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)

Annual Report 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Mr. LIAO Qian (Chairman)
(appointed on 1 January 2017)
Mr. YUAN Bing (Chairman)
(resigned on 1 January 2017)

Executive Directors

Mr. LI Jian (Chief executive officer)
Mr. OUYANG Hongping
Mr. WEN Xianzhen *(appointed on 23 March 2018)*
Ms. YANG Yunfang *(resigned on 23 March 2018)*
Mr. ZHAO Yong

Independent Non-Executive Directors

Ms. HSU Wai Man Helen
Mr. LI Yang
Mr. XU Yan

COMPANY SECRETARY

Ms. CHEUNG Bo Man, Solicitor, Hong Kong
(appointed on 25 April 2017)
Ms. CHOY Fung Yee, Solicitor, Hong Kong
(resigned on 25 April 2017)

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISOR

Cheung Tong & Rosa Solicitors
Room 501, 5/F
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
PO Box HM1022
Hamilton HM DX
Bermuda

BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Building 22E
Phase Three
Hong Kong Science Park
Pak Shek Kok
New Territories
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

INVESTOR AND MEDIA RELATIONS

Cornerstones Communications Ltd.
Unit 1408-10, 14/F
Dominion Centre,
43-59 Queen's Road East,
Wan Chai
Hong Kong

TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong
Limited under the share ticker number 334

WEBSITE

http://www.cdoth8.com

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

(RMB Million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Revenue	**3,465**	3,678
Gross profit	**280**	206
Gross profit margin (%)	**8.1%**	5.6%
Profit attributable to owners of the parent	**116**	91
Basic earnings per share (RMB cents)	**5.75**	4.89
Full year dividend per share		
– Proposed final dividend per share (HK cents)	**2.00**	2.00

FINANCIAL POSITION

(RMB Million)	**31 December 2017**	31 December 2016
Property, plant and equipment	**463**	193
Cash and cash equivalents	**508**	465
Total assets	**2,459**	2,121
Total liabilities	**1,846**	1,753
Net assets	**613**	368

OPERATION INDICATORS

	Year ended 31 December 2017	Year ended 31 December 2016
Inventory turnover (days)	**33**	27
Trade receivables turnover (days)	**80**	57
Trade payables turnover (days)	**138**	103
Current ratio	**1.10**	1.11

Note: The above turnover days are calculated on average balance of the beginning and end of the year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of China Display Optoelectronics Technology Holdings Limited, I hereby present you the annual report of the Group for the year ended 31 December 2017.

In 2017, the global economy recovered steadily. Despite the periodic volatile political situation in Europe and the US, there was less overall risk than expected. In China, the stable economic growth with positive prospect resulted in continuous consumption upgrade, which led to the launch of a new generation of smart devices. Over the past year, we pursued the long-term objective of increasing investment, further refining our supply chain layout so as to provide customers an integrated customised service for display panels and modules, and enhance our capabilities in full-screen (18:9 or above display ratio) display, notch-cutting and automotive display modules. This has set a solid foundation for the Group's pursuit of a leading position in the industry.

For the year ended 31 December 2017, the Group recorded a revenue of RMB3.46 billion, declined by 5.8% year-on-year, as the smartphone manufacturers adjusted their selling strategies in the first half of 2017; On the other hand, owing to the stable cost of the raw materials in the upstream, the Group's gross profit increased by 36.1% to RMB280 million and the gross profit margin rose by 2.5 percentage point year-on-year to 8.1%. Profit attributable to owners of the parent increased by 27.0% year-on-year to RMB116 million.

Collaborate with the parent company CSOT to realise full supply chain competitive advantage

2017 was a year of momentum and growth. In April 2017, Shenzhen CSOT became the substantial shareholder of the Company which refined the Company's positioning in the capital market and achieved the vertical integration in the upstream and downstream of display panels and modules. With the mass production in the factory of Wuhan CDOT officially commencing at the end of 2017, the steady supply of Wuhan CSOT's panel, and the in-depth collaboration in different business aspects, the Group's competitive edge in the industry has been remarkably enhanced.

Optimise product mix with industry-leading display module technology

2017 was a year of accelerating transformation. Over the past year, the market's demand for high-end products continued to increase. We understand that only by seizing the opportunities and changes in the market and optimising our product mix could we meet the customers' demands and win their favour. Therefore, the Group proactively enhanced its research and production capabilities in full-screen, in-cell/on-cell, and low-temperature poly-silicon (LTPS) LCD modules.

In July 2017, the Group officially commenced the mass production of its first batch of full-screen module products nationwide. The customer was a renowned French mobile phone brand. The sales of the Group's in-cell and LTPS LCD products were gradually becoming stable and their sales proportion continued to rise. In the future, with the panel supply of Wuhan CSOT, we will capture the market's increasing demand for high-end module products and are confident in further boosting its sales proportion to increase the Group's overall revenue.

With the synergies between the Group and CSOT gradually being materialised, we believe we can win over more first-tier customers by our steady upstream supply and outstanding production, research and development capabilities.

Grasp the opportunities in the industry to tackle challenges

Amid the increasingly fierce competition in a world where the superior beats the inferior, we understand that no progress is a form of regression, and slow progress is equivalent to a decline. In addition to further developing our business, we also take the initiative to seize the opportunity of the rapid development of the smart manufacturing industry. We have invested in research and development on the Internet of Things to tap into the automotive display and smart home devices market. In December 2017, we entered into a memorandum of understanding with a subsidiary of HannStar Display Corporation Limited, to acquire major interest in HannStar Display (Nanjing) Corporation, which, if materialised, will help the Group to explore and develop in the automotive display market.

Looking ahead, the capacity release of upstream display panel production will cause uncertainties for display module products' average selling price adjustment. In the process of the intense downstream industry integration of smart devices, we will strengthen the foundation built on our existing accomplishments, as well as leverage on CSOT's new driving force to create synergies and explore new business opportunities to achieve healthy growth.

Last but not least, I would like to take this opportunity to express my sincere gratitude to all shareholders, business associates, and staff members for their dedication and support. The Group will make its utmost efforts to promote sustainable development of its business and maximise shareholders' returns.

LIAO Qian
Chairman
Hong Kong, 26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

TCL Building in Hong Kong

INDUSTRY REVIEW

According to the latest report published by IDC, a global market researcher, global smartphone shipments for the year 2017 decreased by 0.1% year-on-year to approximately 1.47 billion units. Chinese smartphone manufacturers maintained strong growth momentum in 2017 due to subsidy policy on 4G provided by the operators as well as their active development in emerging markets. As the current smartphone market in China has become saturated, the growth momentum of smartphone manufacturers tends to be determined by overseas markets expansion.

In terms of the supply chain of smart devices, in view of the launch of full-screen devices (display's aspect ratio of 18:9 or above, in the first half of 2017), smartphone manufacturers adjusted their product mix and sales order. To cope with new product development, upstream component suppliers postponed their shipments, resulting in the delay of the peak season for the industry from the third quarter to the fourth quarter. Simultaneously, the panel display industry performed better than the same period of last year. After being developed for several years, the new capacity of high-end panel production in China has been gradually unleashed during the year, contributing to the upgrade of smart devices led by hardware upgrades. In 2017, with a rise in customers demand for product experience, the penetration of full-screen products has increased accordingly.

BUSINESS REVIEW

During the twelve months ended 31 December 2017 (the "Review Period"), China Display Optoelectronics Technology Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") recorded sales volume of LCD module products of 53.4 million units, representing a year-on-year decline of 28.4%. The decrease was mainly attributable to the destocking by some of the end customers as well as shortage in the upstream components supply as a result of the promotion of full-screen device products in the market during the first half of 2017. The Group's sales volume was recovered in the third quarter of 2017, coupled with the delay of peak season to the fourth quarter, the sales volume in the second half of 2017 increased by 50.6% period-on-period.

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

	For the year ended 31 December				
	2017		2016		Change
	'000 units	**%**	'000 units	%	%
TFT LCD module					
Non-laminated modules	**31,767**	**59.5**	45,390	60.9	(30.0)
Laminated modules	**21,606**	**40.5**	29,126	39.1	(25.8)
Total	**53,373**	**100.0**	74,516	100.0	(28.4)

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

	For the year ended 31 December				
	2017		2016		Change
	RMB'000	**%**	RMB'000	%	%
TFT LCD module					
Non-laminated modules	**1,291,789**	**37.3**	1,330,849	36.2	(2.9)
Laminated modules	**2,172,784**	**62.7**	2,347,304	63.8	(7.4)
Total	**3,464,573**	**100.0**	3,678,153	100.0	(5.8)

The Group continuously strengthens its product development and optimises its product mix according to the market demand. During the Review Period, within the module product segment, sales of the Group's high-end products, such as in-cell and on-cell LCD module products as well as low temperature poly-silicon ("LTPS") LCD module products grew steadily owing to product mix adjustment, which facilitated the growth of the overall average selling price from RMB49.4 for the same period last year to RMB64.9 for the Review Period, representing an increase of 31.5% year-on-year. During the Review Period, owing to the rise in the overall average selling price and the stable cost of major raw materials, the Group's revenue remained relatively stable at RMB3.46 billion, representing a slight drop of 5.8% year-on-year; and gross profit was RMB280 million, representing an increase of 36.1% year-on-year. Gross profit margin was 8.1%, representing a year-on-year increase of 2.5 percentage point; and profit attributable to owners of the parent amounted to RMB116 million, representing an increase of 27.0% year-on-year. Basic earnings per share was RMB5.75 cents, increased 17.6% year-on-year.

During the Review Period, due to the decrease in sales volume, the revenue of non-laminated modules and laminated modules of the Group decreased by 2.9% and 7.4% respectively, as compared to 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the year ended 31 December				
	2017		2016		Change
	RMB'000	**%**	RMB'000	%	%
Hong Kong	**988,624**	**28.5**	1,020,663	27.7	(3.1)
China	**2,178,586**	**62.9**	2,282,274	62.1	(4.5)
South Korea	**284,553**	**8.2**	375,216	10.2	(24.2)
Taiwan	**12,810**	**0.4**	–	–	N/A
Total	**3,464,573**	**100.0**	3,678,153	100.0	(5.8)

During the Review Period, Hong Kong and China remained the major markets for the Group. Revenue derived from Hong Kong and China was RMB989 million and RMB2.18 billion respectively, which, in aggregate, accounted for approximately 91.4% of the Group's total revenue.

Accelerate vertical integration to maximize synergies

1. CSOT provides steady panel supply

On 27 April 2017, Shenzhen China Star Optoelectronics Technology Co., Ltd.* ("Shenzhen CSOT", 深圳市華星光電技術有限公司, together with its subsidiary Wuhan China Star Optoelectronics Technology Co., Ltd.* ("Wuhan CSOT", 武漢華星光電技術有限公司, a fellow subsidiary of the Group), collectively, "CSOT") through High Value Ventures Limited (an indirect wholly-owned subsidiary of Shenzhen CSOT) acquired 53.81% of the then total number of issued shares of the Company. The acquisition completed on 27 April 2017. As early as in October 2016, China Display Optoelectronics Technology (Huizhou) Co., Ltd. ("CDOT Huizhou"), an indirect wholly owned subsidiary of the Company, and Wuhan CSOT jointly formed Wuhan China Display Optoelectronics Technology Co., Ltd.* ("Wuhan CDOT", 武漢華顯光電技術有限公司).

The production plant of Wuhan CDOT was set up in the proximity of Wuhan CSOT's production plant for the 6th generation LTPS LCD display panels production project. It mainly operates the fully automated production lines of LTPS LCD modules with an average annual production capacity of 50 million units of laminated display modules for mobile phones, which officially commenced mass production in the fourth quarter of 2017, providing customers with one-stop solutions that combine panel and module.

In terms of flexible panel supply, the construction of main plant and power plant of Wuhan CSOT's the 6th generation flexible LTPS-AMOLED display panel production project ("Project t4") has been completed ahead of schedule in December 2017, and is expected to operate by the first half of 2019 and commence mass production by the first half of 2020. It mainly manufactures small to medium sized flexible and foldable AMOLED display panel with a projected monthly full production capacity of 45,000 units. The completion of the project is expected to further enhance the upstream panel supply chain of the Group, and increase the competitiveness in small and medium sized high-end displays, especially flexible displays.

2. Explore new first-tier customers

The Group owns advanced production technology and facilities, and is committed to providing customers with high quality and competitive products which been generally well recognised and trusted by clients. During the Review Period, the Group capitalised on the clientele of Wuhan CSOT to build a stronger customer base, and successfully gained access to the supply chain of first-tier mobile phone brands. The Group will continue to consolidate the relationship with existing clients, and actively strengthen cooperation with the smartphone manufacturers, to further expand the scale of the sales.

Optimise the structure mix to grasp the opportunity of the full-screen era

Boasting the strengths of high resolution, quick response, high brightness, and low power consumption, LTPS technology is currently one of the mainstream display technologies, with the capability to provide high definition images featuring greater vibrancy and resolution. The on-cell/in-cell LCD products are preferred by smartphone manufacturers because the end products are lighter and thinner after the integration of touch technology.

Given the market demand on full-screen products, the Group initiated active research and development of relevant technologies. In July 2017, the Group was engaged by a renowned French mobile phone brand to manufacture full-screen module products, which was the first batch of official mass production nationally. So far, the Group has cooperated with Wuhan CSOT to develop a variety of full-screen LTPS products, and mastered the technology of notch-cutting. The Group will continue to take advantage of its excellent market responsiveness and continuous technology investment to boost its sales of full-screen module products and to meet market demand.

Expand business scope and explore the automotive display market

During the Review Period, in order to broaden revenue sources and improve the products' gross margin, the Group explored the automotive display market, and entered into a memorandum of understanding with Brightpro Resources Limited ("Brightpro Resources"), a wholly owned subsidiary of Taiwan-based prominent TFT-LCD products manufacturer HannStar Display Corporation* ("HannStar", 瀚宇彩晶股份有限公司, stock code: 6116.TW), with regard to the possible acquisition of 51% to 81% interest in HannStar Display (Nanjing) Corporation* ("HannStar Display (Nanjing)", 南京瀚宇彩欣科技有限責任公司) (the "Possible Acquisition") which is principally engaging in the research and development and manufacturing of touch panels for TFT-LCD panel, display modules for tablets, laptop and automotive display. Upon the materialisation of the Possible Acquisition, the Group will be able to acquire a major stake in HannStar Display (Nanjing). In view of having Brightpro Resources remained as a minority shareholder of HannStar Display (Nanjing) after the Possible Acquisition, this also provides more opportunities for cooperation between the Group and HannStar, the mother company of Brightpro Resources. As at the date of this annual report, no legally-binding definitive contract in respect of the Possible Acquisition has been entered into.

Outlook

In 2018, a robust recovery is expected in the domestic and global economy, but the industry is still undergoing consolidation with continuously fierce competitions. According to the latest report issued by TrendForce, a global market researcher, the production growth rate of smartphones will decrease to 5% globally while the shipment volume will reach 1.53 billion units in 2018. Full-screen will become the mainstream specification of smartphones.

Looking ahead, the Group will proactively respond to market changes and strengthen its core capability in light of industry development, so as to continuously enhance the Group's viability and competitiveness. CINNO, a global market researcher, predicts that the penetration rate of full-screen smart products will hike from 6% in 2017 to 50% in 2018, covering high- and mid-end, or even entry level products. The Group will grasp the opportunity, and actively consider investing in equipment to meet the development of mid- to high-end full-screen products, in order to maintain stable revenue growth in the wake of the gradual increase in sales volume.

The Group will continue to further explore the synergies with CSOT. On the one hand, the Group will leverage on the resources and expertise of CSOT in panel production, to maintain stable business growth in the course of industrial consolidation. On the other hand, the Group will also capitalise on the clientele of CSOT, to secure potential new top-tier branded clients and build a stronger client base. With the increasingly stable panel supply from Wuhan CSOT, the Group expects substantial increase in the sales proportion of LTPS LCD products as well as in-cell LCD products, which will allow the Group to further expand its market share. In the meantime, the Group will also capture the opportunity brought forth by the Internet of Things, actively explore the feasibility of venturing into the automotive display modules and smart-home devices business, so as to lay a sound foundation for future operation, thus maximising the profit and value for the Group and its shareholders.

* *for identification only*

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

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

The Group's cash and cash equivalents balance as at 31 December 2017 amounted to RMB508 million, of which 61.8% was in US dollar, 37.1% was in RMB and 1.1% was in HK dollar.

As at 31 December 2017, the Group's interest-bearing bank loans were RMB390 million, which are denominated in RMB and US dollar with variable interest rate, and are all repayable within one year. The Group's other borrowings was RMB24.0 million, which are denominated in RMB with a fixed interest rate, and a tenure of 3 years.

As at 31 December 2017, total equity attributable to owners of the parent was RMB498 million (31 December 2016: RMB368 million), and the gearing ratio was 19.2% (31 December 2016: 8.6%). The gearing ratio is calculated based on the Group's total interest-bearing loans (including bank and other borrowings and bonds payable) divided by total assets.

Pledge of Assets

During the year, the Group had originally pledged certain trade receivables amounting to RMB279,273,000 to banks with recourse in exchange for cash (2016: RMB147,662,000).

As at 31 December 2017, the pledged trade receivables were fully collected while the collateralised bank advance were unmatured.

Capital Commitments and Contingent Liabilities

	31 December 2017 **RMB'000**	31 December 2016 RMB'000
Contracted, but not provided for:		
Plant and equipment	**119,473**	67,064

As at 31 December 2017, the Group had no significant contingent liabilities (31 December 2016: nil).

Pending Litigation

The Group had not been involved in any material litigation for the year ended 31 December 2017.

Foreign Exchange Risk

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

The Group is committed to striking a balance among trades, assets and liabilities that are denominated in foreign currencies to achieve a natural hedging effect. In the meantime, the Group also used forward currency contracts to reduce the foreign currency exposures. In addition, pursuant to prudent financial management, the Group has not conducted or engaged in any high-risk derivative transactions.

Significant Investments Held

There were no significant investment held as at 31 December 2017.

Material Acquisitions and Disposals

On 11 April 2017, CDOT Huizhou entered into the sale and purchase agreement ("Sale and Purchase Agreement") with Huizhou TCL Mobile Communication Co., Ltd.* ("TCL Mobile Communication", 惠州TCL移動通信有限公司, an indirect wholly-owned subsidiary of TCL Corporation ("TCL Corp")) pursuant to which, among other matters, TCL Mobile Communication agreed to sell and CDOT Huizhou agreed to purchase 100% equity interest of Huizhou Chuangjie Communication Technology Co., Ltd. ("Target Company") at a consideration of RMB105,305,000. The Target Company is the legal and beneficial owner of the manufacturing plant located in Huizhou, the PRC which the Group has been leasing from since 2014. The Sale and Purchase Agreement and the transactions contemplated thereunder constituted a discloseable transaction and connected transaction of the Company under Chapter 14 and Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") respectively. Please refer to the announcement of the Company dated 11 April 2017 for further information in relation to the Sale and Purchase Agreement.

