**Perfect Optronics Limited**
**圓美光電有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8311)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized 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.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange 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 GEM 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.*

## FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2018 amounted to approximately HK$254.1 million, representing a decrease of 32% as compared with that of approximately HK$371.5 million in 2017.

- Loss attributable to equity holders of the Company for the year ended 31 December 2018 amounted to approximately HK$55.8 million, representing a decrease in loss of approximately HK$42.5 million as compared with 2017 of approximately HK$98.3 million.

- The board of directors of the Company does not recommend declaring any final dividend for the year ended 31 December 2018.

## RESULTS

The board of directors (the "Board") of Perfect Optronics Limited announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018, together with the comparative figures for the previous year as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | 4 | **254,072** | 371,518 |
| Cost of sales | | **(268,428)** | (425,311) |
| **Gross loss** | | **(14,356)** | (53,793) |
| Other gains/(losses), net | 5 | **865** | (47) |
| Distribution and selling expenses | | **(11,761)** | (11,939) |
| General and administrative expenses | | **(26,867)** | (28,973) |
| Research and development expenses | | **(3,365)** | (2,565) |
| **Operating loss** | | **(55,484)** | (97,317) |
| Finance income | | **106** | 169 |
| Finance costs | | **(460)** | (603) |
| Finance costs, net | | **(354)** | (434) |
| **Loss before income tax** | 6 | **(55,838)** | (97,751) |
| Income tax | 7 | **58** | (578) |
| **Loss for the year** | | **(55,780)** | (98,329) |
| **Other comprehensive (loss)/income:** | | | |
| *Items that may be subsequently reclassified to income statement* | | | |
| Change in value of available-for-sale financial assets | | **—** | 22,670 |
| Currency translation differences | | **(265)** | 573 |
| *Items that will not be subsequently reclassified to income statement* | | | |
| Change in value of financial asset at fair value through other comprehensive income | | **(26)** | — |
| **Total comprehensive loss for the year** | | **(56,071)** | (75,086) |
| **Loss for the year attributable to:** | | | |
| Equity holders of the Company | | **(55,780)** | (98,329) |
| **Total comprehensive loss for the year attributable to:** | | | |
| Equity holders of the Company | | **(56,071)** | (75,086) |
| **Basic and diluted loss per share** | 8 | **HK(3.76) cents** | **HK(6.63) cents** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | Note | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,031** | 3,005 |
| Intangible assets | | **3,122** | 3,122 |
| Deferred income tax assets | | **8** | — |
| Financial asset at fair value through other comprehensive income | 10 | **2,652** | — |
| Financial asset at fair value through profit or loss | 11 | **54,988** | — |
| Available-for-sale financial assets | 10 | **—** | 56,947 |
| | | **63,801** | 63,074 |
| **Current assets** | | | |
| Inventories | | **81,890** | 77,333 |
| Trade and other receivables | 12 | **13,351** | 48,973 |
| Tax recoverable | | **265** | — |
| Restricted bank deposits | | **10,335** | 20,948 |
| Cash and cash equivalents | | **71,153** | 88,025 |
| | | **176,994** | 235,279 |
| **Total assets** | | **240,795** | 298,353 |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 13 | **14,837** | 14,837 |
| Reserves | | **117,036** | 147,641 |
| Retained earnings | | **72,092** | 97,558 |
| **Total equity** | | **203,965** | 260,036 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **—** | 69 |
| | | **—** | 69 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **27,850** | 35,492 |
| Bank borrowings | | **8,979** | — |
| Current income tax liabilities | | **1** | 2,756 |
| | | **36,830** | 38,248 |
| **Total liabilities** | | **36,830** | 38,317 |
| **Total equity and liabilities** | | **240,795** | 298,353 |

## Notes:

### 1. GENERAL INFORMATION

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 address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Company's shares are listed on the GEM of the Stock Exchange.

The Company is an investment holding company and 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.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, except for financial asset at fair value through other comprehensive income ("FVOCI") and financial asset at fair value through profit or loss ("FVTPL") which have been measured at fair value.

(a) New standards and amendments to standards adopted by the Group:

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2018:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| 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 |
| Amendments to HKFRS 1 and Hong Kong Accounting Standard ("HKAS") 28 | As part of the annual improvements to HKFRSs 2014–2016 cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

A number of new or amended standards became applicable for current reporting period. Of these, the following are relevant to the Group's consolidated financial statements:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The other standards did not have a material impact on the Group's accounting policies and did not require any adjustments.

