New Taiwan dollars	**1,004**	1,027
	122,656	198,828

The Group had no bank borrowings as at 30 June 2017 and 31 December 2016.

GEARING RATIO

As the Group has no interest-bearing debt, the Group's gearing ratio (calculated based on the Group's total interest-bearing debt divided by the Group's total equity) was 0% as at 30 June 2017 (31 December 2016: 0%).

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

CHARGE OF ASSETS

As at 30 June 2017, the Group had pledged its bank deposits of approximately HK$20,863,000 (31 December 2016: HK$24,702,000) to certain banks in Hong Kong to secure the banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2017, the Group did not have any significant capital commitments (31 December 2016: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2017, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any shares of the Company.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2017.

NON-COMPETITION UNDERTAKING

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

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

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

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

COMPETING INTERESTS

Based on the information available to the Company and within the knowledge and belief of the Directors, none of the Directors or the controlling shareholders of the Company or their respective close associates (as defined under the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group, or had or might have any other conflict of interest with the Group throughout the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. Throughout the six months ended 30 June 2017, the Company has complied with all the code provisions of the CG Code, except the deviation stipulated below.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Under the current management structure of the Company, Mr. Cheng Wai Tak ("Mr. Cheng") is the Chairman of the Board (the "Chairman") and Chief Executive Officer of the Company (the "Chief Executive Officer"). With Mr. Cheng's extensive experience in the industry, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would provide the Company with strong and consistent leadership, allow for effective and efficient planning and implementation of business decisions and strategies, and would be beneficial to the business prospects and management of the Group. Although Mr. Cheng performs both the roles of Chairman and Chief Executive Officer, the division of responsibilities between the Chairman and Chief Executive Officer is clearly established. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the Chief Executive Officer is responsible for the management of the business of the Group. The two roles are performed by Mr. Cheng distinctly. The Board also considers that the current management structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the code provision C.3.3 of the CG Code. The audit committee consists of three independent non-executive Directors, namely Mr. Wong Yik Chung John, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Wong Chi Chiu and Mr. Li Shui Yan. The audit committee has reviewed this announcement and has provided advice and comments thereon.

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

Hong Kong, 8 August 2017

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Cheng Wai Tak, Mr. Liu Ka Wing and Mr. Tse Ka Wing and three independent non-executive directors, namely, Mr. Wong Yik Chung John, Mr. Wong Chi Chiu and Mr. Li Shui Yan.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its posting and on the Company's website at http://www.perfect-optronics.com.