Subsequent to the entering into of the Sale and Purchase Agreement, the Company encountered a new investment opportunity. The Company considered that, as compared to the acquisition of the Target Company under the Sale and Purchase Agreement, the said new opportunity would be more conducive to its long-term strategic development and that the resources to be allocated to the Sale and Purchase Agreement and the transactions contemplated thereunder might be better utilised if it was to be allocated to this new investment opportunity. Accordingly, the parties to the Sale and Purchase Agreement entered into a termination agreement (the "Termination Agreement") on 19 May 2017, pursuant to which the parties have amicably agreed, among others, to terminate the Sale and Purchase Agreement with effect from 19 May 2017 and neither parties shall have any claims against each other. Please refer to the announcement of the Company dated 19 May 2017 for further information in relation to the Termination Agreement.

Save as aforesaid, the Group did not undertake any other significant acquisition or disposal of subsidiaries or assets during the Review Period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had a total of 2,593 employees. During the Review Period, the total staff costs amounted to RMB288 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 69,678,230 shares remained outstanding as at 31 December 2017.

ENVIRONMENTAL POLICY AND COMPLIANCE

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Environmental, Social and Governance Report of the Company for the year ended 31 December 2017 prepared in accordance with Appendix 27 to the Listing Rules will be published separately pursuant to the requirements under Appendix 27 to the Listing Rules.

CUSTOMERS AND SUPPLIERS

The Group recognises maintaining good and stable relationship with customers and business partners is key for the sustainable development of the Group. Therefore, the Group keeps good partnership with its major customers. During the year, the Group's largest customer and the top five customers contributed approximately 26% and 70% (for the year ended 31 December 2016: 29% and 81%) to the revenue of the Group, respectively. Those customers have been cooperating with the Group for 1-13 years. The Group's largest supplier and the top five suppliers accounted for approximately 11% and 43% (for the year ended 31 December 2016: 24% and 36%) of the purchases of the Group, respectively. Those suppliers have been cooperating with the Group for 2-7 years.

Major customers

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

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is normally required. The credit period is generally 30 to 90 days, depending on the size and credibility of the customers. Each customer has a credit limit. The Group also maintains credit insurance for trade receivables from customers.

Suppliers

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

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. LIAO Qian

aged 37, was appointed as a non-executive director and the chairman of the Company, and also the chairman of the nomination committee and a member of the remuneration committee of the Company on 1 January 2017. Mr. Liao is currently the executive director, the vice president and the secretary of the board of directors of TCL Corp, and also the deputy director of investment management committee of TCL Corp. Mr. Liao Qian possesses a master degree qualification and he also holds a Chinese legal professional qualification certificate. Mr. Liao obtained the degree of bachelor of economics from Fuzhou University in 2002. He further obtained the master degree of laws from Yunnan University in 2006. During August 2006 to February 2014, Mr. Liao had worked for Guotai Junan Securities Co. Ltd. as the senior manager and general manager of financial advisory department and Guotai Junan Securities Co. Ltd. (Shenzhen headquarter) as the director of corporate accounts in relation to the capital market of investment banking business in between Hong Kong and the PRC. He joined TCL Corp as the officer of the board of directors in March 2014, and appointed as the secretary of the board of directors in April 2014, a member of the executive committee in December 2014. Mr. Liao was subsequently appointed as a director of TCL Communication Technology Holdings Limited (which was delisted as a result of privatisation in September 2016) in May 2015, a director of TCL Financial Holding (Shenzhen) Co. Ltd.* (TCL金融控股(深圳)有限公司) in September 2015, a director of TCL Smart Home Technologies Co., Limited in November 2015, a director of Highly Information Industry Co. Ltd (a subsidiary of TCL Corp) and Huizhou Kuyou Network and Technology Co. Ltd.* (惠州酷友網絡科技有限公司) in March 2016, a director of Speedex Logistics Co. Ltd.* (速必達希傑物流有限公司, a subsidiary of TCL Corp) in July 2016, a director of Hawk Internet Co. Ltd.* (豪客互聯有限公司, a subsidiary of TCL Corp) and TCL Culture and Media (Shenzhen) Co. Ltd* (TCL文化傳媒(深圳)有限公司, a subsidiary of TCL Corp) in August 2016 and independent director of Shenzhen Jiawei Photovoltaic Lighting Co., Ltd. (stock code: 300317.SZ)) in November 2016, the chairman and non-executive director of Tonly Electronics Holdings Limited (a subsidiary of TCL Corp, stock code: 1249.HK) in January 2017, a non-executive director of Fantasia Holdings Group Co., Limited (stock code: 1777.HK) in March 2017.

EXECUTIVE DIRECTORS

Mr. LI Jian

aged 47, was appointed as an executive director and Chief Executive Officer ("CEO") of the Company, and also a member of the remuneration committee and the nomination committee in June 2015. He is currently the president and general manager of CDOT Huizhou, responsible for overall operational management. Mr. Li joined TCL Corp and its subsidiaries (collectively "TCL Group") in 1996. He held positions of marketing manager, business manager and deputy general manager of Xi'an TCL Appliances Sales Company Limited* (西安TCL電器銷售公司) from March 1996 to December 2001. From January 2002 to July 2005, Mr. Li was northwest district general manager and assistant to general manager of TCL White Household Appliances Division* (TCL白家電事業部), responsible for sales and sales management. From July 2005 to December 2005, Mr. Li also served as operation and sales manager of projector division of TCL Group Parts Business Unit Headquarter* (TCL集團部品事業部本部), responsible for sales and sales management. From January 2006 to March 2008, Mr. Li was northwest district director of TCL CRTVU-online business division* (TCL電大在線事業部), responsible for sales and sales management. From April 2008 to September 2010, Mr. Li served as deputy general manager of CDOT Huizhou, responsible for matters of operation and sales. Mr. Li has rich experience in sales, branch office and district management. Mr. Li obtained a Bachelor's degree in human resources management (online education) in Nankai University in July 2009. He completed an international business administration and creative leadership management training course at Yangtze Delta Region Institute of Tsinghua University, Zhejiang in March 2011 and obtained a Master's degree in business administration from Ursuline College in January 2013.

* *for identification only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. OUYANG Hongping

aged 41, was appointed as an executive director in June 2015 and is also the Chief Operating Officer (COO) of the Company. He joined the TCL Group in 2004. From August 2004 to December 2008, he was the chief engineer of CDOT Huizhou, responsible for supervising engineering related matters, including production planning and management. Since January 2009, he has also been the deputy general manager of CDOT Huizhou, responsible for supervising engineering related matters, including research and development, procurement, production planning and management. Mr. Ouyang graduated from the University of Nanchang in July 1999 with a Bachelor's degree in industrial automation.

Mr. WEN Xianzhen

aged 45, was appointed as an executive director of the Company on 23 March 2018 and the finance director of the Company and CDOT Huizhou in November 2017. Mr. Wen joined TCL Group in 2004 and has over 20 years of experience in the field of accounting and finance. Mr. Wen held the position of finance manager of Huizhou Shenghua Industrial Co. Ltd.* (惠州市昇華工業有限公司, a subsidiary of TCL Corp) from September 2004 to February 2008. Mr. Wen was appointed as the finance director of Huizhou TCL King High Frequency Electronics Co. Ltd.*（惠州TCL王牌高頻電子有限公司）from March 2008 to June 2010. From July 2010 to April 2012, Mr. Wen held the positions of deputy general manager and finance director of TCL Air-Conditioner (Zhongshan) Co., Ltd.*（TCL空調器（中山）有限公司）and was responsible for finance management and analysis. From April 2012 to October 2017, Mr. Wen held the positions of deputy general manager and finance director of Huizhou TCL Environmental Resource Co., Ltd.*（惠州TCL環保資源有限公司）, then he was appointed as the finance director, deputy general manager and general manager of Huizhou TCL Environment Technology Co., Ltd.*（惠州TCL環境科技有限公司）. Mr. Wen graduated with a Bachelor of Accounting from Central South Institute of Technology*（中南工學院）(now merged into Nanhua University*（南華大學））in June 1997 and currently is a certified public accountant of the Chinese Institute of Certified Public Accountants and a Hong Kong certified financial planner.

Ms. YANG Yunfang

aged 43, was appointed as an executive director in April 2015 and resigned as an executive director on 23 March 2018. Ms. Yang joined the TCL Group in 2006 and has rich experience in accounting and finance. She is currently the deputy manager of finance operations management of TCL Corp. From July 2006 to August 2007, she was the financial accountant of CDOT Huizhou, responsible for financial accounting and analysis. From September 2007 to July 2010, she was the finance manager of CDOT Huizhou, responsible for financial management and analysis. From July 2010 to November 2017, she was the finance director of CDOT Huizhou and the Company, responsible for financial management and supervision. Ms. Yang graduated from Jiangxi University of Finance and Economics in July 1999 with a Bachelor's degree in accountancy.

Mr. ZHAO Yong

aged 47, was appointed as an executive director of the Company on 10 March 2016. Mr. Zhao currently holds the following positions in subsidiaries of TCL Corp, namely, the Chief Operating Officer of Shenzhen China Star Optoelectronics Technology Co., Ltd since September 2011; and the vice chairman, the legal representative and general manager of Wuhan China Star Optoelectronics Semiconductor Display Technology Co., Ltd.*（武漢華星光電半導體顯示技術有限公司）since October 2016 responsible for the overall operational management; Mr. Zhao joined the TCL Group in 2004. From June 2004 to October 2010, he was a general manager of CDOT Huizhou, responsible for the overall operational management. From October 2010 to September 2011, he had served as a general manager of TCL Optoelectronics Technology (Huizhou) Co., Ltd.*（TCL光電科技（惠州）有限公司）, responsible for the overall operational management. From May 2014 to September 2017, He was a director, the legal representative and a general manager of Wuhan China Star Optoelectronics Technology Co., Ltd., responsible for the overall operational management. Mr. Zhao obtained an EMBA degree from the China Europe International Business School (CEIBS) in September 2011.

* *for identification only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. HSU Wai Man, Helen

aged 48, was appointed as an independent non-executive director and the chairlady of the audit committee of the Company, and also a member of the remuneration committee and the nomination committee of the Company in June 2015. Ms. Hsu has over 20 years' experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a Bachelor's degree in business administration. Ms. Hsu had worked with Ernst & Young for 18 years and was a partner before she retired from the firm in February 2011. Ms. Hsu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu is currently an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Perfect Shape (PRC) Holdings Limited (stock code: 1830.HK), Branding China Group Limited (stock code: 863.HK), and Richly Field China Development Limited (stock code: 313.HK). Besides, Ms. Hsu is also an independent non-executive director of Circle International Holdings Limited (stock code: CCH) whose shares are listed on the National Stock Exchange of Australia (NSX).

Mr. LI Yang

aged 49, was appointed as an independent non-executive director and a member of the audit committee, the remuneration committee and the nomination committee of the Company in June 2015. Mr. Li obtained PRC lawyer qualification in 1998 and was admitted as a practicing lawyer in 2002, and has served as professor and doctoral tutor of the School of Law, Sun Yat-sen University since January 2016. Mr. Li graduated from the Zhongnan Institution of Political Science and Law*（中南政法學院）(now known as Zhongnan University of Economics and Law) in 1990 with a Bachelor's degree in law. He received his Master's degree and Doctorate degree in law from the Peking University Law School in 1996 and 2003 respectively and finished the post-doctoral research fellowship in Wuhan University in 2006. Mr. Li has rich experiences in intellectual property law (including patent, trademark, copyright, anti-unfair competition and antitrust), intellectual property management and intellectual property personnel training. Mr. Li is currently an arbitrator of the South China International Economic and Trade Arbitration Commission and the deputy secretary-general and an executive council member*（常務理事）of China Intellectual Property Law Association, an executive council member*（常務理事）of China Law Association on Science and Technology and a part time researcher of the Intellectual Property Judicial Protection Research Center of the Supreme People's Court*（最高人民法院知識產權司法保護研究中心）.

Mr. XU Yan

aged 54, was appointed as an independent non-executive director and the chairman of the remuneration committee of the Company, and also a member of the audit committee and the nomination committee of the Company in June 2015. Mr. Xu has been associate dean of the School of Business of the Hong Kong University of Science and Technology for the courses of EMBA for Chinese Executives, Executive Programs and China Strategy since 2011, as well as associate professor of the Department of Information Systems, Business Statistics and Operations Management of the Hong Kong University of Science and Technology since 2004. Mr. Xu has rich experiences in management of technology innovation as well as research in telecommunication regulations and policies. He is currently a member of the Communications Authority of Hong Kong and a member of the board of directors of the International Telecommunications Society. Mr. Xu graduated from Beijing Institute of Posts and Telecommunications*（北京郵電學院）, now known as Beijing University of Posts and Telecommunications, in July 1984 with a Bachelor's degree in telecom engineering. He obtained a Master's degree in telecom management from Beijing University of Posts and Telecom in April 1987 and a Doctor of Philosophy degree in research in telecommunications policy in the Department of Human Resource Management from Strathclyde University, the United Kingdom, in July 1997.

* *for identification only*

SENIOR MANAGEMENT

Mr. DING Yiwen

aged 51, is the human resources director of the Company and the deputy general manager of the Company. Mr. Ding joined the TCL Group in 2004 and has substantial experience in the LCD industry. He has been a deputy general manager of CDOT Huizhou since May 2004, is currently responsible for human resources management. Mr. Ding graduated from South China University of Technology in June 1988 with a Bachelor's degree in electronic vacuum and obtained a Master's degree in electric physics and devices from Zhejiang University in March 1991. Mr. Ding also completed an international business administration and creative leadership management training course at Yangtze Delta Region Institute of Tsinghua University, Zhejiang in November 2010.

Mr. WANG Xinfu

aged 44, is the vice general manager of the delivery centre of the Company. He joined the TCL Group in 2004. Since March 2004, he has held the positions of engineer and the head of facility section in CDOT Huizhou, in charge of the engineering and facility section. Since August 2008, he has served as the head of production department of CDOT Huizhou. Since 2015, he assumed the role of manufacturing director, responsible for the engineering management of manufacturing and production engineering management of CDOT Huizhou. Since December 2016, he has been the vice general manager of the delivery centre of CDOT Huizhou, responsible for the operation and management of the delivery centre. In 2016, he received the Award of Outstanding Leader of HZZK Hi-tech Industrial Development Zone*（惠州仲愷高新技術開發區凱旋人才領軍人物獎）. Mr. Wang graduated from Changchun University of Technology in July 1999, with a Bachelor's degree in engineering.

Mr. YU Hui

aged 43, is the deputy general manager of the Company. Mr. Yu joined the TCL Group in 2004. From January 2004 to May 2005, he was the operation analyst and assistant to general manager office of TCL Air Conditioning (Zhongshan) Company Limited*（TCL空調（中山）有限公司）, responsible for publishing operation reports and conducting operation analysis as well as handling administrative business and daily matters of general manager respectively. From May 2005 to August 2007, he was the government relationship manager of Beijing representative office of TCL Corp President Office*（TCL集團公司總裁辦北京代表處）, responsible for managing public relations for TCL Corp with the relevant government authorities and state-owned banks in Beijing. Since September 2007, he has been the marketing manager and marketing director of CDOT Huizhou, responsible for supervision and planning management of sales and marketing. Since December 2016, he has been the deputy general manager of the Company, responsible for research and development, product design and sales management. Prior to joining TCL Group, Mr. Yu held the positions of technologist and supervisor in Hubei Huangshi Power Generation Company Limited*（湖北黃石發電股份有限公司）from July 1995 to September 2002. Mr. Yu graduated from North China Electric Power University in July 1995 with a Bachelor's degree in thermal energy and power engineering and obtained a Master's degree in business administration from Wuhan University in June 2004.

COMPANY SECRETARY

Ms. CHEUNG Bo Man

aged 29, was appointed as the Company Secretary of the Company on 25 April 2017. She is a practising lawyer in Hong Kong and a partner of Messrs. Cheung Tong & Rosa Solicitors, Hong Kong. Ms. Cheung graduated from the University of Hong Kong with the Bachelor of Business Administration (Law) and Bachelor of Laws in 2009 and 2011 respectively and obtained a Postgraduate Certificate in Laws from the University of Hong Kong in 2012.

Ms. CHOY Fung Yee

aged 34, has resigned as the Company Secretary of the Company on 25 April 2017. She is a practising lawyer in Hong Kong and a partner of Cheung Tong & Rosa Solicitors, Hong Kong. Ms. Choy graduated from the University of Hong Kong in 2006 with a Bachelor's degree in laws and obtained a Postgraduate Certificate in Laws from the University of Hong Kong in 2007.

* *for identification only*

INTRODUCTION

The Board aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the leader in the LCD module industry. The Group's ultimate goal is to maximise values for its shareholders and customers, and to provide opportunities for employees.

On 25 June 2015, the Company has adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the guidelines for corporate governance of the Company, and has taken steps to comply with the CG Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2017, the Company has complied with the Code Provisions of the CG Code as set out in Appendix 14 to the Listing Rules except for the following deviations:

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged commitments which must be attended to by him, Mr. LI Yang, being an independent non-executive Director, was not able to attend the annual general meeting held on 22 June 2017.

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 former and current company secretary of the Company, Ms. CHOY Fung Yee (resigned with effect from 25 April 2017) and Ms. CHEUNG Bo Man (appointed with effect from 25 April 2017), are partners of the Company's legal advisor, Cheung Tong & Rosa Solicitors.

During the year ended 31 December 2017, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations of the Company and Mr. PENG Bo, the Legal Manager of the Company as the contact persons with Ms. Choy and Ms. Cheung thereafter to ensure that information in relation to the performance, financial position and other major developments of the Group are speedily delivered to Ms. Choy and Ms. Cheung thereafter through the contact persons assigned, to enable the company secretary to get hold of the Group's development promptly without material delay and with their respective expertise and experience, the Company is confident that having Ms. Choy and Ms. Cheung thereafter as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company had not, throughout the year ended 31 December 2017, fully complied with the code provisions set out in the CG Code.

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received the respective confirmations signed by (i) TCL Corp on 5 March 2018, (ii) T.C.L. Industries Holdings (H.K.) Limited on 7 March 2018, and (iii) Taibang Investment Limited, Ketai Investment Limited, Litai Investment Limited, Taigang Investment Limited, Liyuan Holdings Limited, Gaosheng Holdings Limited, Zhuoxian Investment Limited, Jinyuan Investment Limited, Taihua Investment Limited and Shengmao Holdings Limited (with TCL Corp and T.C.L. Industries Holdings (H.K.) Limited, collectively the "Covenantors") on 26 February 2018 (collectively, the "Confirmations") confirming that for the year ended 31 December 2017 and up to the date of signing the Confirmations by the relevant Covenantor, save for holding direct or indirect interest in the Company and Wuhan CDOT (which is owned as to 70% by CDOT Huizhou and 30% by Wuhan CSOT), each of them has fully complied with the deed of non-competitions respectively executed by the Covenantors in favour of the Group on 17 April 2015 (the "Deed of Non-Competition") and, in particular, each of them and their respective close associates have not, directly or indirectly, carry on or be engaged or interested in the research and development, manufacturing, sales and distribution of LCD modules for use in mobile phones, which is from time to time carried on or engaged or interested in by the Group.