(b) New standards and amendments to standards not yet adopted:

The following are new standards and amendments to standards which have been issued but are not effective and have not been early adopted. The Group plans to adopt these new standards and amendments to standards when they become effective. The Group's assessment of the impact of these new standards and interpretations is set out below.

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| HK (IFRIC)-Int 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| Amendments to HKAS 19 | 'Employee Benefits' on Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures | 1 January 2019 |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle | 1 January 2019 |

***HKFRS 16, 'Leases'***

*Nature of change*

HKFRS 16 will result in almost all leases being recognised on the consolidated statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

*Impact*

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately HK$5,135,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

*Date of adoption by the Group*

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

**2.2 Changes in accounting policies**

The adoption of HKFRS 15 did not have any material impact on the Group's consolidated financial statements.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements as described below. In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

***(a) Impact on the consolidated financial statements***

*(i) Classification and measurement*

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

| | **31 December 2017, as originally presented** *HK$'000* | **Reclassify from AFS to FVTPL** *HK$'000* *(Note I)* | **Reclassify from AFS to FVOCI** *HK$'000* *(Note II)* | **1 January 2018, as restated** *HK$'000* |
|---|---|---|---|---|
| **Available-for-sale ("AFS") financial assets** | | | | |
| — Unlisted preferred shares | 54,269 | (54,269) | — | — |
| — Unlisted equity securities | 2,678 | — | (2,678) | — |
| | 56,947 | (54,269) | (2,678) | — |
| **Financial asset at fair value through profit or loss** | | | | |
| — Unlisted preferred shares | — | 54,269 | — | 54,269 |
| **Financial asset at fair value through other comprehensive income** | | | | |
| — Unlisted equity securities | — | — | 2,678 | 2,678 |

| | *Note* | **Effect on revaluation reserve** *HK$'000* | **Effect on retained earnings** *HK$'000* |
|---|---|---|---|
| **Opening balance 1 January 2018 — HKAS 39** | | 30,386 | — |
| Unlisted securities | | | |
| — Reclassify from AFS to FVTPL | (I) | (30,314) | 30,314 |
| **Opening balance 1 January 2018 — HKFRS 9** | | 72 | 30,314 |

*Notes:*

(I) Reclassification from AFS to FVTPL

The Group's investments in preferred shares were reclassified from AFS to financial asset at FVTPL (HK$54,269,000 as at 1 January 2018). They do not meet the criteria to be classified either as financial asset at FVOCI or at amortised cost. Related fair value gain of HK$30,314,000 was reclassified from the revaluation reserve to the retained earnings on 1 January 2018.

(II) Equity investment previously classified as AFS

The Group elected to present in other comprehensive income changes in the fair value of all its remaining equity investment previously classified as AFS, because such investment is held as long-term strategic investment that is not expected to be sold in the short to medium term. As a result, asset with a fair value of HK$2,678,000 was reclassified from AFS financial asset to financial asset at FVOCI.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL and the Group does not have any such liabilities.

*(ii) Impairment of financial assets*

The Group's trade and bills receivables and other financial assets carried at amortised cost are financial assets that are subject to HKFRS 9's new expected credit loss ("ECL") model. The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While restricted bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group applies the HKFRS 9 simplified approach to measure ECL by using a lifetime expected loss allowance for all trade and bills receivables. ECL are estimated by grouping the trade and bills receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its aging category. The expected loss rates are based on historical credit losses experience and are adjusted to reflect current and forward looking information on factors affecting the ability of the customers to settle the receivables.

Other financial assets carried at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. It is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Management has closely monitored the credit qualities and the collectability of the trade and bills receivables and other financial assets at amortised cost. Since the Group's historical credit loss experience for its trade and bills receivables and other financial assets at amortised cost was minimal, the restatement of the loss allowance on transition to HKFRS 9 as a result of applying the ECL model was immaterial.