The Independent Non-Executive Directors (the "Independent Non-Executive Director(s)") of the Company have reviewed the Confirmations and all of them are satisfied that the Deed of Non-Competition have been complied with during the year ended 31 December 2017.

DIRECTORS

The Board

The Board, led by the chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the directors in person or through other electronic means of communication.

Board Composition

There are currently 8 Directors, all with professional backgrounds and/or extensive expertise for the direction and oversight of the Group's strategic priorities. The Board of the Company during the year ended 31 December 2017 and as at the date of this report comprises the following Directors:

Non-Executive Directors

Mr. LIAO Qian (Chairman) *(appointed on 1 January 2017)*
Mr. YUAN Bing (Chairman) *(resigned on 1 January 2017)*

Executive Directors

Mr. LI Jian (CEO)
Mr. OUYANG Hongping
Mr. WEN Xianzhen *(appointed on 23 March 2018)*
Ms. YANG Yunfang *(resigned on 23 March 2018)*
Mr. ZHAO Yong

Independent Non-Executive Directors

Ms. HSU Wai Man Helen
Mr. LI Yang
Mr. XU Yan

An updated list of the Company's Directors by category identifying their role and function is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive director and expresses the respective roles and functions of each Director.

The Company identifies the Independent Non-Executive Directors in all corporate communications which disclose the names of directors.

Details of the biographies of the Directors are given under the section "Directors and Senior Management" of this annual report on pages 13 to 16.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The Independent Non-Executive Directors play an important role on the Board. Accounting for more than one-third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. In the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of Independent Non-Executive Directors has represented at least one-third of the Board.

Number of meetings attended/eligible to attend during the year ended 31 December 2017

During the year of 2017, the Board held 4 regular meetings and 15 additional meetings. The Company held 2 general meetings during the year ended 31 December 2017.

Attendance of individual Directors at the Board meetings and general meetings in 2017 is as follows:

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Non-Executive Director			
Mr. LIAO Qian (Chairman)	3/4	13/15	1/2
Executive Directors			
Mr. LI Jian (CEO)	4/4	15/15	2/2
Mr. OUYANG Hongping	4/4	15/15	1/2
Ms. YANG Yunfang	4/4	15/15	2/2
Mr. ZHAO Yong	3/4	12/15	1/2
Independent Non-Executive Directors			
Ms. HSU Wai Man Helen	4/4	15/15	2/2
Mr. LI Yang	4/4	13/15	1/2
Mr. XU Yan	4/4	14/15	2/2

Notice of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or Board committee meeting, except agreed otherwise among the Board members, to ensure that they had sufficient time to review the board papers, be adequately prepared for the meeting, keep the Directors apprised of the latest developments and financial position of the Group and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each Director, upon reasonable request, have access to independent professional advice to assist them in performing their duties to the Company, at the Company's expense. When needed and upon making request to the Board, directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and Audit Committee, Remuneration Committee and Nomination Committee are kept by the company secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail the matters considered and decisions reached, including any concern raised by directors or dissenting views expressed. Any director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

According to the current Board practice, any transaction, which involves a conflict of interests between a substantial shareholder or a Director on the one part and the Company on the other part, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the Independent Non-Executive Directors who have no material interest in the said transaction. Directors shall abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and CEO

The Company fully supported the division of responsibility between the Chairman of the Board and the CEO to ensure a balance of power and authority. The position of the Chairman was held by Mr. LIAO Qian since 1 January 2017 while the position of the CEO was held by Mr. LI Jian since 25 June 2015.

This ensures a clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Company.

Appointments, re-election and removal of members of the Board

Under bye-law 84 of the bye-laws of the Company ("Bye-Laws"), at each Annual General Meeting ("AGM"), one-third of the Directors for the time being shall retire from office by rotation and every director shall be subject to retirement by rotation at least once every 3 years while those retiring directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the 3 years preceding the AGM shall retire by rotation at such AGM.

Independent Non-Executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each Independent Non-Executive Director of his/her independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors to be independent based on the independence criteria in accordance with the requirements in the Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationship which will interfere with the exercise of their independent judgement.

The Company confirms that the year of service of all the Independent Non-Executive Directors is less than 9 years.

Non-Executive Directors

Under the Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

Each of the non-executive Directors namely Mr. LIAO Qian and the three Independent Non-Executive Directors namely Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang, has been appointed for a specific term of 3 years subject to re-election in accordance with Code Provision A.4.1.

Nomination of Directors

On 25 June 2015, the Board has established the Nomination Committee to provide a framework and set the standards for the appointment of Directors of high calibre and with the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of director(s).

Details of the Nomination Committee are set out in the sub-section headed “Nomination Committee” below.

Responsibilities of Directors

If any new Director is appointed, the officers of the Company, with assistance from the Company’s external legal advisor as to Hong Kong law, will work closely with the newly appointed Directors both immediately before and after his/her appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director of the Company and the business operation of the Company.

A package compiled and reviewed by the Company’s legal advisor as to Hong Kong law setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. The officers of the Company also provides each newly appointed Director with a package which includes information relating to the operations and business of the Group. The Directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Guidelines for directors issued by the Company Registry of Hong Kong have been forwarded to each Director for his/her information and ready reference.

The Board views that the non-executive Directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgement at the Board meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company’s performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and Nomination Committee.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices they held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and board committee meetings indicates the constant participation of all directors, including executive, non-executive and independent non-executive Directors and ensures the better understanding of the views of shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

To fulfil their duties properly, where they consider it necessary to obtain additional information other than that is provided by the management, the Directors made inquiries during the Board meetings and board committee meetings. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the CG Code on continuous professional development for the year ended 31 December 2017:

Directors	Read materials	Attend seminars/ briefings
Non-Executive Director		
Mr. LIAO Qian (Chairman)	✓	✓
Executive Directors		
Mr. LI Jian (CEO)	✓	–
Mr. OUYANG Hongping	✓	✓
Ms. YANG Yunfang	✓	–
Mr. ZHAO Yong	✓	–
Independent Non-Executive Directors		
Ms. HSU Wai Man Helen	✓	✓
Mr. LI Yang	✓	✓
Mr. XU Yan	✓	–

Securities Transactions guidelines

The Board has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that for the year ended 31 December 2017, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2017 are set out on page 40 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, including any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

Management Functions

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board committees are provided with accurate and sufficient information in timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

Board Committees

For the year ended 31 December 2017, the Board had 3 Board committees, namely the Remuneration Committee, the Audit Committee and the Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board committee at the meetings of the committees for the year ended 31 December 2017 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting
Non-Executive Director			
Mr. LIAO Qian (Chairman)	N/A	3/3	1/1
Executive Directors			
Mr. LI Jian (CEO)	N/A	3/3	1/1
Mr. OUYANG Hongping	N/A	N/A	N/A
Ms. YANG Yunfang	N/A	N/A	N/A
Mr. ZHAO Yong	N/A	N/A	N/A
Independent Non-Executive Directors			
Ms. HSU Wai Man Helen	2/2	3/3	1/1
Mr. LI Yang	2/2	2/3	0/1
Mr. XU Yan	2/2	3/3	1/1

Nomination Committee

The Nomination Committee was established on 25 June 2015. Majority of the members are independent non-executive Directors. This committee is chaired by Mr. LIAO Qian, a non-executive Director with Mr. LI Jian, an executive Director, Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang, being independent non-executive Directors, as the other members. The committee held 1 meeting for the year ended 31 December 2017.

The Nomination Committee is governed by its terms of reference, which are closely aligned with the relevant Code Provisions requirements and are available on both the Company's website at http://www.cdoth8.com and the Stock Exchange's website at http://www.hkex.com.hk.

The main duties of the Nomination Committee include the followings:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of directors, and any proposed change to the Board to implement the Company's corporate strategy;
- review the board diversity policy ("Board Diversity Policy"); and
- review the sufficiency of time commitment of directors to perform their responsibilities.

The work performed by the Nomination Committee for the year ended 31 December 2017 included:

– reviewing the current Board structure, diversity and composition;

– assessing the independence of the independent non-executive Directors; and

– discussing and considering the Board composition during the said period and Board succession plan.

The Nomination Committee adopted the following procedures for nomination of Directors:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive director).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts or recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Make recommendations to the Board on the appointment or re-appointment of Directors.

The Nomination Committee adopted the following criteria for nomination of Directors:

1. Common criteria for all Directors:

   (a) character and integrity;

   (b) the willingness to assume broad fiduciary responsibility;

   (c) present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs;

   (d) relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company;

   (e) significant business or public experience relevant and beneficial to the Board and the Company;

   (f) breadth of knowledge about issues affecting the Company;

   (g) ability to objectively analyse complex business problems and exercise sound business judgement;

   (h) ability and willingness to contribute special competencies to Board activities; and

   (i) fit with the Company's culture.

2. Criteria applicable to non-executive Directors/independent non-executive Directors:

   (a) willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings;

   (b) accomplishments of the candidate in his/her field;

   (c) outstanding professional and personal reputation; and

   (d) the candidate's ability to meet the independence criteria for directors established in the Listing Rules.

Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognizes the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Board has set measurable objectives (in terms of gender, skills and experience) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Nomination Committee considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, whether considered in terms of professional background and skills.

Remuneration Committee

The Remuneration Committee is chaired by Mr. XU Yan, an independent non-executive Director. It now consists of 5 members, including Mr. XU Yan, and the other members are Mr. LIAO Qian, Mr. LI Jian, Ms. HSU Wai Man Helen and Mr. LI Yang, the majority of whom are independent non-executive Directors.

The Remuneration Committee is governed by its terms of reference, which are made available on the Company's website at http://www.cdoth8.com and the Stock Exchange's website at http://www.hkex.com.hk.

The Remuneration Committee was established on 25 June 2015 pursuant to Rule 3.25 of the Listing Rules. It meets from time to time to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time, and determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

For the year ended 31 December 2017, the Remuneration Committee held 3 meetings and accomplished the following:

– review of the emolument policy and structure;

– discussion of long-term incentive scheme comprising grant of restricted shares; and

– discussion of remuneration packages of Mr. WEN Xianzhen as the finance director of the Company.

The remuneration of Directors and the senior management by band for the year ended 31 December 2017 is set out below:

	Number of persons
Nil to RMB500,000	6
RMB1,500,001 to RMB2,000,000	1
RMB2,000,001 to RMB2,500,000	1
RMB4,000,001 to RMB4,500,000	2
RMB5,000,001 to RMB5,500,000	1
RMB6,500,001 to RMB7,000,000	1

The human resources department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Emolument Policy and Long-Term Incentive Plan

The Group provides a competitive remuneration package to its Directors to attract and retain talents. A large portion of the package for executive Directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive Directors to achieve the best performance. Part of the remuneration of executive Directors may comprise of long-term incentive plan which includes the share option scheme and the share award scheme. The emoluments payable to the Directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive plan of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees to consistently perform at a high standard and bring along long-term benefits to the Group.

The non-executive Directors' compensation relates to their time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee; and

- share options which are awarded subject to the discretion of the Board.

The fees and any other reimbursement or emolument payable to the Directors are set out in note 9 to the financial statements.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises 3 members, namely Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang, all of whom are independent non-executive Directors. Ms. HSU Wai Man Helen is the chairlady of the Audit Committee.

The Audit Committee usually meets at least 2 times a year to review the Company's interim and annual results and the integrity of the Group's financial statements. In addition, to review and monitor the effectiveness of the audit process in accordance with applicable standards, the Audit Committee will meet with the external auditors before the annual audit commences to discuss the nature and scope of audit and reporting obligations of the Company.

The Audit Committee is governed by its terms of reference, which are made available on the Company's website at http://www.cdoth8.com and the Stock Exchange's website at http://www.hkex.com.hk.

The work performed by the Audit Committee for the year ended 31 December 2017 included consideration of the following matters:

- the completeness and accuracy of the 2016 annual report and the 2017 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the effectiveness of the risk management and internal control systems of the Group;
- the internal control reports submitted by the internal control committee of the Company;
- the internal audit reports submitted by the internal audit team of the Company;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2017; and
- adoption of the procedure to ensure compliance with the deed of non-competitions in favour of the Group.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee is also supported by the members of internal audit team.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" on pages 50 to 53.

The Directors, having made appropriate reasonable enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 54 to 121 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out in pages 6 to 12 in this annual report.

The management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, financial position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

Internal Control and Risk Management Systems

The Board is responsible for ensuring that an appropriate effective internal control and risk management system are established and maintained within the Group. Whilst the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss, the directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's systems of internal control and risk management. The Company establishes an annual risk management and internal control plan every year. Every year, staff at the relevant departments are requested by the Company's internal control task force to do a self-evaluation on internal control, to allow the Company to identify any deficiencies in internal control. Results of the risk management and internal control are reported to the management and independent directors by email on a quarterly basis, and are submitted to the Board half-yearly for the preparation of risk management and internal control report. Being a subsidiary of TCL Corp (the substantial shareholder of the Company), the Company's risk management and internal control systems are annually reviewed by Da Hua Certified Public Accountants, the external auditor engaged by TCL Corp, to determine their effectiveness. The Directors, through the Audit Committee, have reviewed the effectiveness of all material aspects of the internal control and risk management systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function and concluded that the risk management and internal control systems were adequate and effective during the year ended 31 December 2017.

The Group has adopted a set of internal control policies and procedures to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The Company prepares a risk checklist with reference to the industry practices and a risk matrix supplied by Deloitte. Based on the risk checklist, the Company conducts periodic or specific examination on its work processes and operations, in order to identify, assess and manage its exposure to risks from operating activities, as well as for process monitoring.

The Company exercises audit control over its business activities by developing corporate mechanisms, management measures and operating guidelines, and creating incompatible posts. In addition, internal control investigations are regularly conducted by the Company's internal control task force. The Company's risk management and internal control systems are regularly reviewed by external audit firms (quality control organisations and auditors).

Certain executive Directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Board.

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit team. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company has adopted its own Information Disclosure Guideline (approved by the Board on 19 June 2015) which, among others, sets out the procedures and internal controls for handling and dissemination of inside information. The Company has established the Disclosure Executive Committee which has been authorised by the Board to coordinate and organise disclosure of the inside information of the Company.

Internal Audit Functions:

The Company's internal audit team independently reviewed the effectiveness of the Company's risk management and internal control systems, including financial, operational and compliance, in the key activities of the Company's business. The head of the Company's internal audit team reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the effectiveness of the system of internal control of the Group.

The Audit Committee reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's internal audit function.

Connected Transactions:

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules. The connected persons will be required to abstain from voting in the general meetings. Details of the connected transactions of the Company during the year are set out in the Directors' Report.

Auditors' Remuneration

For the Review Period, the remuneration paid for services provided by the auditor is roughly as follows:

Statutory audit services	RMB1,150,000
Non-audit services	RMB623,000

COMPANY SECRETARY

The position of company secretary is held by Ms. CHOY Fung Yee (resigned with effect from 25 April 2017) and Ms. CHEUNG Bo Man (appointed with effect from 25 April 2017), practising solicitors of Hong Kong, who are not employee of the Company. During the year ended 31 December 2017, the Company has assigned Ms. Clara SIU, the Vice Director of Finance and Investor Relations of the Company and Mr. PENG Bo, the Legal Manager of the Company as the contact person with the company secretary. The company secretary is responsible to the Board and reports to the Board Chairman from time to time. All directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

Since Ms. CHOY and Ms CHEUNG were appointed on 25 June 2015 and 25 April 2017 respectively, they have to take no less than 15 hours of relevant professional training during the year 2017. They have fulfiled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group recognize the importance of the principles of information disclosure with regard to timeliness, fairness and transparency, and ensure that the information disclosure is in compliance with the Listing Rules and other regulatory requirements. We also highly value investor feedback and comments for establishing operational strategies to facilitate the Group's growth, ensure its sustainable development and enhance shareholder value.

The objectives of our investor relations programs are to promote effective communication with the investment community through various channels to enhance their knowledge and understanding of the Group's development and strategies. The investor relations team conduct in-depth discussion on the Group's latest developments and future business plans with institutional investors and analysts through different channels, including investor meetings, conference calls, non-deal roadshows and factory visits. During the review year, the Group arranged non-deal road shows and investor conferences in Hong Kong, Shenzhen, Taipei, Singapore and Malaysia in which research analysts and institutional investors attended with favorable response.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings. Representative of the Company's external auditor, Ernst & Young also attended the annual general meeting held on 22 June 2017 to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

All published information, including all the statutory announcements and press releases, is promptly posted on the Company's website at http://www.cdoth8.com. For inquiries and suggestions, please send an email to ir.cdot@tcl.com or cdot@cornerstonescom.com, or directly by raising questions at the general meeting of the Company.

Voting by Poll

The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting by poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings were held.

Shareholders' Rights to Convene a Special General Meeting

Under bye-law 58 of the Bye-Laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Communication with Shareholders and Procedures for Putting Forward Proposals at General Meetings

A shareholders communication policy was formulated and adopted on 25 June 2015 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders.

All published information, including all the statutory announcements and press releases, is promptly posted on the Company's website at http://www.cdoth8.com. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholder meetings to the Board or senior management.

Investors can submit enquiries to management by sending emails to ir.cdot@tcl.com or cdot@cornerstonescom.com or directly by raising questions at the general meetings of the Company. The Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

Constitutional Documents

During the year under review, no amendment had been made to the Bye-Laws.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency possible. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements and press releases are available on the Company's website at http://www.cdoth8.com. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the Board or senior management by contacting the investor relations team via e-mail to ir.cdot@tcl.com or cdot@cornerstonescom.com, or directly through the questions and answers session at shareholder meetings or press conference.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

HUMAN RESOURCES

In 2017, the Group embraced its business approach of "progressive revolution and solid foundation". It launched a series of human resources management practices, which serve as a direct and effective support for the Group's strategy implementation, organisational performance improvement and staff development.

Basic Information on Human Resources

As at 31 December 2017, the Group had a total of 2,593 employees. The male-to-female ratio was 1.2:1. The overall turnover rate was 9.9%.

Employees by Geographic Region as of 31 December 2017:

China	2,591
Hong Kong	2

Employees by Age as of 31 December 2017:

Employees aged 18 to 30	1,801
Employees aged above 30	792

Key Efforts on Human Resources

To align with its development strategies, the Group took a range of proactive and corresponding measures to improve its staff appraisal and incentives, recruitment, training and development, strategic communication and morale:

– The Group's remuneration philosophy is "ability-oriented, performance-oriented and value-added-oriented". The Group has developed a set of tactics to realise its strategic objectives, together with a complementary appraisal and incentive mechanism, which further strengthen results orientation.

– In light of the development of the industry and the changing competition landscape, the Group has placed more effort on recruitment. In 2017, the Group followed last year's "Eagle Echelon Talent Cultivation Scheme", under which the Group recruited new talents from various tertiary institutions to expand its first-line management team. On the other hand, the Company attaches great importance to developing the skills of technical staff. The Group continue to deliver 6 sigma Yellow Belt training courses to its research and development, production and quality control staff. In 2017, 70 technicians from different departments received a 7-month project coaching exercise under the systematic training. They completed 37 projects, which generated an economic benefit of around RMB12 million in total.

– The Group places a high value on staff training and development. In 2017, the Group delivered 13 sessions of internal training. The topics covered four areas, namely safety, quality control, professional management/skills, and general studies. The trainings attracted over 650 staff members to attend. Senior officers are the backbone of the Group and they act as a bridge for all staff members. Trainings to middle managerial staff are focused on developing their management skills. In 2017, the Group sent 11 department heads to attend the "Creativity and Digital Transformation" training programme in Shanghai. The training programme was designed to develop the individual potential of managers, to increase team vitality, cohesion and creativity, to give knowledge to middle managerial staff on modern business management, and to inspire them to fully use their creativity to drive corporate efficiency.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITY

School-Enterprise Cooperation

In recent years, the Group has activated a series of "Eagle System" and "P System" training programmes which ensured the Group to source a group of high calibre talents from campus. In 2017, the Group successfully nurtured 27 "eyas" (fresh university graduates). During the 12-day eyas dynamic camp, the eyas were given outbound training and theoretical courses covering more than ten different topics. After the eyas dynamic camp, the Group provided an internship opportunity for students to have training at production lines. The internship allowed trainees to develop a stronger mind and familiarise the product manufacturing process, which laid a foundation for their future career path. In order to ensure the need for technical manpower is met in the course of development, the Group has progressively accelerated the cooperation with tertiary institutions. The Group extended the collaboration with Beijing Normal University, Zhuhai. In summer 2017, the Group selected some outstanding university students to work for the Group as interns for two months. Top graduate interns will be invited to join the Group after graduation. It successfully helps the Group to develop talent reserves for the future.

Charity Services and Environmental Protection

The Group always adheres to a highly responsible attitude towards its employees, customers and the environment. In the entire production process from raw material sourcing to marketing, the Group has put in place strict regulation and control on toxic and hazardous substances. Those substances are prohibited in all production, packaging, distribution and marketing stages, so as to avoid any occurrence of harmful incidents that may cause physical and health injuries to employees, risks to consumers' safety, and destructions to the natural environment. In addition, in order to raise employee awareness over toxic and hazardous substances, the Group organises relevant training programmes for the staff concerned every year.

The Group has developed several standards and procedures for better fulfillment of the social responsibility. In 2017, the Group also adopted the energy management system which was certified by SGS, an internationally recognized independent testing and certification organisation. We further promoted energy saving among all the staff in addition to implementing the measures of energy saving and reduction, with annual power saving rate reaching over 10%.

In order to enrich the recreational activities of its staff, the Group has organised several sports interest groups and teams, such as swimming, badminton, basketball and yoga groups, and hosted regular events and classes which attracted approximately 530 participants. Besides, various sports competitions are organized on a yearly basis to enrich staff's daily lives.

To promote environmental awareness, in March 2017, the Group called for all staff to participate in the tree planting activity held in Honghua Lake Scenic Area in Huizhou. The staff gave great support and took active participation in the activity, with an aim to make Huizhou a better place.

The Directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. Taijia Investment Limited, a subsidiary of the Group incorporated in Hong Kong, began to involve in sales of LCD modules during the year. Except for this, there were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 54 to 121.

No interim dividend was paid by the Company for the six months ended 30 June 2017. The Board has recommended a final dividend of 2.00 HK cents per share (2016: 2.00 HK cents) for the year ended 31 December 2017 which is subject to the approval by shareholders of the Company at the forthcoming annual general meeting.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out on pages 6 to 9 of this annual report. Discussions on non-financial performance including human resources management initiatives are disclosed in the section headed "Human Resources and Social Responsibility" of this annual report. The above discussions form part of this Report of the Directors.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Group, discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, and an indication of the outlook of the business of the Group, is set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 12 of this Annual Report. Those discussions form part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has complied with regulations related to occupational safety, including but not limited to the Fire Prevention Law of the People's Republic of China, the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupation Diseases. The Group maintains the occupational safety of employees mainly by the following methods: weekly inspection of safety production risks including risks of fire, piling up of hazardous materials and electricity; regular disinfection of workplace and arranging professional medical institutions for physical examination for employees; accelerating the automatization of factories, replacing dangerous operation by machines to prevent employees from being injured.

The Group has also complied with regulations related to production materials and emission, including but not limited to the Environmental Protection Law of the People's Republic of China. The Group carries out supervision mainly by the following methods: regular commissioning of professional institutions to implement the indicator monitoring on pollution discharge so as to meet the national standard; reasonable storage and isolation of dangerous materials; strict selection of suppliers to source materials that meet the EU REACH and ROHS standards first.

As at 31 December 2017 and up to the date of this report, the Board was unaware of any non-compliance with the relevant laws and regulations which had a significant impact on the Company.

SIGNIFICANT RISKS AND UNCERTAINTIES

Some significant risk and uncertainties affecting the Group are outlined below. They are not exhaustive and there may be other additional risks and uncertainties which are now unknown or immaterial to the Group but could become material in future.

Market competition

Substantially all of the Group's revenue are attributable to the revenue from smartphone display modules for consumer mobile device market. Therefore, the general state of the global economy, market condition and consumers' behaviour may have significant impact on the operating results and financial condition of the Group. The global market for the Group's products and services is highly competitive and is subject to ever-changing technological advancements, market development, changes in customer needs, evolving industry standards, and frequent product launches and upgrades.

To minimise this risk, the Group continues its efforts on research and development to broaden its product and technology platforms and enhance its product competitiveness, which enable the Group to extend its reach to different end products so as to diversify its source of revenue and profit, and in turn, reduce its dependency on one single product. In addition, the Group continues to strengthen its customer relationship and refine its sales strategy, in order to maintain robust profitability of the Group.

Foreign Exchange Risks

The Group reports its results in Renminbi but the Group's business and operations is facing the international market. Consequently, the Group is exposed to potential adverse impact of currency fluctuations on translation of the accounts. Although the Group actively manages its currency exposures, depreciation or fluctuation of the currencies in which the Group conducts its operations relative to the Renminbi could have a material adverse effect on the Group's financial condition and results of operations.

The Group is committed to striking a balance among trades, assets and liabilities that are denominated in foreign currencies to achieve a natural hedging effect. The Group has entered into various forward currency contracts to manage its exchange rate exposure. In addition, pursuant to prudent financial management, the Group has not conducted or engaged in any high-risk derivative transactions.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the financial statements is set out on page 122. This summary does not form part of the audited financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 June 2018, Tuesday to 8 June 2018, Friday (both dates inclusive), for the purposes of determining the entitlements of the shareholders of the Company to attend and vote at the AGM. No transfer of the shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 4 June 2018, Monday.

The register of members of the Company will be closed from 14 June 2018, Thursday to 15 June 2018, Friday (both dates inclusive), for the purpose of determining the entitlements of the shareholders of the Company to the proposed final dividend upon passing of relevant resolution. No transfer of shares may be registered during the said period. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 13 June 2018, Wednesday.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the financial statements.

SHARES ISSUED IN THE YEAR

Details of the Shares issued during the year ended 31 December 2017, together with the reasons therefore are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda ("Bermuda Law") which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Pursuant to the rules of the restricted share award scheme adopted by the Company on 17 March 2016, the Company instructed the trustee for the scheme to purchase from the market a total of 5,168,000 shares being the restricted shares during the year. The total amount paid to acquire such shares was approximately equivalent to RMB4,534,000.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 39 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution amounted to RMB202,357,000 of which RMB34,491,000 has been proposed as a final dividend for the year. Under the Bermuda Law, a company may made distribution to its shareholders out of contributed surplus.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2017, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2017 attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	11%
– the five largest suppliers combined	43%

Sales

– the largest customer	26%
– the five largest customers combined	70%

None of the Directors of the Company, their associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors of the Company during the year ended 31 December 2017 and up to the date of this report were:

Non-Executive Directors

Mr. LIAO Qian (Chairman) *(appointed on 1 January 2017)*
Mr. YUAN Bing (Chairman) *(resigned on 1 January 2017)*

Executive Directors

Mr. LI Jian (CEO)
Mr. OUYANG Hongping
Mr. WEN Xianzhen *(appointed on 23 March 2018)*
Ms. YANG Yunfang *(resigned on 23 March 2018)*
Mr. ZHAO Yong

Independent Non-Executive Directors

Ms. HSU Wai Man Helen
Mr. LI Yang
Mr. XU Yan

Mr. YUAN Bing resigned as a Director of the Company with effect from 1 January 2017 due to his other personal commitments which require more of his dedication and time commitment. Mr. YUAN confirmed that he has no claim whatsoever against the Company for fees, compensation for loss of office, remuneration, severance payments, pension, expenses or otherwise and there is no disagreement with the Board and there is no matter relating to his resignation that need to be brought to the attention of the shareholders of the Company.

Subsequently after the year ended 31 December 2017, Ms. YANG Yunfang resigned as a Director of the Company with effect from 23 March 2018 due to her other personal commitments which require more of her dedication and time commitment. Ms. YANG confirmed that she has no claim whatsoever against the Company for fees, compensation for loss of office, remuneration, severance payments, pension, expenses or otherwise and there is no disagreement with the Board and there is no matter relating to her resignation that need to be brought to the attention of the shareholders of the Company.

According to bye-law 83(2) of the Bye-laws, any person appointed as a Director to fill a casual vacancy on the Board shall hold office until the first general meeting of members of the Company after his appointment and be subject to re-election at such meeting.

Given Mr. WEN Xianzhen was appointed on 23 March 2018 to fill the casual vacancy arising from the resignation of Ms. YANG Yunfang, Mr. WEN Xianzhen shall hold office until the forthcoming AGM, being the first general meeting of members of the Company after his appointment, and be subject to re-election at the forthcoming AGM.

According to bye-law 84(1) of the Bye-laws, at each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three (3), then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

According to bye-law 84(2) of the Bye-laws, a retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to bye-law 83(2) of the Bye-laws shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Accordingly, Mr. LI Jian, Mr. OUYANG Hongping and Mr. ZHAO Yong shall retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

The proposed re-election of each of Mr. WEN Xianzhen, Mr. LI Jian, Mr. OUYANG Hongping and Mr. ZHAO Yong will be considered by separate resolutions at the forthcoming AGM. An ordinary resolution will also be proposed at the forthcoming AGM for the purpose of authorizing the Board to fix their remuneration.

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Particulars of the remuneration of the Directors and the five highest paid individuals (including senior management) during the financial year are set out in notes 9 and 10 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 17 to 32 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 3.3 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

None of the Directors or their associates had a material interest, either directly or indirectly, in any transactions, arrangements and contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and/or short position of the Directors and chief executives of the Company in shares in the Company ("Shares"), underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571, Laws of Hong Kong) ("SFO"), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Interests in the Company – Long Positions

Name of Director	Number of Ordinary Shares Held Personal Interest	Number of Shares Held under Equity Derivatives *(Note 1)*	Total	Approximate Percentage of Issued Share Capital of the Company *(Note 2)*
LI Jian	19,925,785	11,514,998	31,440,783	1.51%
OUYANG Hongping	14,037,998	9,076,528	23,114,526	1.11%
YANG Yunfang	9,628,821	4,192,734	13,821,555	0.66%
ZHAO Yong	10,450,145	2,885,499	13,335,644	0.64%
HSU Wai Man, Helen	–	260,000	260,000	0.01%
LI Yang	–	260,000	260,000	0.01%
XU Yan	–	260,000	260,000	0.01%

Notes:

1. These equity derivatives were outstanding share options granted to the relevant Directors under a share option scheme of the Company.

2. Such percentage was calculated based on the number of Shares and underlying Shares of the Company in which the relevant Director was interested as notified to the Company and disclosed on the website of the Stock Exchange pursuant to Part XV of the SFO, against the number of issued Shares of the Company as at 31 December 2017, being 2,083,850,619 Shares in issue.

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executives of the Company had registered an interest and/or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were required to be recorded pursuant to Section 352 of the SFO; or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER'S AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests and short positions of the person (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in shares of the Company

Name of Shareholder	Nature of Interest	Number of Shares held	Approximate percentage of issued share capital of the Company *(Note 3)*
TCL Corporation	Interest of controlled corporation	1,094,079,777 *(Note 1)*	52.50%
Shenzhen China Star Optoelectronics Technology Co., Ltd.	Interest of controlled corporation	1,094,079,777 *(Note 2)*	52.50%

Notes:

1. As disclosed in the joint announcement of the Company and High Value Ventures Limited dated 12 June 2017, for the purpose of the SFO, TCL Corporation is deemed to be interested in 1,094,079,777 Shares, all of which are indirectly held through High Value Ventures Limited, a wholly owned subsidiary of China Star Optoelectronics International (HK) Limited, which in turn is wholly owned by Shenzhen China Star Optoelectronics Technology Co., Ltd. which is owned as to 85.71% by TCL Corporation.

2. As disclosed in the joint announcement of the Company and High Value Ventures Limited dated 12 June 2017, for the purpose of the SFO, Shenzhen China Star Optoelectronics Technology Co., Ltd. is deemed to be interested in 1,094,079,777 Shares, all of which are indirectly held through High Value Ventures Limited, a wholly owned subsidiary of China Star Optoelectronics International (HK) Limited, which in turn is wholly-owned by Shenzhen China Star Optoelectronics Technology Co., Ltd..

3. Such percentage was calculated based on the total number of Shares in which each of the substantial shareholders was interested as disclosed on the website of the Stock Exchange against the number of issued shares of the Company as at 31 December 2017, being 2,083,850,619 Shares.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other persons who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions in Division 2 and 3 of Part XV of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Share Option Scheme and Share Award Scheme as disclosed under the heading "Share Option Scheme" and "Share Award Scheme", at no time during the year ended 31 December 2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

By way of a resolution of the shareholders of the Company passed on the further special general meeting of the Company on 11 March 2015, the Company adopted a share option scheme ("Share Option Scheme") with effect from the resumption of trading in the Company's shares on the Stock Exchange on 25 June 2015, the purpose of which is to recognise and motivate the contribution of the eligible participants and to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group.

The major terms of the Share Option Scheme, in conjunction with the requirements of Chapter 17 of the Listing Rules, are set out in note 28 to the financial statements in this annual report. As at 31 December 2017, the number of shares of the Company available for issue in respect thereof was 172,149,980 shares, representing approximately 8.26% of the then issued shares of the Company.

The Directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the share options as set out in note 28 to the financial statements in this annual report, which are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

As at 31 December 2017, total number of Shares of the Company that could be issued upon exercise of (i) all outstanding share options and; (ii) all share options that could be granted under the then available scheme mandate limit was 241,828,210 Shares, which represented about 11.60% of the issued share capital of the Company as at 31 December 2017.

Movements of the share options under the Share Option Scheme during the year ended 31 December 2017 are as follows:

	Number of share options										
Name or category of participant	As at 1 January 2017	Granted during the period	Exercised during the period *(Note 4)*	Lapsed during the period *(Note 5)*	Cancelled during the period	Forfeited during the period	As at 31 December 2017	Date of grant of share options	Closing price of Shares immediately before the date of grant of share options *HK$*	Exercise price of share options *HK$*	Exercise period of share options
LI Jian	11,514,998	–	–	–	–	–	11,514,998	18 March 2016	0.73	0.74	*Note 1*
OUYANG Hongping	9,076,528	–	–	–	–	–	9,076,528	18 March 2016	0.73	0.74	*Note 1*
YANG Yunfang	6,976,734	–	2,784,000	–	–	–	4,192,734	18 March 2016	0.73	0.74	*Note 1*
ZHAO Yong	5,757,499	–	2,872,000	–	–	–	2,885,499	18 March 2016	0.73	0.74	*Note 1*
HSU Wai Man, Helen	260,000	–	–	–	–	–	260,000	18 March 2016	0.73	0.74	*Note 1*
LI Yang	260,000	–	–	–	–	–	260,000	18 March 2016	0.73	0.74	*Note 1*
XU Yan	260,000	–	–	–	–	–	260,000	18 March 2016	0.73	0.74	*Note 1*
Other employees of the Group	39,455,732	–	1,613,990	672,770	–	–	37,168,972	18 March 2016	0.73	0.74	*Note 1*
Employees of TCL Group *(Note 2)*	5,757,499	–	398,000	1,300,000	–	–	4,059,499	18 March 2016	0.73	0.74	*Note 3*

Notes:

1. (i) 50% of such share options are exercisable commencing from 18 December 2016 to 17 March 2022; (ii) 30% of such share options are exercisable commencing from 18 December 2017 to 17 March 2022; and (iii) the remaining 20% of such share options are exercisable commencing from 18 December 2018 to 17 March 2022. In any event, no share option can be exercised after 17 March 2022.

2. This represents participants who have contributed to the Group and who are also employees of TCL Corp (the ultimate controlling shareholder of the Company) and/or its subsidiaries.

3. Subject to the fulfillment of the conditions that the relevant holder (i) has paid the costs incurred or to be incurred by the Company for the relevant part of the share options and (ii) remains to be an employee of TCL Group on 31 December 2016, 31 December 2017 and 31 December 2018 respectively, (a) 50% of such share options are exercisable commencing from 18 December 2016 to 17 March 2022; (b) 30% of such share options are exercisable commencing from 18 December 2017 to 17 March 2022; and (c) the remaining 20% of such share options are exercisable commencing from 18 December 2018 to 17 March 2022. In any event, no share option can be exercised after 17 March 2022.

4. The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK$1.1067.

5. Out of the such 1,972,770 share options lapsed in accordance to the terms of the Share Option Scheme, 1,100,000 share options were regarded as cancelled and 872,770 share options were regarded as forfeited under applicable accounting standards. For further details, please refer to note 28 to the financial statements.

SHARE AWARD SCHEME

The Board on 17 March 2016 resolved to adopt the share award scheme (the "Share Award Scheme"), for the purposes of providing incentives to the participants under Share Award Scheme. The share award scheme was subsequently approved by the special general meeting on 11 May 2016.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its sole and absolute discretion designate an award ("Award" and collectively "Awards") to be made to a selected participant ("Selected Person" and collectively "Selected Persons"). Participants of the Share Award Scheme cover any employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group and any employee or officer of any affiliated company whom the Board in its sole discretion considers may contribute or have contributed to the Group.

Awards may be satisfied by (i) existing shares to be acquired by the trustee engaged by the Company for the purpose of administrating the Share Award Scheme (the "Trustee"), from the market, or (ii) new shares to be allotted and issued to the Trustee by the Company, in both case the costs of which will be borne by the Company, and will be held on trust by the trustee for the Selected Persons until the end of each vesting period subject to fulfilment of the vesting conditions (if any) in accordance with the provisions of the Share Award Scheme. For further details, please see note 27 to the financial statements.