### 3. 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 determine the operating segments based on these reports.

The directors determine that the Group has two reportable operating segments as follows:

(a) Display products segment; and

(b) 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 year ended 31 December 2018 is as follows:

| | **Display products** | | **Optics products** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment revenue (all from external customers) | **249,518** | 354,739 | **4,554** | 16,779 | **254,072** | 371,518 |
| Segment results | **(15,781)** | (57,886) | **(1,940)** | 1,528 | **(17,721)** | (56,358) |
| Unallocated operating costs | | | | | **(37,763)** | (40,959) |
| Finance costs, net | | | | | **(354)** | (434) |
| Loss before income tax | | | | | **(55,838)** | (97,751) |
| **Other segment information:** | | | | | | |
| (Write back of provision)/ provision for obsolete inventories | **(8,473)** | 37,059 | **707** | 550 | **(7,766)** | 37,609 |

(b) The Group's revenues from its major products for the year ended 31 December 2018 are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Thin film transistor liquid crystal display ("TFT-LCD") panels and modules | **226,154** | 330,304 |
| Light guide plates | **9,174** | 2,078 |
| Polarisers | **5,208** | 5,896 |
| Optics products | **4,554** | 16,779 |
| Driver integrated circuits ("ICs") | **3,268** | 11,400 |
| Others | **5,714** | 5,061 |
| | **254,072** | 371,518 |

(c) Segment revenue by customers' geographical location

The amount of the Group's revenue from external customers by locations where the Group's products are delivered to its customers is shown in the table below.

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **178,626** | 358,378 |
| The People's Republic of China (the "PRC") | **72,802** | 11,522 |
| Taiwan | **2,644** | 1,618 |
| | **254,072** | 371,518 |

(d) Revenues from major customers who have individually contributed 10% or more of the total revenue of the Group for the year ended 31 December 2018 are disclosed as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **55,215** | 113,243 |
| Customer B | **32,178** | 4,236 |
| | **87,393** | 117,479 |

The above customers are included in the display products segment.

(e) An analysis of the Group's non-current assets (other than financial assets and deferred income tax assets) by location of assets is as follows:

| | Hong Kong *HK$'000* | The PRC *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **As at 31 December 2018:** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **767** | **2,264** | **3,031** |
| Intangible assets | **2,000** | **1,122** | **3,122** |
| | **2,767** | **3,386** | **6,153** |
| **As at 31 December 2017:** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 1,438 | 1,567 | 3,005 |
| Intangible assets | 2,000 | 1,122 | 3,122 |
| | 3,438 | 2,689 | 6,127 |

## 4. REVENUE

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

## 5. OTHER GAINS/(LOSSES), NET

| | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| Fair value changes in financial asset at FVTPL | **719** | — |
| Net exchange loss | **(76)** | (156) |
| Loss on disposal of property, plant and equipment | **(12)** | — |
| Others | **234** | 109 |
| | **865** | (47) |

## 6. LOSS BEFORE INCOME TAX

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

| | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| Cost of inventories sold | **269,056** | 360,744 |
| (Write back of provision)/provision for obsolete inventories | **(7,766)** | 37,609 |
| Depreciation of property, plant and equipment | **2,078** | 1,856 |

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit during the year arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

The amount of income tax (credited)/charged to the consolidated statement of comprehensive income represents:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income tax: | | |
| — Inside Hong Kong | **—** | 482 |
| — Outside Hong Kong | **19** | 51 |
| — Adjustments in respect of prior years | **—** | 113 |
| Total current income tax | **19** | 646 |
| Deferred income tax — Origination and reversal of temporary differences | **(77)** | (68) |
| Income tax | **(58)** | 578 |

## 8. LOSS PER SHARE

Basic loss per share for the year is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2018** | 2017 |
|---|---|---|
| Loss attributable to equity holders of the Company *(HK$'000)* | **(55,780)** | (98,329) |
| Weighted average number of ordinary shares in issue *(thousands)* | **1,483,687** | 1,483,687 |
| Basic and diluted loss per share *(HK cents per share)* | **(3.76)** | (6.63) |

For the purpose of determining the diluted loss per share amount, no adjustment has been made to the basic loss per share amount for the years ended 31 December 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during these years.

## 9. DIVIDEND

The Board did not declare any dividend for the year ended 31 December 2018 (2017: Nil).

## 10. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

### (a) Financial asset at fair value through other comprehensive income

The Group's financial asset at fair value through other comprehensive income comprises the Group's equity investment in 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, representing an approximately 3.33% shareholding of such company. The balance is denominated in New Taiwan dollar.

### (b) Available-for-sale financial assets

As at 31 December 2017, the Group's available-for-sale financial assets included the following classes of financial assets:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| Unlisted preferred shares | — | 54,269 |
| Unlisted equity securities | — | 2,678 |
| | — | 56,947 |

## 11. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial asset at fair value through profit or loss comprises 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. The balance is denominated in United States dollar ("USD"). There have been no addition to or disposal of such investment since the Group made the investment 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 and as converted basis).