Movements in the number of the Company's Awarded Shares under the Share Award Scheme during the year are as follows:

	Number of awarded shares							
Name or category of participant	At 1 January 2017	Granted during the year	Vested during the year	Cancelled/ lapsed/ deducted during the year	At 31 December 2017	Date of Grant	Vesting date	Fair Value HK$ per share
Executive directors								
Mr. Li Jian	2,582,249	–	2,582,249	–	–	11-5-16	13-10-17	0.82
	–	5,164,499	5,164,499	–	–	13-10-17	18-12-17	1.05
	2,582,249	5,164,499	7,746,748	–	–			
Mr. Ouyang Hongping	2,010,000	–	2,010,000	–	–	11-5-16	13-10-17	0.82
	–	4,020,000	4,020,000	–	–	13-10-17	18-12-17	1.05
	2,010,000	4,020,000	6,030,000	–	–			
Ms. Yang Yunfang	1,545,000	–	1,545,000	–	–	11-5-16	13-10-17	0.82
	–	3,090,000	3,090,000	–	–	13-10-17	18-12-17	1.05
	1,545,000	3,090,000	4,635,000	–	–			
Sub-total	6,137,249	12,274,499	18,411,748	–	–			
Other employees and those who have contributed or may contribute to the Group in aggregate	19,685,247	–	19,371,747 *(Note)*	313,500	–	11-5-16	13-10-17	0.82
	–	32,539,330	32,509,330 *(Note)*	30,000	–	9-8-17	18-12-17	1.02
	–	6,831,165	–	–	6,831,165	9-8-17	12-1-18	1.02
Sub-total	19,685,247	39,370,495	51,881,077	343,500	6,831,165			
Total	25,822,496	51,644,994	70,292,825	343,500	6,831,165			

Note:

These represent the number of Awarded Shares the Selected Persons are entitled to be vested with after fulfilling the relevant vesting conditions, out of which an aggregate of 15,344,484 Awarded Shares were deducted as reimbursement for the Individual Income Tax paid by the Group on their behalf. Such 15,344,484 deducted Awarded Shares were treated as returned shares pursuant to the terms of the Share Award Scheme.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group entered into a number of continuing connected transactions with TCL Corp (being the ultimate controlling shareholder of the Company) and its subsidiaries (being associates (as defined in the Listing Rules) of TCL Corp) (collectively, the "TCL Group").

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are fully exempted under Rule 14A.73 of the Listing Rules) during the year ended 31 December 2017:

(a) Pursuant to the Master Factoring Agreement dated 1 April 2016 entered into between the Company, TCL Corp and TCL Commercial Factoring (Shenzhen) Co. Ltd. ("Factoring Co", an associate of TCL Corp) for a term commencing from 16 June 2016 to 31 December 2018, Factoring Co has provided factoring services to the Group ("Factoring Services") and the Group has provided promotion services to Factoring Co ("Promotion Services").

During the year ended 31 December 2017, the Group paid RMB3,932,000 as service fees to Factoring Co for the Factoring Services provided by Factoring Co, and received RMB1,292,000 from Factoring Co as service fees for the Promotion Services provided by the Group.

Further details of the Master Factoring Agreement were set out in the circulars of the Company dated 25 May 2016 and 20 September 2017.

(b) Pursuant to the Short-Term Lease (2016) Agreement dated 25 February 2016 and Lease (2016) Agreement dated 28 April 2016 both entered into between TCL Display Technology (Huizhou) Co. Ltd. (a subsidiary of the Company, now known as China Display Optoelectronics Technology (Huizhou) Co. Ltd. "CDOT Huizhou") and Huizhou TCL Mobile Communication Co. Ltd. ("TCL Mobile Communication", an associate of TCL Corp), CDOT Huizhou agreed to lease the plant located in Huizhou, the PRC from TCL Mobile Communication for the term from 1 January 2016 to 30 April 2016, and 1 May 2016 to 31 December 2016 (automatically renewable for a further term of 1 year up to 31 December 2017) respectively. Further details of the Lease (2016) Agreement was set out in the announcement of the Company dated 28 April 2016.

With effect from 1 December 2017, the plant was no longer owned by connected person of the Company and therefore the lease and rent payable by the Group no longer constitute continuing connected transactions.

The total rent borne by CDOT Huizhou under the Lease (2016) Agreement amounted to RMB5,824,000 during the year ended to 31 December 2017.

(c) Pursuant to the Licence Agreement (Hong Kong Science Park) dated 1 December 2016 entered into between the Company and TCL Corporate Research (Hong Kong) Co., Limited ("TCL Corporate Research", an indirect wholly-owned subsidiary of TCL Corp) for a period commencing from 1 December 2016 to 31 December 2018. TCL Corporate Research has granted a licence to the Company to use certain premises at Hong Kong Science Park.

The total licence fee paid by the Company under the Licence Agreement (Hong Kong Science Park) amounted to RMB344,000 during the period under review.

Further details of the Licence Agreement (Hong Kong Science Park) were set out in the announcement of the Company dated 1 December 2016.

(d) Pursuant to the Master Sale and Purchase (2016 Renewal) Agreement dated 24 October 2016 (as amended and supplemented by the Master Sale and Purchase (2016 Renewal) Supplemental Agreement dated 8 December 2016 entered into between the said parties, collectively the "Master S&P Agreement") entered into between the Company and TCL Corp for a two-year term commencing from 1 January 2017, the Group (i) purchased materials which are produced or manufactured in the PRC for its products from TCL Group amounting to RMB364,225,000, and (ii) sold products to TCL Group amounting to RMB535,003,000, during the year ended 31 December 2017.

The respective aggregate amount of purchase of materials from TCL Group by the Group and sales of products to TCL Group did not exceed 50% of the Group's then total revenue in the year ended 31 December 2017.

Further details of the Master S&P Agreement are set out in the circular of the Company dated 8 December 2016.

(e) Pursuant to the Import Agency (2016 Renewal) Agreement dated 24 October 2016 entered into between the Company and Shenzhen Qianhai Sailing Supply Chain Management Co. Ltd. (an associate of TCL Corp, "Qianhai Sailing", together with its subsidiaries "Qianhai Sailing Group") for a two-year term commencing from 1 January 2017, the Group utilised the import handling services provided by Qianhai Sailing Group and paid RMB nil to Qianhai Sailing Group as administrative fee for such services during the year ended 31 December 2017.

Further details of the Import Agency (2016 Renewal) Agreement are set out in the announcement of the Company dated 24 October 2016.

(f) Pursuant to the Logistics Services (2016 Renewal) Agreement dated 24 October 2016 entered into between the Company and Qianhai Sailing (as amended and supplemented by the Supplemental Agreement dated 22 February 2017 entered into between the said parties) for a two-year term commencing from 1 January 2017, the Group utilised the logistics services provided by Qianhai Sailing Group and paid RMB1,551,000 to Qianhai Sailing Group as logistics fee during the year ended 31 December 2017.

Further details of the Logistics Services (2016 Renewal) Agreement are set out in the announcement of the Company dated 24 October 2016.

(g) Pursuant to the Master Financial Services (2016 Renewal) Agreement dated 24 October 2016 entered into among the Company, TCL Corp and TCL Finance Company Limited ("Finance Company", a non-wholly owned subsidiary of TCL Corp) for a two-year period commencing from 1 January 2017, the Company may from time to time utilise the financial services provided by the Finance Company including deposit services and other financial services.

On 18 August 2017, the Company, TCL Corp, Finance Company and TCL Finance (Hong Kong) Co., Limited ("Finance Company (HK)", an associate of TCL Corp) entered into the Master Financial Services (2017 Renewal) Agreement with a term from 13 October 2017 to 31 December 2019, which is substantially similar in nature as the Master Financial Services (2016 Renewal) Agreement with certain amendments.

The Master Financial Services (2016 Renewal) Agreement was terminated upon the Master Financial Services (2017 Renewal) coming into effect on 13 October 2017.

During the year ended 31 December 2017, (i) the maximum total outstanding daily balance of deposits (including interest receivables in respect of these deposits) due from the Finance Company was RMB479,556,000 and (ii) financial service charges of RMB4,166,000 in respect of other financial services has been paid by the Group and (iii) promotion fee of nil has been received by the Group pursuant to the Master Financial Services (2016 Renewal) Agreement and the Master Financial Services (2017 Renewal) Agreement.

Further details of the Master Financial Services (2016 Renewal) Agreement and the Master Financial Services (2017 Renewal) Agreement are set out in the circulars of the Company dated 8 December 2016 and 20 September 2017 respectively.

(h) Pursuant to the Carpark Lease Agreement dated 19 July 2017 entered into between CDOT Huizhou and Huizhou Chuangjie Communication Technology Co. Ltd. ("Chuangjie Communication", an associate of TCL Corp), Chuangjie Communication as landlord has agreed to lease a carpark located in Huizhou, the PRC to CDOT Huizhou as tenant for a term commencing from 19 July 2017 to 31 December 2018 (automatically renewable for a further term of 1 year up to 31 December 2019). Further details of the Carpark Lease Agreement was set out in the announcement of the Company dated 19 July 2017.

With effect from 1 December 2017, the carpark was no longer owned by connected person of the Company and therefore the lease and rent payable by the Group no longer constitute continuing connected transactions.

The total rent borne by CDOT Huizhou under the Carpark Lease Agreement amounted to RMB114,000 during the year ended to 31 December 2017.

(i) Pursuant to the Staff Quarter Lease Agreement dated 10 October 2017 entered into between CDOT Huizhou and TCL Mobile Communication, TCL Mobile Communication as landlord has agreed to lease a staff quarter situated in Huizhou, the PRC to CDOT Huizhou as tenant for a term commencing from 10 October 2017 to 28 February 2018.

The total rent borne by CDOT Huizhou under the Staff Quarter Lease Agreement amounted to RMB64,000 during the year ended to 31 December 2017.

Further details of the Staff Quarter Lease Agreement was set out in the announcement of the Company dated 10 October 2017.

The related party transactions set out in note 34 to the financial statements include transactions that constitute connected/ continuing connected transactions. The Directors of the Company confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (If applicable).

The independent non-executive Directors of the Company have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Mr. Zhao Yong, an executive Director, was also a director, the legal representative and general manager of Wuhan CSOT from May 2014 to September 2017, which business may involve placing orders for LTPS LCD modules with the Group on behalf of its customers and then selling the finished LTPS LCD modules manufactured by the Group to its customers. While such onward sale of LTPS LCD modules by Wuhan CSOT competes with the business of the Group and is restricted by the Deed of Non-Competition, Wuhan CSOT has complied/will comply with the Non-Competition Deed before Wuhan CSOT participates in such business opportunity.

Save as aforesaid, during the year ended 31 December 2017 and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group.

MANAGEMENT CONTRACT

Save for employment contracts, no contracts concerning the management and administration of the whole or any principal business of the Company were entered into or subsisted during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

The Bye-laws provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate Directors and officers liability insurance in respect of relevant legal actions against the Directors.

Such permitted indemnity provisions have been in force throughout the year ended 31 December 2017 and is currently in force at the time of approval of this report.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Share Award Scheme as disclosed in the paragraph headed "SHARE OPTION SCHEME" and "SHARE AWARD SCHEME" in this Report of the Directors, no equitylinked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2017 or subsisted at the end of the said period.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 17 to 32 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry with all Directors, the Directors confirmed that they have complied with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total number of issued Shares was held by the public for the year ended 31 December 2017 and up to the date of this annual report.

AUDIT COMMITTEE

The Company has 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. XU Yan and Mr. LI Yang, all of whom are independent non-executive Directors of the Company. The Group's results for the year ended 31 December 2017 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.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

LIAO Qian
Chairman

Hong Kong
26 March 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of China Display Optoelectronics Technology Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Display Optoelectronics Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 121, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
The Group is principally engaged in the research and development, manufacture, sales and distribution of liquid crystal display ("LCD") modules. The Group's inventories are subjected to the significant risk of obsolescence accompanying with the rapid technology development of LCD modules industry. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realisable value. The management is required to estimate the respective future selling prices and selling costs to determine if any provision should be made or should be reversed. Details of the inventory provision are disclosed in note 4 and note 7 to the financial statements.	We assessed the process and methods used by management to make provision for slow-moving or obsolete inventories. Our assessment included evaluating management's inventory ageing profiles, selecting samples covering each ageing period of the ageing reports and agreeing to the original goods receipt notes and invoices to evaluate the ageing period in the ageing profiles. We also evaluated management's estimation developed in the inventory net realisable value test by comparing the forecast selling price to existing contracts and recent market prices. Furthermore, we considered the subsequent sales trend analysis and assessed the management's sales plan.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tjen, Michael.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
REVENUE	6	**3,464,573**	3,678,153
Cost of sales		**(3,184,754)**	(3,472,630)
Gross profit		**279,819**	205,523
Other income and gains, net	6	**49,340**	51,971
Selling and distribution expenses		**(42,147)**	(36,267)
Administrative expenses		**(115,194)**	(73,907)
Other expenses		**(8,934)**	(4,596)
Finance costs	8	**(31,321)**	(20,239)
PROFIT BEFORE TAX	7	**131,563**	122,485
Income tax expense	11	**(20,435)**	(31,375)
PROFIT FOR THE YEAR		**111,128**	91,110
Attributable to:			
Owners of the parent		**115,734**	91,110
Non-controlling interest		**(4,606)**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
For profit for the year		**RMB5.75 cents**	RMB4.89 cents
Diluted			
For profit for the year		**RMB5.70 cents**	RMB4.89 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
PROFIT FOR THE YEAR	**111,128**	91,110
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,012**	906
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**2,012**	906
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,012**	906
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**113,140**	92,016
Attributable to:		
Owners of the parent	**117,746**	92,016
Non-controlling interest	**(4,606)**	–
	113,140	92,016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**31 December 2017** **RMB'000**	31 December 2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**463,204**	193,281
Intangible assets	*15*	**5,597**	67
Deposits paid for purchase of items of property, plant and equipment	*18*	**37,500**	43,279
Deferred tax assets	*25*	**15,333**	17,564
Total non-current assets		**521,634**	254,191
CURRENT ASSETS			
Inventories	*16*	**224,666**	367,086
Trade and bills receivables	*17*	**1,114,507**	990,452
Prepayments, deposits and other receivables	*18*	**90,531**	44,344
Derivative financial instruments	*19*	**726**	–
Cash and cash equivalents	*20*	**507,622**	464,889
Total current assets		**1,938,052**	1,866,771
CURRENT LIABILITIES			
Trade and bills payables	*21*	**1,127,603**	1,319,937
Other payables and accruals	*22*	**206,533**	192,363
Derivative financial instruments	*19*	**752**	–
Interest-bearing bank borrowings	*23*	**389,610**	120,000
Tax payable		**35,685**	52,186
Total current liabilities		**1,760,183**	1,684,486
NET CURRENT ASSETS		**177,869**	182,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**699,503**	436,476
NON-CURRENT LIABILITIES			
Other borrowings	*23*	**24,000**	–
Deferred income		**3,410**	5,740
Bonds payable	*24*	**58,506**	62,608
Deferred tax liabilities	*25*	**181**	–
Total non-current liabilities		**86,097**	68,348
Net assets		**613,406**	368,128

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
Net assets		**613,406**	368,128
EQUITY			
Equity attributable to owners of the parent			
Share capital	*26*	**169,536**	165,065
Reserves	*29*	**328,766**	203,063
		498,302	368,128
Non-controlling interest	*30*	**115,104**	–
Total equity		**613,406**	368,128

Li Jian
Director

Ouyang Hongping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Share capital RMB'000 (note 26)	Share premium account RMB'000 (note 26)	Capital reserve RMB'000 (note 29)	Share option reserve RMB'000 (note 28)	Awarded share reserve RMB'000 (note 27)	Statutory surplus reserve RMB'000 (note 29)	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2016	138,561	109,572	(77,970)	–	–	34,482	(4,633)	(95,073)	104,939
Profit for the year	–	–	–	–	–	–	–	91,110	91,110
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	906	–	906
Total comprehensive income for the year	–	–	–	–	–	–	906	91,110	92,016
Issue of shares	22,071	114,766	–	–	–	–	–	–	136,837
Share issue expenses	–	(3,154)	–	–	–	–	–	–	(3,154)
Equity-settled share option arrangements	–	–	–	12,604	–	–	–	–	12,604
Issue of new shares under Share Award Scheme	4,433	–	–	–	(4,433)	–	–	–	–
Share Award Scheme arrangements	–	–	–	–	24,886	–	–	–	24,886
Vesting shares under the Share Award Scheme	–	15,574	–	–	(15,574)	–	–	–	–
Transfer from retained profits	–	–	–	–	–	9,151	–	(9,151)	–
At 31 December 2016	**165,065**	**236,758**	**(77,970)**	**12,604**	**4,879**	**43,633**	**(3,727)**	**(13,114)**	**368,128**

	Notes	Attributable to owners of the parent											
		Share capital RMB'000 (note 26)	Share premium account RMB'000 (note 26)	Capital reserve RMB'000 (note 29)	Contributed surplus RMB'000 (note 29)	Share option reserve RMB'000 (note 28)	Awarded share reserve RMB'000 (note 27)	Shares held for Share Award Scheme RMB'000 (note 27)	Statutory surplus reserve RMB'000 (note 29)	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ Retained profit RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2017		165,065	236,758	(77,970)	–	12,604	4,879	–	43,633	(3,727)	(13,114)	–	368,128
Profit for the year		–	–	–	–	–	–	–	–	–	115,734	(4,606)	111,128
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	2,012	–	–	2,012
Total comprehensive income for the year		–	–	–	–	–	–	–	–	2,012	115,734	(4,606)	113,140
Repurchase shares under Share Award Scheme	27	–	–	–	–	–	–	(4,534)	–	–	–	–	(4,534)
Issue of new shares under Share Award Scheme	27	3,818	–	–	–	–	(3,818)	–	–	–	–	–	–
Share Award Scheme arrangements	27	–	–	–	–	–	55,328	–	–	–	–	–	55,328
Vesting shares under the Share Award Scheme	27	–	50,874	–	–	–	(50,874)	(12,375)	–	–	–	–	(12,375)
Equity-settled share option arrangements	28	–	–	–	–	4,165	–	–	–	–	–	–	4,165
Share options exercised	28	653	5,936	–	–	(1,760)	–	–	–	–	–	–	4,829
Capital contribution from a non-controlling shareholder		–	–	290	–	–	–	–	–	–	–	119,710	120,000
2016 final dividends declared		–	–	–	(35,275)	–	–	–	–	–	–	–	(35,275)
Transfer of share premium	29	–	(237,632)	–	237,632	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	–	–	3,004	–	(3,004)	–	–
At 31 December 2017		169,536	55,936*	(77,680)*	202,357*	15,009*	5,515*	(16,909)*	46,637*	(1,715)*	99,616*	115,104	613,406

* *These reserve accounts comprise the positive reserves of RMB328,766,000 (31 December 2016: RMB203,063,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**131,563**	122,485
Adjustments for:			
Finance costs	8	**31,321**	20,239
Bank interest income	6	**(4,195)**	(4,517)
Loss on disposal of items of property, plant and equipment	7	**335**	155
Depreciation	7	**48,054**	44,430
Amortisation of intangible assets	7	**458**	59
Impairment of trade and bills receivables	7	**8,033**	–
Write-down of inventories to net realisable value	7	**19**	–
Write-back of inventory provision	7	**–**	(4,766)
Equity-settled share option expense	7	**4,165**	12,604
Equity-settled share award expense	7	**55,328**	24,886
Fair value gains, net:			
Derivative financial instruments			
– transactions not qualifying as hedges	6	**26**	–
Exchange loss		**3,642**	6,991
		278,749	222,566
Decrease/(increase) in inventories		**142,401**	(204,107)
Increase in trade and bills receivables		**(132,088)**	(392,914)
(Increase)/decrease in prepayments, deposits and other receivables		**(46,187)**	54,319
(Decrease)/increase in trade and bills payables		**(192,334)**	509,761
(Decrease)/increase in other payables and accruals		**(2,098)**	9,532
Decrease in deferred income		**(2,330)**	(7,665)
Cash generated from operations		**46,113**	191,492
Mainland China taxes paid		**(33,705)**	(9,280)
Net cash flows from operating activities		**12,408**	182,212
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,195**	4,517
Purchases of items of property, plant and equipment		**(312,533)**	(106,629)
Purchases of items of intangible assets		**(5,988)**	(48)
Net cash flows used in investing activities		**(314,326)**	(102,160)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options	26	**4,829**	136,837
Purchase of shares for Share Award Scheme		**(4,534)**	–
Share issue expenses		**–**	(3,154)
New bank loans and other borrowings		**751,137**	359,498
Repayment of bank loans		**(457,527)**	(376,683)
Interest paid		**(27,428)**	(16,382)
Dividends paid		**(35,275)**	–
Contribution from a non-controlling shareholder		**120,000**	–
Net cash flows from financing activities		**351,202**	100,116
NET INCREASE IN CASH AND CASH EQUIVALENTS		**49,284**	180,168
Cash and cash equivalents at beginning of year	20	**464,889**	286,605
Effect of foreign exchange rate changes, net		**(6,551)**	(1,884)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**507,622**	464,889

1. CORPORATE AND GROUP INFORMATION

China Display Optoelectronics Technology Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business in Hong Kong is located at 8/F, Building 22E, Phase 3, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

During the year ended 31 December 2017, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the manufacture and sale of LCD modules for mobile phones and tablets.