## 12. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **8,218** | 44,411 |
| Bills receivables | **—** | 446 |
| | **8,218** | 44,857 |
| Prepayments, deposits and other receivables | **5,133** | 4,116 |
| | **13,351** | 48,973 |

The Group generally grants credit periods of 30 to 90 days. The ageing analysis of trade and bills receivables based on invoice date is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–30 days | **5,930** | 42,601 |
| 31–60 days | **955** | 1,559 |
| 61–90 days | **450** | 697 |
| 91–180 days | **883** | — |
| | **8,218** | 44,857 |

## 13. SHARE CAPITAL

| | **31 December 2018 and 31 December 2017** | |
|---|---|---|
| | **Number of shares** | **Amount** |
| | *(thousands)* | *HK$'000* |
| **Authorised:** | | |
| Ordinary shares of HK$0.01 each | 5,000,000 | 50,000 |

| | **Number of shares** | **Ordinary shares of HK$0.01 each** |
|---|---|---|
| | | *HK$'000* |
| **Issued and fully paid:** | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | **1,483,687,151** | **14,837** |

There were no movements in the Company's share capital during the year (2017: Nil).

## 14. TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables *(Note (a))* | **15,370** | 14,077 |
| Deposits received from customers | **9,032** | 6,206 |
| Accruals and other payables | **3,448** | 4,679 |
| Provision for onerous contract *(Note (b))* | **—** | 10,530 |
| | **27,850** | 35,492 |

*Notes:*

(a) The ageing analysis of trade payables based on invoice date is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–30 days | **14,341** | 13,504 |
| 31–60 days | **762** | 319 |
| 61–90 days | **59** | — |
| 91–180 days | **208** | 254 |
| | **15,370** | 14,077 |

(b) As at 31 December 2017, the Group recognised a provision of HK$10,530,000 for onerous contract in relation to certain non-cancellable purchase orders for inventories. Such balance was fully off-set against the purchase cost of inventories during the year ended 31 December 2018.

## 15. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 19 March 2019, Rightone Resources Limited, a direct wholly-owned subsidiary of the Company, entered into a subscription and shareholders' agreement (the "Agreement") with two independent third parties (the "Investors") for investments in shares of Perinnova Limited ("Perinnova"), an indirect wholly-owned subsidiary of the Company. Pursuant to the Agreement, each of the Investors agreed to invest USD190,000 in Perinnova. Upon completion of the subscription, the Group will hold 62% equity interest in Perinnova, while each of the Investors will hold 19%. As at the date of this announcement, the subscription has not yet completed.

## BUSINESS REVIEW

The Group is principally engaged in the trading of display components for electronics, the development and sale of optics products and related electronic components. The Group also processes some of the products which it trades.

During the year ended 31 December 2018 (the "Year"), the market of the Group's mobile phone display panels continued shrinking, therefore, the Group's financial performance remained unsatisfactory. The Group recorded an approximately 32% year-on-year decrease in revenue during the Year. During the Year, the Group's revenue amounted to approximately HK$254,072,000 (2017: HK$371,518,000). Loss attributable to equity holders of the Company for the Year amounted to approximately HK$55,780,000 (2017: HK$98,329,000), representing a decrease in loss of approximately HK$42,549,000 as compared with 2017.

### Display Products Segment

According to China Academy of Information and Communications Technology, domestic mobile phone shipments in China dropped 15.6% to 414.2 million units in 2018 and the number of new model release reached 764, down 27.5% year-over-year. Market demand for mobile phones is becoming mature and consumers' purchase and change frequency of mobile phones have slowed down. Furthermore, China's domestic mobile phone market continued to concentrate in several dominating brands. The Group, being an upstream mobile phone component supplier for those scrattered non-mainstream or second tier mobile phone manufacturers, was seriously affected under such transformation and trends. The Group recorded a revenue of approximately HK$249,518,000 from its display products segment during the Year (2017: HK$354,739,000), down by approximately 30% as compared with 2017. Sales of TFT-LCD panels and modules showed a drop of 32% and amounted to approximately HK$226,154,000 during the Year (2017: HK$330,304,000). Driver ICs and polarisers recorded revenues of approximately HK$3,268,000 (2017: HK$11,400,000) and HK$5,208,000 (2017: HK$5,896,000) in 2018, respectively. Both driver ICs and polarisers showed a drop in revenue, while sales of light guide plates (a display component), which amounted to approximately HK$9,174,000 during the Year (2017: HK$2,078,000), showed an increase as compared with 2017.