On 27 April 2017, High Value Ventures Limited (the "High Value", an indirect wholly-owned subsidiary of Shenzhen China Star Optoelectronics Technology Co., Ltd.) acquired an aggregate of 1,093,616,758 shares representing 53.81% of the then total number of issued shares of the Company from T.C.L. Industries Holdings (H.K.) Limited ("TCL Industries"),_TCL Intelligent Display Holdings Limited, Taibang Investment Limited, Ketai Investment Limited, Litai Investment Limited, Taigang Investment Limited, Liyuan Holdings Limited, Gaosheng Holdings Limited, Zhuoxian Investment Limited, Jinyuan Investment Limited, Taihua Investment Limited and Shengmao Holdings Limited (the "Acquisition"). Following the acquisition, High Value further acquired 463,019 shares representing 0.02% of the then total number of issued shares of the Company in the unconditional mandatory general cash offer. As a result, High Value's shareholding in the Company increased to approximately 53.83% of the then total number of issued shares of the Company. Accordingly, the Company has become a subsidiary of Shenzhen China Star Optoelectronics Technology Co., Ltd., while TCL Corporation ("TCL Corporation"), the holding company of Shenzhen China Star Optoelectronics Technology Co., Ltd., remained as the ultimate controlling shareholder of the Company.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company are High Value Ventures Limited, a limited liability company incorporated in the British Virgin Islands, and TCL Corporation, a limited liability company registered in the People's Republic of China (the "PRC") and listed on the Shenzhen Stock Exchange, respectively.

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital	Registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
China Display Optoelectronics Technology (Huizhou) Co., Ltd. ("CDOT Huizhou")*	Mainland China	RMB231,900,000	RMB231,900,000	–	100	Manufacture and sale of LCD modules for mobile phones and tablets
Wuhan China Display Optoelectronics Technology Co., Ltd. ("Wuhan CDOT")**	Mainland China	RMB400,000,000	RMB500,000,000	–	70	Manufacture and sale of LCD modules for mobile phones and tablets
China Display Software Development Services (Xi'an) Co., Ltd.***	Mainland China	RMB6,000,000	RMB20,000,000	–	100	Development and sale of software and technical consultancy service
Taijia Investment Limited	Hong Kong	HK$10,000	HK$10,000	–	100	Investment holding, merchandising and sales
TCL Display Technology (Hong Kong) Limited	Hong Kong	HK$1	HK$1	–	100	Investment holding, merchandising and sales
TCL Intelligent Display Electronics Limited	Bermuda	HK$1	HK$1	100	–	Investment holding
TCL Display Technology (BVI) Limited	British Virgin Islands	US$1	US$1	–	100	Investment holding
Taixing Investment Limited	Bermuda	HK$10,000	HK$10,000	100	–	Investment holding

* *This entity is registered as a wholly-foreign-owned enterprise under PRC law.*

** *Wuhan CDOT's percentage of equity attributable to the Company was changed from 100% to 70% following the capital contribution from the non-controlling shareholder during the year ended 31 December 2017.*

*** *This entity is registered as a wholly-owned subsidiary of CDOT Huizhou.*

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 31 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have any interest that is classified as held for sale as at 31 December 2017.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
HKFRS 17	*Insurance Contracts*[3]

1 *Effective for annual periods beginning on or after 1 January 2018*
2 *Effective for annual periods beginning on or after 1 January 2019*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date determined but available for adoption*

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements as the share-based payments of the Group is in the absence of net settlement feature and had been classified in its entirety as equity-settled share-based payment transactions.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the impairment of trade receivables and other receivables.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities comprise the manufacture and sale of LCD modules for mobile phones and tablets. Upon the adoption of HKFRS 15, revenue from the sale of products will be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The Director anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 32 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB7,996,000. Upon adoption of HKFRS16, certain amounts included there in may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at these financial statements set out in this report are set out below:

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each year as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

 (i) has control or joint control over the Group;

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	14%-33%
Office and other equipment	14%-33%
Leasehold improvements	20%-33%

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction for the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition as cost. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

The purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 3 to 5 years.

Operating leases

Leases that transfer substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recognised at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each year whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, interest-bearing bank and other borrowings and bonds payable.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each year of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each year, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each year and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of each year.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate are expensed.

Where the grant relates to a non-monetary asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of reduced depreciation charge.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that the asset will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company operates the Share Award Scheme and the Share Option Scheme (as defined in note 27 and note 28 to the financial statement) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each year until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the origin award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

As disclosed in note 27 to the financial statements, the Group has engaged a trustee to administer the Share Award Scheme, where the trustee may purchase shares issued by the Company from the market as awards to the relevant participants. The consideration paid by the Company, including any directly attributable incremental costs, is presented as "shares held for the Share Award Scheme" and deducted from the Group's equity.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note 12 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain entities in the Group are currencies other than RMB. As at the end of the year, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the year and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in these financial statements:

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Judgement (Continued)

Tax (Continued)

The New PRC Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors in respect of its earnings, from 1 January 2008 or thereafter, shall be subject to withholding corporate income tax at an applicable rate of 5% or 10%. The Group carefully evaluates the necessity of dividend distribution of its subsidiary established in Mainland China out of profits earned after 1 January 2008 and makes decisions on such dividend distributions based on the senior management's judgement. As at 31 December 2017, the aggregate unremitted earnings of RMB161,124,000 (31 December 2016: RMB134,086,000) of the Group's subsidiary established in Mainland China that are subject to withholding taxes were considered to be not probable to distribute in the foreseeable future and accordingly, the related deferred tax liabilities of RMB8,056,000 as at 31 December 2017 (31 December 2016: RMB6,704,000) were not recognised. For details, please refer to note 25 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2017 and 31 December 2016 were RMB463,204,000 and RMB193,281,000, respectively. Further details are given in note 14 to the financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each year. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the trade receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed. As at 31 December 2017, RMB8,033,000 (2016: Nil) impairment losses were recognised for the trade receivables. Further details are included in note 17 to the financial statements.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each year and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each year. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of inventories and the write-down of inventories/write-back of inventory provision amount in the periods in which such estimates have been changed. During the year ended 31 December 2017, the amount of write-down of the inventories recognised in the consolidated statement of profit or loss was RMB19,000 (write-back of inventory provision in year ended 31 December 2016: RMB4,766,000).

Provisions for product warranties

The Group generally accrue provisions on certain of its products, under which faulty products are returned for repair or replacement. The amount of provisions is estimated based on the sales volume and past experience of the level of the raw material costs under the repair and return. The estimation basis is reviewed on an ongoing basis and revised where appropriate. As at 31 December 2017 and 31 December 2016, the carrying amounts of the provisions were RMB1,521,000 and RMB4,485,000, respectively.

5. SEGMENT INFORMATION

For management purposes, the Group operates in one business unit based on its products, and has one reportable operating segment being the display products segment which principally engages in the manufacture and sale of LCD module products.

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

5. SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2017 ***RMB'000***	Year ended 31 December 2016 *RMB'000*
Mainland China*	**2,178,586**	2,282,274
Other countries/areas	**1,285,987**	1,395,879
	3,464,573	3,678,153

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 RMB533,206,000 during the year ended 31 December 2017 (Year ended 31 December 2016: RMB1,063,445,000) was derived from sales to fellow subsidiaries.

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts.

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

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Revenue		
Sale of goods	**3,464,573**	3,678,153
Other income, net		
Bank interest income	**4,195**	4,517
Subsidy income*	**39,817**	4,798
Gain on disposal of raw materials, samples and scraps	**4,504**	26,669
Gain on a litigation compensation	**850**	15,987
	49,366	51,971
Gains, net		
Fair value gains, net:		
Derivative financial instruments	**(26)**	–
	49,340	51,971

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

7. PROFIT BEFORE TAX

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

	Notes	**Year ended 31 December 2017 *RMB'000***	Year ended 31 December 2016 *RMB'000*
Cost of inventories sold		**2,971,699**	3,255,885
Depreciation	*14*	**48,054**	44,430
Amortisation of intangible assets	*15*	**458**	59
Auditor's remuneration		**1,150**	1,183
Research and development costs^:			
Current year expenditures		**34,545**	19,741
Minimum lease payments under operating leases		**8,378**	6,469
Employee benefit expense			
(including directors' remuneration *(note 9)*):			
Wages and salaries		**204,951**	169,482
Equity-settled share option expense	*28*	**4,165**	12,604
Equity-settled share award expense	*27*	**55,328**	24,886
Pension scheme contributions*		**23,800**	29,399
		288,244	236,371
Exchange losses, net		**3,642**	6,991
Impairment of trade and bills receivables	*17*	**8,033**	–
Write-back of inventory provision**		**–**	(4,766)
Write-down of inventories to net realisable value**		**19**	–
Loss on disposal of property, plant and equipment		**335**	155

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

* *As at 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2016: Nil).*

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Interest on bank loans and bonds	**16,125**	7,992
Interest on discounted bills	**15,196**	12,247
	31,321	20,239

9. DIRECTORS' REMUNERATION

Directors' remuneration during the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Fees	**468**	462
Other emoluments:		
Salaries, allowances and benefits in kind	**1,346**	1,377
Equity-settled share option expense	**1,495**	7,249
Equity-settled share award expense	**13,415**	5,915
Pension scheme contributions	**98**	106
	16,354	14,647
	16,822	15,109

9. DIRECTORS' REMUNERATION (Continued)

During the year ended 31 December 2017, certain directors were granted awarded shares (the "Awarded Shares") and share options (the "Share Options") of the Company. The grant of Awarded Shares and Share Options was in respect of their services to the Group, its further details are disclosed in the "Share Award Scheme" and "Share Option Scheme" set out in notes 27 and 28 to the financial statements respectively. The fair values of such Share Options and Awarded Shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fee *RMB'000*	**Equity-settled share option expense** *RMB'000*	**Total remuneration** *RMB'000*
Year ended 31 December 2017			
Ms. HSU Wai Man Helen	**156**	**11**	**167**
Mr. XU Yan	**156**	**11**	**167**
Mr. LI Yang	**156**	**11**	**167**
	468	**33**	**501**

	Fee *RMB'000*	Equity-settled share option expense *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2016			
Ms. HSU Wai Man Helen	154	41	195
Mr. XU Yan	154	41	195
Mr. LI Yang	154	41	195
	462	123	585

All the independent non-executive directors were appointed with effect from 25 June 2015.

There were no other emoluments payable to the independent non-executive directors during the year (Year ended 31 December 2016: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Equity-settled share option expense *RMB'000*	Equity-settled share award expense *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2017						
Executive directors:						
Mr. LI Jian*	–	523	34	505	5,644	6,706
Mr. OUYANG Hongping	–	482	33	398	4,394	5,307
Ms. YANG Yunfang**	–	341	31	307	3,377	4,056
Mr ZHAO Yong	–	–	–	252	–	252
	–	1,346	98	1,462	13,415	16,321
Non-executive director:						
Mr. Liao Qian^	–	–	–	–	–	–
	–	1,346	98	1,462	13,415	16,321

* *Mr. LI Jian is also the chief executive of the Company.*

** *Ms. Yang Yunfang resigned as an executive director of the Company and Mr. Wen Xianzhen was appointed as an executive director of the Company with effect from 23 March 2018.*

^ *Mr. Liao Qian was appointed as a non-executive director of the Company with effect from 1 January 2017.*

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Equity-settled share option expense *RMB'000*	Equity-settled share award expense *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2016						
Executive directors:						
Mr. LI Jian	–	523	36	1,830	2,489	4,878
Mr. LI Yuguo	–	–	–	–	–	–
Mr. OUYANG Hongping	–	482	35	1,442	1,937	3,896
Ms. YANG Yunfang	–	372	35	1,109	1,489	3,005
Mr. ZHAO Yong	–	–	–	915	–	915
	–	1,377	106	5,296	5,915	12,694
Non-executive director:						
Mr. YUAN Bing	–	–	–	1,830	–	1,830
	–	1,377	106	7,126	5,915	14,524

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID INDIVIDUALS

During the year, three (Year ended 31 December 2016: three) directors including the chief executive were counted in the five highest paid employees, details of whose remuneration during their appointment as a director of the Company are set out in note 9 above. Details of the remuneration during the year of the remaining two highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December 2017 ***RMB'000***	Year ended 31 December 2016 *RMB'000*
Salaries, allowances and benefits in kind	**702**	654
Equity-settled share option expense	**358**	1,299
Equity-settled share award expense	**5,226**	2,434
Pension scheme contributions	**65**	68
	6,351	4,455

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	Year ended 31 December 2017	Year ended 31 December 2016
RMB1,000,001 to RMB1,500,000	**–**	1
RMB2,000,001 to RMB2,500,000	**1**	–
RMB3,000,001 to RMB3,500,000	**–**	1
RMB4,000,001 to RMB4,500,000	**1**	–
	2	2

During the year, Awarded Shares and Share Options were granted to two (year ended 31 December 2016: Two) highest paid employees who are neither a director nor chief executive in respect of their services to the Group, further details of which are included in the disclosures in notes 27 and 28 to the financial statements. The fair values of Awarded Shares and Share Options, which have been recognised in the consolidated statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (Year ended 31 December 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Current		
Charge for the year	**30,249**	41,331
Overprovision in the prior years	**(12,226)**	(10,869)
Deferred *(note 25)*	**2,412**	913
Total tax charge for the year	**20,435**	31,375

A reconciliation of the income tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, is as follows:

Year ended 31 December 2017

	Mainland China		Hong Kong		British Virgin Islands and Bermuda		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	13,413		128,612		(10,462)		131,563	
Tax at the statutory tax rates	3,353	25.0	21,221	16.5	–	–	24,574	18.7
Income not subject to tax	–	–	(190)	(0.2)	–	–	(190)	(0.2)
Expenses not deductible for tax	4,286	32.0	32	0.1	–	–	4,318	3.3
Adjustment in respect of current tax of previous periods	(12,468)	(93.0)	242	0.2	–	–	(12,226)	(9.3)
Deductible temporary differences not recognised	–	–	16	–	–	–	16	–
Tax loss not recognised	3,552	26.5	391	0.3	–	–	3,943	3.0
Tax charge/(credit) at the effective rate	(1,277)	(9.5)	21,712	16.9	–	–	20,435	15.5

11. INCOME TAX (Continued)

Year ended 31 December 2016

	Mainland China		Hong Kong		British Virgin Islands and Bermuda		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	120,699		9,120		(7,334)		122,485	
Tax at the statutory tax rates	30,175	25.0	1,505	16.5	–	–	31,680	25.9
Expenses not deductible for tax	10,612	8.8	–	–	–	–	10,612	8.7
Adjustment in respect of current tax of previous periods	(10,869)	(9.0)	–	–	–	–	(10,869)	(8.9)
Tax losses utilised from previous period	–	–	(290)	(3.2)	–	–	(290)	(0.2)
Tax loss not recognised	242	0.2	–	–	–	–	242	0.1
Tax charge at the Group's effective tax rate	30,160	25.0	1,215	13.3	–	–	31,375	25.6

Under the relevant income tax law, CDOT Huizhou, a subsidiary in Mainland China is subject to corporate income tax at a statutory rate of 25% on its taxable income. On 9 October 2014, CDOT Huizhou was designated as a high-tech enterprise by the Guangdong Provincial Department of Science and Technology with an effective period of three years. On 8 April 2016, CDOT Huizhou was approved to be entitled to a 15% preferential tax rate for the year ended 31 December 2015 by the local tax authority based on the designation as a high-tech enterprise. As a result, a downward adjustment of RMB10,869,000 for income tax provision for the year ended 31 December 2015 was made in the year ended 31 December 2016. No such tax preference was applicable in the current year and CDOT Huizhou is subject to corporate income tax at 25% on its taxable income.

On 17 May 2017, CDOT Huizhou was approved to enjoy a tax preference of super-deduction of its research and development expenditure incurred in 2016 as well as expenses relating to Awarded Shares vested in 2016. As a result, a downward adjustment with the total amount of RMB12,468,000 for income tax provision for the year ended 31 December 2016 was made in the current year.

The Group has tax losses of RMB2,366,000 arising in Hong Kong (Year ended 31 December 2016: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of RMB14,209,000 (Year ended 31 December 2016: RMB967,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

12. DIVIDENDS

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Dividends recognised as distribution	**35,275**	–
Proposed final dividend – 2.00 HK cents (year ended 31 December 2016: 2.00 HK cents) per ordinary share	**34,491**	36,337
	69,766	36,337

The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share amount for the year ended 31 December 2017 is based on the profit for the year attributable to ordinary equity holders of the Parent of RMB115,734,000 (Year ended 31 December 2016: RMB91,110,000), and the weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the year of 2,011,524,418 (Year ended 31 December 2016: 1,862,111,949).

13. EARNINGS PER SHARE (Continued)

The calculation of the diluted earnings per share amount for the year ended 31 December 2017 is based on the profit for the year attributable to ordinary equity holders of the Parent of RMB115,734,000 (Year ended 31 December 2016: RMB91,110,000) as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year of 2,011,524,418 (Year ended 31 December 2016: 1,862,111,949), as used in the basic earnings per share calculation, and the weighted average of 2,192,659 ordinary shares under Share Award Scheme (Year ended 31 December 2016: 1,390,318) and 18,128,633 ordinary shares under Share Option Scheme (Year ended 31 December 2016: Nil) assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares.

	Year ended 31 December 2017 ***RMB'000***	Year ended 31 December 2016 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**115,734**	91,110

	Number of shares	
	Year ended 31 December 2017	Year ended 31 December 2016
Shares		
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the year used in the basic earnings per share calculation	**2,011,524,418**	1,862,111,949
Effect of dilution – weighted average number of ordinary shares:		
Awarded shares	**2,192,659**	1,390,318
Share options	**18,128,633**	–
	2,031,845,710	1,863,502,267

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017					
At 31 December 2016:					
Cost	**275,373**	**5,653**	**60,803**	**1,817**	**343,646**
Accumulated depreciation	**(117,457)**	**(3,629)**	**(29,279)**	**–**	**(150,365)**
Net carrying amount	**157,916**	**2,024**	**31,524**	**1,817**	**193,281**
At 1 January 2017, net of accumulated depreciation	**157,916**	**2,024**	**31,524**	**1,817**	**193,281**
Additions	**27,713**	**11,113**	**2,681**	**282,383**	**323,890**
Disposals	**(28)**	**(18)**	**(289)**	**–**	**(335)**
Depreciation provided during the year	**(34,747)**	**(2,520)**	**(10,787)**	**–**	**(48,054)**
Transfers	**97,038**	**2,593**	**962**	**(106,171)**	**(5,578)**
At 31 December 2017, net of accumulated depreciation	**247,892**	**13,192**	**24,091**	**178,029**	**463,204**
At 31 December 2017:					
Cost	**399,873**	**25,210**	**58,220**	**178,029**	**661,332**
Accumulated depreciation	**(151,981)**	**(12,018)**	**(34,129)**	**–**	**(198,128)**
Net carrying amount	**247,892**	**13,192**	**24,091**	**178,029**	**463,204**
31 December 2016					
At 31 December 2015:					
Cost	211,428	4,836	54,163	472	270,899
Accumulated depreciation	(84,986)	(3,192)	(18,550)	–	(106,728)
Net carrying amount	126,442	1,644	35,613	472	164,171
At 1 January 2016, net of accumulated depreciation	126,442	1,644	35,613	472	164,171
Additions	64,894	817	5,657	2,327	73,695
Disposals	(155)	–	–	–	(155)
Depreciation provided during the year	(33,265)	(437)	(10,728)	–	(44,430)
Transfers	–	–	982	(982)	–
At 31 December 2016, net of accumulated depreciation	157,916	2,024	31,524	1,817	193,281
At 31 December 2016:					
Cost	275,373	5,653	60,803	1,817	343,646
Accumulated depreciation	(117,457)	(3,629)	(29,279)	–	(150,365)
Net carrying amount	157,916	2,024	31,524	1,817	193,281

15. INTANGIBLE ASSETS

	Computer software *RMB'000*
31 December 2017	
Cost at 1 January 2017, net of accumulated amortisation	**67**
Additions	**410**
Transfers from construction in progress	**5,578**
Amortisation provided during the year	**(458)**
At 31 December 2017	**5,597**
At 31 December 2017:	
Cost	**7,190**
Accumulated amortisation	**(1,593)**
Net carrying amount	**5,597**
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	78
Additions	48
Amortisation provided during the year	(59)
At 31 December 2016	67
At 31 December 2016:	
Cost	1,203
Accumulated amortisation	(1,136)
Net carrying amount	67

16. INVENTORIES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Raw materials	**157,569**	236,445
Work in progress	**27,770**	39,029
Finished goods	**39,327**	91,612
	224,666	367,086

17. TRADE AND BILLS RECEIVABLES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	**793,264**	745,437
Bills receivable	**329,276**	245,015
Impairment	**(8,033)**	–
	1,114,507	990,452

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.

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within 1 month	**276,174**	584,818
1 to 2 months	**481,594**	253,404
2 to 3 months	**235,240**	96,000
Over 3 months	**121,499**	56,230
	1,114,507	990,452

17. TRADE AND BILLS RECEIVABLES (Continued)

The movement in provision for impairment of trade receivables is as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
At beginning of year	**–**	–
Impairment losses recognised	**(8,033)**	–
	(8,033)	–

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB8,033,000 (2016: Nil) with a carrying amount before provision of RMB80,333,000 (2016: Nil).

The individually impaired trade receivables related to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Neither past due nor impaired	**1,003,121**	953,003
Less than 1 month past due	**39,064**	37,405
1 to 3 months past due	**22**	44
	1,042,207	990,452

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant changes in credit quality and the balances are still considered fully recoverable.

During the year, the Group had originally pledged certain trade receivables amounting to RMB279,273,000 (31 December 2016: RMB147,662,000) to banks with recourse in exchange for cash *(note 38)*. The proceeds from pledging the trade receivables of RMB231,876,000 (31 December 2016: RMB120,000,000) were accounted for as collateralised bank advances until the trade receivables were collected or the Group made good of any losses incurred by the banks *(note 23)*. As at 31 December 2017, the pledged trade receivables were fully collected while the collateralised bank advances were unmatured.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current:		
Deposits paid for purchase of items of property, plant and equipment	**37,500**	43,279
Current:		
Prepayments	**2,332**	5,974
Receivables of tax refund	**–**	16,600
Deposits and other receivables	**88,199**	21,770
	90,531	44,344

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Foward currency contracts		
Assets	**726**	–
Liabilities	**752**	–

The Group has entered into various forward currency contracts to manage its exchange rate exposure. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to RMB26,000 were charged to the statement of profit or loss during the year (Year ended 31 December 2016: Nil).

20. CASH AND CASH EQUIVALENTS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Cash and bank balances denominated in		
– RMB	**188,168**	83,935
– HK$	**5,803**	80,321
– United States dollars ("US$")	**313,651**	298,831
– Japanese Yen ("JPY")	**–**	1,802
Cash and cash equivalents	**507,622**	464,889

20. CASH AND CASH EQUIVALENTS (Continued)

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, included in the Group's cash and bank balances were deposits of RMB478,199,989 (31 December 2016: RMB380,923,000), placed with TCL Finance Co., Ltd., a fellow subsidiary of the Company and a financial institution approved by the People's Bank of China. The interest rate for the deposits placed with TCL Finance Co., Ltd. was 0.42% (Year ended 31 December 2016: 0.42%) per annum, being the savings rate offered by the People's Bank of China during the year. Further details of the interest income from the deposits in the related parties are set out in note 34 to the financial statements.

21. TRADE AND BILLS PAYABLES

	31 December 2017 ***RMB'000***	31 December 2016 *RMB'000*
Trade payables	**1,127,603**	1,319,937
Bills payable	**–**	–
	1,127,603	1,319,937

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

	31 December 2017 ***RMB'000***	31 December 2016 *RMB'000*
Within 30 days	**704,203**	689,926
31 to 60 days	**296,081**	453,662
61 to 90 days	**105,751**	145,233
Over 90 days	**21,568**	31,116
	1,127,603	1,319,937

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

22. OTHER PAYABLES AND ACCRUALS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Deposits received from customers	**8,157**	37,513
Salaries and welfare payables	**42,840**	46,331
Tax payables other than current income tax liabilities	**26,897**	18,442
Other payables	**127,118**	85,592
Accruals	**1,521**	4,485
	206,533	192,363

Other payables are non-interest-bearing and have an average term of three months.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2017			31 December 2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**4.40 – 5.00**	**2018**	**157,734**	–	–	–
Collateralised bank advances – secured	**2.26 – 4.35**	**2018**	**231,876**	3.10 – 3.80	2017	120,000
			389,610			120,000
Non-current						
Other borrowings	**0.44**	**2020**	**24,000**	–	–	–
			413,610			120,000
Analysed into:						
Bank loans repayable within one year			**389,610**			120,000
Other borrowings repayable in the third to fifth years, inclusive			**24,000**			–
			413,610			120,000

Notes:

(a) The Group had banking facilities of RMB2,647,300,000 (31 December 2016: RMB2,530,000,000), of which RMB1,074,784,000 (31 December 2016: RMB1,035,222,000) had been utilised as at the end of the year.

(b) The Group's interest-bearing bank borrowings originally are secured by trade receivables of RMB279,273,000 (31 December 2016: RMB147,662,000). As at 31 December 2017, the pledged trade receivables were fully collected while the collateralised bank advances were unmatured.

In addition, the Company's ultimate holding company has guaranteed certain of the Group's interest-bearing bank borrowings up to RMB389,610,000 (31 December 2016: RMB120,000,000) as at the end of the year.

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

(d) Except for the 2.26% secured bank loan of RMB71,876,000 (31 December 2016: Nil) which is denominated in US$, all borrowings are in RMB.

24. BONDS PAYABLE

During the eighteen months ended 31 December 2015, the Company completed a debt restructuring and settled the amounts due to certain creditors of the Company (the "Schemed Creditors") by the way of the schemes of arrangement made between the Company and the Scheme Creditors under Sections 670 and 673 of the Companies Ordinance (Cap. 622) of Hong Kong (the "Hong Kong Scheme") and Section 99 of the Companies Act 1981 of Bermuda (the "Bermuda Scheme", together with the Hong Kong Scheme, hereinafter collectively referred to as the "Schemes") respectively. On 16 April 2015, the Schemes became effective. Pursuant to the Schemes, all amounts due to the Scheme Creditors have been fully discharged through the cash proceeds from the issuance of bond at the principal amount of HK$60,000,000 ("Bond A") to TCL Industries which was transferred to a special purpose vehicle established and controlled by the Hong Kong Scheme Administrator (the "Debt Restructuring").

Bond A was issued in 2 tranches on 17 April 2015 and 25 June 2015 at the respective principal amounts of HK$10,000,000 and HK$50,000,000, with a tenure of 5 years. Interest is chargeable at 7.5% per annum and payable semi-annually in arrears.

During the eighteen month ended 31 December 2015, the Group acquired the entire equity interest in CDOT Huizhou, which constituted a reverse takeover transaction. Among the total consideration of HK$550,000,000, HK$10,000,000 was satisfied by issuance of bond ("Bond B") on 17 April 2015 to a subsidiary of TCL Industries at the principal amount of HK$10,000,000, with a tenure of 3 years at nil interest rate.

Subsequent to the Acquisition mentioned in note 1 to the financial statement, the Bond A and Bond B were collectively transferred from TCL Industries and the said subsidiary to High Value Ventures Limited, the immediate holding company of the Company. As at 31 December 2017, the fair values of Bond A and Bond B approximated its carrying amounts of RMB50,148,000 (31 December 2016: RMB53,664,000) and RMB8,358,000 (31 December 2016: RMB8,944,000), respectively.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairments *RMB'000*	Depreciation in excess of related depreciation allowance *RMB'000*	Accruals *RMB'000*	Government grants *RMB'000*	Fair Value adjustments from financial instruments *RMB'000*	Total *RMB'000*
At 1 January 2016	4,089	6,090	4,947	3,351	–	18,477
Credited/(charged) to the statement of profit or loss during the year *(note 11)*	(1,192)	2,345	(3,820)	1,754	–	(913)
At 31 December 2016 and 1 January 2016	2,897	8,435	1,127	5,105	–	17,564
Credited/(charged) to the statement of profit or loss during the year *(note 11)*	2,013	306	(735)	(4,003)	188	(2,231)
At 31 December 2017	4,910	8,741	392	1,102	188	15,333

Deferred tax liabilities

	Fair value adjustments from financial investments *RMB'000*
At 1 January 2017	**–**
Charged to the statement of profit or loss during the year *(note 11)*	**181**
At 31 December 2017	**181**

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB8,056,000 as at 31 December 2017 (31 December 2016: RMB6,704,000).

26. SHARE CAPITAL

	31 December 2017	31 December 2016
Authorised: 4,000,000,000 (31 December 2016: 4,000,000,000) ordinary shares of HK$0.10 each *(HK$'000)*	**400,000**	400,000
Issued and fully paid: 2,083,850,619 (31 December 2016: 2,031,368,800) ordinary shares *(HK$'000)*	**208,385**	203,137
Equivalent to RMB'000	**169,536**	165,065

	Number of shares in issue	Share capital *RMB'000*	Share premium account *RMB'000*
At 1 January 2017	**2,031,368,800**	**165,065**	**236,758**
Issue of new shares under Share Award Scheme *(Note (a))*	**44,813,829**	**3,818**	**–**
Vesting shares under the Share Award Scheme *(Note (b))*	**–**	**–**	**50,874**
Share options exercised *(Note (c))*	**7,667,990**	**653**	**5,936**
Transfer of share premium *(Note 29)*	**–**	**–**	**(237,632)**
At 31 December 2017	**2,083,850,619**	**169,536**	**55,936**

Notes:

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

(b) An amount of RMB50,874,000 was transferred from the awarded share reserve to share premium account upon the vesting of the awarded shares.

(c) The subscription rights attaching to 7,667,990 share options were exercised at the subscription price of HK$0.74 per share *(note 28)*, resulting in the issue of 7,667,990 shares for a total cash consideration, before expenses, of RMB4,829,000. An amount of RMB1,760,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

27. SHARE AWARD SCHEME

On 17 March 2016 (the "Adoption Date"), the Board (for the purposes of the Share Award Scheme, defined below, also includes such committee or such sub-committee or person(s) delegated with the power and authority by the board of directors of the Company to administer) resolved to adopt a restricted Share Award Scheme (the "Share Award Scheme") for the purpose of providing incentives to the participants under the Share Award Scheme. Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its sole and absolute discretion designate an award ("Award" and collectively "Awards") to be made to a selected participant ("Selected Person" and collectively "Selected Persons"). Participants of the Share Award Scheme cover any employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group and any employee or officer of any affiliated company whom the Board in its sole discretion considers may contribute or have contributed to the Group. Awards may be satisfied by (i) existing shares to be acquired by the trustee engaged by the Company for the purpose of administrating the Share Award Scheme (the "Trustee"), from the market, or (ii) new shares to be allotted and issued to the Trustee by the Company (collectively "Awarded Shares"), in both case the costs of which will be borne by the Company, and will be held on trust by the Trustee for the Selected Persons until the end of each vesting period subject to fulfilment of the vesting conditions (if any). The specific mandate for the issuance and allotment of new share as Awarded Shares pursuant to the Share Award Scheme was approved by the shareholders of the Company at the special general meeting of the Company held on 11 May 2016 (the "Approval Date"). On 9 August 2017, the Share Award Scheme was amended by the Group, pursuant to which, the Board may accelerate the vesting of the unvested Awarded Shares for Grantees on a date prior to the original Vesting date and waive or alter any or all of the vesting conditions attached to such Awarded Shares.

Subject to the refreshment of the scheme limit and the adjustment in the event of consolidation or subdivision of Shares, the Board shall not make any further award of Awarded Shares which will result in: (i) the aggregate number of the Awarded Shares granted under the Share Award Scheme exceeding 10% of the issued share capital of the Company as at the Adoption Date (i.e. 172,149,980 shares); and (ii) the aggregate number of the Shares held by public shareholders of the Company falling below the minimum percentage as prescribed under the Listing Rules. Unless otherwise approved by the shareholders of the Company, the aggregate number of new shares to be granted as Awarded Shares in each financial year shall not exceed 3% of the total number of issued shares of the Company as at the Approval Date (i.e. 51,644,994 shares) or the latest new approval date (i.e. latest date on which the relevant shareholders' approval is obtained), as the case may be.

On 20 May 2016, the Company entered into a trust deed with BOCI-Prudential Trustee Limited thereby appointing it as the Trustee.

On 17 March 2016, the Board resolved to conditionally grant Awards with new shares to certain grantees (the "Shares Grant A") pursuant to the terms of the Share Award Scheme. This involves granting Awards for a total of 51,644,994 Awarded Shares being new shares to 97 Selected Persons. The Shares Grant A was subject to (i) the approval of the specific mandate for the issuance and allotment of new shares as Awarded Shares pursuant to the Share Award Scheme by the shareholders; and (ii) the approval by the listing committee of the Stock Exchange for the listing of, and permission to deal in, such new shares. The conditions were all fulfilled on 11 May 2016.

On 9 August 2017, the Board resolved to conditionally grant Awards with new shares to certain grantees (the "Shares Grant B") pursuant to the terms of the Share Award Scheme. This involves conditionally granting Awards for a total of 44,813,829 Awarded Shares being new shares and 6,831,165 Awarded Shares being existing shares from the market to 145 Selected Persons, who are all employees, and 2 Selected Persons, who are all non-employees, respectively. Out of the 145 Selected Persons of the Shares Grant B, 4 are connected persons of the Company (the "Connected Grantees") who are conditionally granted a total of 15,364,499 Awarded Shares being new Shares. The proposed Awards to such Connected Grantees constitute connected transactions and therefore are also subject to the approval by the independent shareholders, which has been obtained on 13 October 2017.

27. SHARE AWARD SCHEME (Continued)

The following Awarded Shares were unvested under the Share Award Scheme of the Company during the year:

	Number of awarded shares	
	2017	2016
	'000	'000
At 1 January	**25,823**	–
Granted during the year	**51,645**	51,645
Vested during the year	**(70,293)**	(25,822)
Forfeited during the year	**(344)**	–
At 31 December	**6,831**	25,823

The fair value and vesting date of the Awarded Shares outstanding under the Share Award Scheme as at the end of 2017 are as follows:

	Number of Awarded Shares						
Date of grant	As at 1 January 2017 '000	Granted during the year '000	Vested during the year '000	Forfeited during the year '000	As at 31 December 2017 '000	Fair value HK$ per share	Vesting date
11-5-16	25,823	–	(25,509)	(314)	–	0.82	13-10-17*
9-8-17	–	29,449	(29,419)	(30)	–	1.02	18-12-17
9-8-17	–	6,831	–	–	6,831	1.02	12-01-18
13-10-17	–	15,365	(15,365)	–	–	1.05	18-12-17
Total	25,823	51,645	(70,293)	(344)	6,831		

* *Pursuant to the terms of the Shares Grant A, such Awarded Shares are scheduled to be vested on 18 December 2017. On 9 August 2017, the Board has approved to exercise its discretion under the amended Share Award Scheme to accelerate the Vesting date of the 25,538,996 unvested Awarded Shares from 18 December 2017 to 13 October 2017, upon which approval from the independent shareholders having been obtained.*

The fair values of the Awarded Shares granted during the year ended 31 December 2017 and the year ended 31 December 2016 were RMB45,332,000 and RMB35,582,000, respectively, of which the Group recognised an awarded share expense of RMB55,328,000 during the year (Year ended 31 December 2016: RMB24,886,000).