During the Year, the Group has strived to expand its product categories and enrich its product portfolio in response to its continual shrinking market in mobile phone display panels. Meanwhile, the Group has further extended its supplier network in the mainland China. To mitigate the severe impacts of the decrease in sales of mobile phone display panels and the relevant shrinking market, the Group has expanded to a large extent its sales of medium-to-large sized display products in its display product segment. These larger sized display products are applied on computer notebooks, monitors and televisions. Sales of medium-to-large sized display products has become the major revenue driver of the Group for the Year. While diversifying display products has stabilized the fall of sales, relatively low gross profit margins were yielding from the Group's trading of these products.

Apart from enlarging its sales in medium-to-large sized display, the Group also has sought new market opportunities by leveraging its longstanding partnerships with its suppliers and experience in the display products market. In the Hong Kong Electronic Fair (Autumn Edition) 2018, the Group exhibited its digital information signage and electronic shelf display products.

**Optics Products Segment**

The virtual reality ("VR") market was not as promising as it had been generally expected. It has continued its slow march to mass adoption in 2018. The Group's sales of optics components decreased during the Year as compared with 2017. Meanwhile, due to the fierce price competition of similar products in the market and a lack of breakthrough in content development, the Group faced difficult challenges in the sales of its self-developed automotive head-up display and VR entertainment headsets. During the Year, the Group's optics products segment recorded a revenue of approximately HK$4,554,000, representing an approximately HK$12,225,000 decrease as compared with 2017 of approximately HK$16,779,000.

**Investment**

The Group subscribed for certain preferred shares of Mobvoi Inc. ("Mobvoi") in early 2015. Mobvoi is a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. No dividend has been received by the Group from Mobvoi since its investment. The Group's shareholding proportion in Mobvoi was diluted to approximately 1.53% (on a fully diluted and as converted basis) following Volkswagen AG's investment in Mobvoi in 2017. No new round of fund raising has been made by Mobvoi during the Year. During the Year, Mobvoi continued to enrich and update its product mix. It has launched several new model smart watches (TicWatch), wireless earphones (TicPod) and portable smart speakers, which received generally positive reviews. Various smart experience stores have been established in Beijing, Shenzhen, Wuhan and Chengdu to promote and retail Mobvoi's products. In the near future, Mobvoi is seeking continuous enrichment of its product lines, expansion to offline channels and global footprints.

## PROSPECTS

As the mobile phone market becomes mature and consolidated after a blooming decade, the Group expects an increasingly difficult and competitive landscape in the relevant display component markets. Looking forward, the Group will endeavor to improve its performance through enriching product categories and exploring new business opportunities. As mentioned above, during the Year, the Group has started to step into a new display product market, namely electronic information signage, which includes various display products such as digital information signage, electronic shelf displays, electronic white board, etc. In March 2019, the Group has further entered into a subscription and shareholders' agreement with Warriors Technology Investments Ltd. ("Warriors"), a subsidiary of Innolux Corporation ("Innolux") and Novatek Investment Corporation Limited ("Novatek Investment"), a subsidiary of Novatek Microelectronics Corp. ("Novatek Corp.") for the investments in shares of Perinnova Limited ("Perinnova"), a subsidiary of the Company which wholly-owns a subsidiary that principally engaged in total solutions for electronic information signage. Each of Warriors and Novatek Investment agreed to invest USD190,000 into Perinnova. Upon completion of the subscription for the shares in Perinnova, Perinnova will be held as to 62%, 19% and 19% by the Group, Warriors and Novatek Investment, respectively. Innolux and Novatek Corp. are both suppliers of the Group and listed on the Taiwan Stock Exchange, the Group believes their participation will help the Group capture the rising market. In addition, the Group will continue to explore and reinforce the business relationships with new suppliers and customers in the mainland China and overseas to widen its revenue base.

On the other hand, despite the enduring bottleneck that VR market has been experiencing, the Group will keep updating its technologies on optics products so as to maximize its opportunities when the augmented reality and VR markets are set for robust growth.

## FINANCIAL REVIEW

### Revenue

Total revenue of the Group for the year ended 31 December 2018 amounted to approximately HK$254,072,000, decreased by approximately 32% as compared to approximately HK$371,518,000 in 2017. Decrease in total revenue was attributable to the decrease in revenue from the Group's sales of display products, including TFT-LCD panels and modules, driver ICs and polarisers, and optics products.

### Cost of sales

Cost of sales of the Group mainly consisted of purchase costs, processing and subcontracting charges, scrap loss, provision for obsolete inventories and other direct costs. Due to the decrease in revenue, purchase costs, processing and subcontracting charges and scrap loss decreased during the year ended 31 December 2018 as compared with 2017. Meanwhile, net write back of provision for obsolete inventories was recorded during the Year. Total cost of sales for the year ended 31 December 2018 amounted to approximately HK$268,428,000, decreased by approximately 37% as compared to approximately HK$425,311,000 in 2017.

**Gross loss**

Gross loss amounting to approximately HK$14,356,000 was recorded for the year ended 31 December 2018 (2017: HK$53,793,000). The drop in the Group's revenue and low gross profit margins of the products sold during the year ended 31 December 2018 led to the gross loss.

**Other gains/(losses), net**

Net other gains of approximately HK$865,000 (2017: net other losses of HK$47,000) was recorded during the year ended 31 December 2018. Net other gains for the year ended 31 December 2018 mainly included fair value gain in financial asset at fair value through profit or loss of approximately HK$719,000 (2017: Nil), while the net other losses for the year ended 31 December 2017 mainly comprised exchange losses.

**Distribution and selling expenses**

The Group's distribution and selling expenses for the year ended 31 December 2018 amounted to approximately HK$11,761,000, which is comparable to approximately HK$11,939,000 in 2017.

**General and administrative expenses**

The Group's general and administrative expenses for the year ended 31 December 2018 amounted to approximately HK$26,867,000, representing an approximately 7% decrease as compared to approximately HK$28,973,000 in 2017. The decrease was mainly attributable to the decrease in staff costs attributable to decrease in headcount, bank charges and professional fees during the year ended 31 December 2018.

**Research and development expenses**

The Group's research and development expenses amounted to approximately HK$3,365,000 for the year ended 31 December 2018, increased by approximately HK$800,000 as compared with 2017 of approximately HK$2,565,000. The increase was mainly due to the increase in staff costs incurred for products development.

**Finance costs, net**

The Group's finance costs for the year ended 31 December 2018 mainly represented bank loans interest expenses, while that for 2017 mainly represented factoring charges. New bank loans were borrowed during the Year to finance the Group's business in mainland China.

### Income tax

No Hong Kong profits tax was provided by the Group for the year ended 31 December 2018. Income tax during the year ended 31 December 2018 mainly represented deferred income tax credited to the consolidated statement of comprehensive income during the Year.

### Loss attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the year ended 31 December 2018 amounted to approximately HK$55,780,000, representing a decrease in loss of approximately HK$42,549,000 as compared with 2017 of approximately HK$98,329,000, which was mainly attributable to the decrease in the provision for obsolete inventories and the reduction of operating expenses during the year ended 31 December 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's funds are principally 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. The Group had unrestricted bank deposits, bank balances and cash in aggregate of approximately HK$71,153,000 as at 31 December 2018 (2017: HK$88,025,000).

As at 31 December 2018, the Group's bank borrowings comprised of fixed interest rate bank loans of approximately HK$8,979,000, which was denominated in Renminbi and repayable within a period not exceeding one year. The Group had no bank borrowings as at 31 December 2017.

## GEARING RATIO

The Group's gearing ratio as at 31 December 2018 was 4.4% (2017: 0%), which is calculated based on the Group's total interest-bearing debt divided by the Group's total equity.

## CONTINGENT LIABILITIES

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

## CHARGE OF ASSETS

As at 31 December 2018, the Group had pledged its bank deposits of approximately HK$10,335,000 (2017: HK$20,948,000) to bank to secure the banking facilities granted to the Group.

## CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have any significant capital commitments (2017: Nil).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2018, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, save as set out below, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules.

Throughout the year ended 31 December 2018, the Company has complied with all the code provisions of the CG Code, except the deviation as disclosed under the section headed "Chairman and Chief Executive Officer" below.

### Chairman and Chief Executive Officer

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 is the Chairman and 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 on 20 January 2014 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision C.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 audited annual results of the Group for the year ended 31 December 2018 have been reviewed by the audit committee.

## ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "AGM") will be held on Monday, 6 May 2019. A notice convening the AGM will be published and despatched to the shareholders of the Company in the manner required by the GEM Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 29 April 2019 to Monday, 6 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares documents, 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, not later than 4:30 p.m. on Friday, 26 April 2019.

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

Hong Kong, 20 March 2019

*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.*