27. SHARE AWARD SCHEME (Continued)

The following Awarded Shares were outstanding during the year:

	Notes	**2017** **'000** **Number of awarded shares**	2016 '000 Number of awarded shares
At 1 January			
Number of Awarded Shares held by the Trustee		**25,823**	–
Number of Awarded Shares granted but not vested		**25,823**	–
Maximum number of Awarded Shares available for grant*		**120,505**	–
At 31 December			
Number of Awarded Shares held by the Trustee		**20,856**	25,823
Number of Awarded Shares granted but not vested		**6,831**	25,823
Maximum number of Awarded Shares available for grant*		**84,548**	120,505
Granting during the year			
Grant using existing shares		**6,831**	–
Grant using new shares		**44,814**	51,645
Forfeited during the year		**344**	–
Vested during the year		**70,293**	25,822
Purchased during the year	*(a)*	**5,168**	–
Allotted and issued during the year	*(b)*	**44,814**	51,645
Individual income tax paid on behalf of the Selected Persons during the year	*(c)*	**15,344**	–

Notes:

(a) For the year ended 31 December 2017, the Trustee purchased 5,168,000 (Year ended 31 December 2016: Nil) shares at a total cost (including related transaction costs) of RMB4,534,000 (Year ended 31 December 2016: Nil) from the market out of cash contributed by the Group. Such shares will be held on trust by the Trustee for the Selected Persons until the end of the vesting period subject to fulfilment of the vesting conditions.

(b) For the year ended 31 December 2017, 44,813,829 Awarded Shares were allotted and issued to the trustee at par value (Year ended 31 December 2016: 51,644,994). Such shares were vested during the year.

(c) During the year ended 31 December 2017, tax has been paid by the Group on behalf of certain Selected Persons whose rights were vested in the Awarded Shares and 15,344,484 Awarded Shares were deducted from the total number of Awarded Shares entitled to be vested to those Selected Persons, as the settlement for the Individual Income Tax paid by the Group on their behalf. The total cost of the related vested Awarded Shares was RMB12,375,000. As at 31 December 2017, the carrying amount of Shares held for Share Award Scheme was RMB16,909,000 (31 December 2016: Nil).

* *As mentioned above, the Board shall not make any further award of Awarded Shares which will result in the aggregate number of the Awarded Shares granted under the Award Scheme (excluding those cancelled or forfeited) exceeding 10% of the number of issued shares of the Company as at the Adoption Date (i.e. 17 March 2016).*

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of recognising and providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, helping the Group in retaining its existing employees and recruiting additional employees and providing them with a direct economic interest in attaining the long term business objectives of the Group. Eligible participants of the Share Option Scheme include employees of the Company or any of its subsidiaries (including any executive and non-executive director or proposed executive and non-executive director of the Company), adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the Board in its sole discretion considers may contribute or have contributed to the Group. The Share Option Scheme became effective on 25 June 2015 and, unless otherwise terminated, will remain in force for 10 years from that date.

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of approval of each of the Share Option Scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the Shareholders. The maximum number of shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issued or to be issued upon exercise of share options granted to any one participant in a 12-month period shall not exceed 1% (or 0.1% for any substantive shareholder, independent non-executive director or other associates, see paragraph below) of the issued shares of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a non-refundable nominal consideration of HK$1.00 by each grantee. The Share Option Scheme do not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than ten years from the date of grant of the relevant share option.

The exercise price of a share option to subscribe for shares of the Company is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to receive dividends or to vote at general meetings of the Company.

28. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Share Option Scheme of the Company during the year:

	2017 Weighted average exercise price HK$ per share	2017 Number of options '000	2016 Weighted average exercise price HK$ per share	2016 Number of options '000
At 1 January	**0.74**	**79,319**	–	–
Exercise during the year	**0.74**	**(7,668)**	–	–
Granted during the year	**–**	**–**	0.74	80,605
Cancelled during the year	**0.74**	**(1,100)**	–	–
Forfeited during the year	**0.74**	**(873)**	0.74	(1,286)
At 31 December	**0.74**	**69,678**	0.74	79,319

The exercise price and exercise period of the share options outstanding at the end of 2017 are as follows:

31 December 2017

Date of grant	Number of options '000	Exercise price HK$ per share	Exercise period
18-3-16	69,678	0.74	18-12-16 to 17-3-22

The fair value of the share options granted during the 2016 was RMB18,502,000 (HK$0.28 each), of which the Group recognised a share option expense of RMB4,165,000 during the year ended 31 December 2017 (Year ended 31 December 2016: RMB12,604,000).

At the end of the year, the Company had 69,678,230 share options outstanding under the Share Option Scheme which have not yet been exercised. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 69,678,230 additional ordinary share of the Company and additional share capital of RMB6,968,000 and share premium of RMB44,594,000 (before issue expenses).

According to the scheme limit of the Share Options Scheme as refreshed at the annual general meeting held on 11 May 2016, the Company may further grant 172,149,980 share options, representing approximately 8.26% of the issued share capital of the Company as at 31 December 2017.

At the date of approval of these consolidated financial statements, the Company had 66,800,430 share options outstanding under the Share Options Scheme, which represented approximately 3.20% of the Company' shares in issue as at that date.

29. RESERVES

The amount of the Group's reserves and the movements therein during the year ended 31 December 2017 and 2016 are presented in the consolidated statement of changes in equity on page 58 of the financial statements.

Capital reserve

Capital reserve with the amount of RMB77,970,000 arose from the Reverse Takeover Transaction, the adjustment of CDOT Huizhou's legal capital to reflect the Company's legal capital, and capital reserve with the amount of RMB290,000 arose from the contribution from a non-controlling shareholder.

Statutory surplus reserve

In accordance with the PRC Company Law, CDOT Huizhou is required to allocate 10% of its profit after tax to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the PRC Company Law, part of the SSR may be converted to increase share capital of CDOT Huizhou, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital. As at 31 December 2017, the SSR of CDOT Huizhou amounted to RMB46,637,000 (31 December 2016: RMB43,633,000).

Contributed surplus

Upon compliance with Section 4b(2) of the Companies Act 1981 of Bermuda, the annual general meeting had passed the resolution to cancel the amount standing to the credit of the share premium amount of RMB237,632,000 and transfer to the Contributed Surplus account.

30. NON-WHOLLY OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

Details of the Group's subsidiary that have material non-controlling interest are set out below:

	2017
Percentage of equity interest held by non-controlling interest:	
Wuhan CDOT	**30%**
Loss for the year allocated to non-controlling interest:	
Wuhan CDOT	**4,606**
Accumulated balances of non-controlling interest at the reporting date:	
Wuhan CDOT	**115,104**

30. NON-WHOLLY OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST (Continued)

The following table illustrates the summarized financial information of the above subsidiary. The amount disclosed are before any inter-company eliminations:

	2017
Revenue	**290,364**
Total expenses	**(15,643)**
Loss for the year	**(15,353)**
Total comprehensive loss for the year	**(15,353)**
Current assets	**359,077**
Non-current assets	**280,151**
Current liabilities	**255,548**
Net cash flows used in operating activities	**(51,729)**
Net cash flows used in investing activities	**(281,824)**
Net cash flows from financing activities	**399,000**
Net increase in cash and cash equivalents	**65,447**

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings *RMB'000*	Other payables and accruals *RMB'000*
At 1 January 2017	120,000	192,363
Changes from financing cash flows	293,610	(27,428)
Interest expense	–	31,321
Individual income tax accrued on behalf of the Selected Persons under Share Option Scheme and Share Award Scheme	–	12,375
Increase classified as operating cash flows	–	(2,098)
At 31 December 2017	413,610	206,533

32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to two years.

At the end of the reporting year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Within one year	**6,971**	6,620
In the second year	**1,025**	225
	7,996	6,845

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments as at the end of the year:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Contracted, but not provided for:		
Plant and machinery	**119,473**	67,064

34. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year ended 31 December 2017:

	Notes	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Ultimate holding company:			
Purchases of products	(i)	1,334	1,124
Interest income		16	–
Guarantee fee		760	286
		2,110	1,410
Immediate holding company:			
Interest expense	(ii)	3,893	3,857
Fellow subsidiaries:			
Sales of products	(i)	533,206	1,063,445
Sales of raw materials and samples	(i)	1,797	1,951
Purchases of products	(i)	366,420	55,976
Purchases of plant, vehicles, furniture and fixtures	(i)	266	762
Rental and other related charges	(i)	6,346	7,070
Interest income	(i)	4,028	2,439
Interest expense	(i)	7,338	1,256
		919,401	1,132,899

Notes:

(i) The sales, purchases, leasehold transactions, interest income, guarantee fee, interest expense and financing service fee with the related parties were made according to prices mutually agreed between two parties after arm's length negotiation on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties.

(ii) Interest is chargeable at 7.5% for Bond A issued to the immediate holding company as a result of the Debt Restructuring.

(b) Other transactions with related parties

The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to RMB389,610,000, (31 December 2016: RMB120,000,000) as at the end of the year, as further detailed in note 23 to the financial statements.

34. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties

	Due from related companies		Due to related companies	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current:				
The ultimate holding company	**–**	–	**56**	21,394
The immediate holding company	**–**	–	**41,094**	40,149
Fellow subsidiaries	**58,040**	110,599	**183,747**	54,735
	58,040	110,599	**224,897**	116,278
Non-current:				
The immediate holding company	**–**	–	**58,506**	62,608
	58,040	110,599	**283,403**	178,886

The balances with the ultimate holding company and fellow subsidiaries are mainly trading balances which are unsecured, interest-free and have no fixed terms of repayment. The non-current balance with the immediate holding company as at 31 December 2017 was the bonds payable of RMB58,506,000. The current balance with the immediate holding company as at 31 December 2017 comprised interest of the bonds payable of RMB9,465,000 and an amount of RMB31,628,000 relating to the reimbursement for the listing expense which was paid by the immediate holding company on behalf of the Company. The current balance with the immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Short-term employee benefits	**2,604**	2,526
Equity-settled share option expense	**1,863**	8,584
Equity-settled share award expense	**20,003**	8,956
	24,470	20,066

Further details of directors' emoluments are included in note 9 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

31 December 2017	Financial assets at fair value through profit or loss Held for trading *RMB'000*	Loans and receivables *RMB'000*
Financial assets		
Trade and bills receivables	–	1,114,507
Financial assets included in deposits and other receivables	–	88,199
Cash and cash equivalents	–	507,622
Derivative financial instruments	726	–
	726	1,710,328

31 December 2016	Loans and receivables *RMB'000*
Financial assets	
Trade and bills receivables	990,452
Financial assets included in deposits and other receivables	21,770
Cash and cash equivalents	464,889
	1,477,111

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2017	Financial assets at fair value through profit or loss Held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*
Financial liabilities		
Trade and bills payables	–	1,127,603
Financial liabilities included in other payables and accruals	–	127,118
Interest-bearing bank borrowings	–	389,610
Other borrowings	–	24,000
Bonds payable	–	58,506
Derivative financial instruments	752	–
	752	1,726,837

31 December 2016	Financial liabilities at amortised cost *RMB'000*
Financial liabilities	
Trade and bills payables	1,319,937
Financial liabilities included in other payables and accruals	85,592
Interest-bearing bank borrowings	120,000
Bonds payable	62,608
	1,588,137

36. FAIR VALUE MEASUREMENT

The carrying amounts and fair values of the Group's instruments, other than those with carrying amounts that reasonable approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Derivative financial instruments	**726**	**–**	726	–
Financial liabilities				
Derivative financial instruments	**752**	**–**	752	–

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the finance director and the audit committee. At each reporting date, the finance department analyses the movements in the value of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance director. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, including forward currency contracts are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

The fair values of the bonds payable and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the bonds payable as at 31 December 2017 was assessed to be insignificant.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, bonds payable and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, market risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the units' functional currencies. Approximately 36% of the Group's sales and 52% of the Group's purchases were denominated in currencies other than the functional currency of the operating units making the sale and purchase during the year ended 31 December 2017, respectively.

The following tables demonstrate the sensitivity at the end of each year to a reasonably possible change in the US$ exchange rate and the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2017			
If RMB weakens against US$	5	1,833	–
If RMB strengthens against US$	(5)	(1,833)	–
31 December 2016			
If RMB weakens against US$	5	(1,402)	–
If RMB strengthens against US$	(5)	1,402	–

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2017			
If RMB weakens against HK$	5	–	560
If RMB strengthens against HK$	(5)	–	(560)
31 December 2016			
If RMB weakens against HK$	5	–	(3,226)
If RMB strengthens against HK$	(5)	–	3,226

* *Excluding retained profits*

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

The Group's production process requires a significant amount of LCD, IC circuits and other materials, and the Group's success depends significantly on its ability to secure sufficient and constant supply of these principal raw materials for its production at acceptable price levels. LCD is the most significant raw material used in the Group's production. The Group does not have long-term, fixed-cost supply contracts of raw materials with its suppliers. Since many of the Group's sales are priced by reference to the market price at the time of a particular order, its exposure to the risk of changes in the price is reduced.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had concentrations of credit risk as 68% (31 December 2016: 78%) of the Group's trade and bills receivables were due from the Group's five largest customers as at 31 December 2017.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from related parties and bank borrowings.

The maturity profile of financial liabilities as at 31 December 2017, based on the contractual undiscounted payments, was as follows:

	Less than 1 year *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
31 December 2017			
Trade and bills payables	**1,127,603**	**–**	**1,127,603**
Financial liabilities included in other payables and accruals	**115,196**	**–**	**115,196**
Interest-bearing bank borrowings	**394,169**	**–**	**394,169**
Other borrowings	**–**	**24,000**	**24,000**
Bonds payable	**13,227**	**64,085**	**77,312**
Derivative financial instruments	**752**	**–**	**752**
	1,650,947	**88,085**	**1,739,032**
31 December 2016			
Trade and bills payables	1,319,937	–	1,319,937
Financial liabilities included in other payables and accruals	85,592	–	85,592
Interest-bearing bank borrowings	120,000	–	120,000
Bonds payable	10,129	72,603	82,732
	1,535,658	72,603	1,608,261

Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors believe that interest-bearing bank and other borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, trade and bills payables, financial liabilities included in other payables and accruals and bonds payable less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the years are as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade and bills payables	**1,127,603**	1,319,937
Financial liabilities included in other payables and accruals	**127,118**	85,592
Interest-bearing bank borrowings	**389,610**	120,000
Other borrowings	**24,000**	–
Bonds payable	**58,506**	62,608
Less: Cash and cash equivalents	**(507,622)**	(464,889)
Net debt	**1,219,215**	1,123,248
Equity attributable to owners of the parent	**498,302**	368,128
Capital and net debt	**1,717,517**	1,491,376
Gearing ratio	**71%**	75%

38. TRANSFERS OF FINANCIAL ASSETS

As part of its normal business, the Group entered into trade receivable factoring arrangements and transferred certain trade receivables to banks for cash. In the opinion of the directors, the Group retained substantially all risks and rewards of the transferred trade receivables, and accordingly, it continued to recognise the full carrying amounts of the transferred trade receivables and the associated liabilities which were the collateralised bank advances. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties.

As at 31 December 2017, the pledged trade receivables were fully collected while the collateralised bank advances were unmatured. The amounts of pledged trade receivables and the collateralised bank advances were nil (31 December 2016: RMB147,662,000) and RMB231,876,000 (31 December 2016: RMB120,000,000) *(note 23)*, respectively.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	255,922	209,360
Total non-current assets	255,922	209,360
CURRENT ASSETS		
Cash and cash equivalents	1,809	68,698
Prepayment and other receivables	118,062	96,924
Total current assets	119,871	165,622
CURRENT LIABILITIES		
Other payables and accruals	46,229	45,505
Interest payable	9,465	6,104
Total current liabilities	55,694	51,609
NET CURRENT ASSETS	64,177	114,013
TOTAL ASSETS LESS CURRENT LIABILITIES	320,099	323,373
NON-CURRENT LIABILITIES		
Bonds payable	58,506	62,608
Total non-current liabilities	58,506	62,608
Net assets	261,593	260,765
EQUITY		
Share capital	169,536	165,065
Reserves *(note)*	92,057	95,700
	261,593	260,765

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total equity RMB'000
At 1 January 2016	109,572	–	–	(168,133)	5,053	(53,508)
Loss and total comprehensive income for the year	–	–	–	(7,266)	–	(7,266)
Issue of shares	114,766	–	–	–	–	114,766
Share issue expenses	(3,154)	–	–	–	–	(3,154)
Issue of new shares under Share Award Scheme	–	–	(4,433)	–	–	(4,433)
Share Award Scheme arrangements	–	–	24,886	–	–	24,886
Vesting shares under the Share Award Scheme	15,574	–	(15,574)	–	–	–
Equity-settled share option arrangements	–	12,604	–	–	–	12,604
Exchange differences on translation of foreign operations	–	–	–	–	11,805	11,805
At 31 December 2016	236,758	12,604	4,879	(175,399)	16,858	95,700

	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total equity RMB'000
At 1 January 2017	**236,758**	**–**	**12,604**	**4,879**	**–**	**(175,399)**	**16,858**	**95,700**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(10,387)**	**–**	**(10,387)**
Repurchase shares under Share Award Scheme	**–**	**–**	**–**	**–**	**(4,534)**	**–**	**–**	**(4,534)**
Issue of new shares under Share Award Scheme	**–**	**–**	**–**	**(3,818)**	**–**	**–**	**–**	**(3,818)**
Share Award Scheme arrangements	**–**	**–**	**–**	**55,328**	**–**	**–**	**–**	**55,328**
Vesting shares under the Share Award Scheme	**50,874**	**–**	**–**	**(50,874)**	**–**	**–**	**–**	**–**
Equity-settled share option arrangements	**–**	**–**	**4,165**	**–**	**–**	**–**	**–**	**4,165**
Share options exercised	**5,936**	**–**	**(1,760)**	**–**	**–**	**–**	**–**	**4,176**
Transfer of share premium	**(237,632)**	**237,632**	**–**	**–**	**–**	**–**	**–**	**–**
2016 final dividends declared	**–**	**(35,275)**	**–**	**–**	**–**	**–**	**–**	**(35,275)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(13,298)**	**(13,298)**
At 31 December 2017	**55,936**	**202,357**	**15,009**	**5,515**	**(4,534)**	**(185,786)**	**3,560**	**92,057**

The Company's contributed surplus represents the cancellation of the amount standing to the credit of the share premium and transferred to the contributed surplus account with effect from the resolution approved on the annual general meeting. Pursuant to Bermuda company law, a company may make distributions to its members out of the contributed surplus in certain circumstances.

The share option reserve and awarded share reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 3.3 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the audited results, assets and liabilities of the Group for the last five years ended 31 December 2017 is set out as below:

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**3,464,573**	3,678,153	2,242,822	2,614,228	1,936,632
Cost of sales	**(3,184,754)**	(3,472,630)	(2,103,219)	(2,375,713)	(1,762,564)
Gross profit	**279,819**	205,523	139,603	238,515	174,068
Other income and gains	**49,340**	51,971	31,348	32,911	3,942
Selling and distribution expenses	**(42,147)**	(36,267)	(32,668)	(42,589)	(39,453)
Administrative expenses	**(115,194)**	(73,907)	(51,525)	(53,822)	(43,940)
Listing expense	**-**	–	(142,151)	–	–
Other expenses	**(8,934)**	(4,596)	(302)	(474)	(132)
Finance costs	**(31,321)**	(20,239)	(7,851)	(7,783)	(9,581)
PROFIT/(LOSS) BEFORE TAX	**131,563**	122,485	(63,546)	166,758	84,904
Tax	**(20,435)**	(31,375)	(5,990)	(42,088)	(20,044)
PROFIT/(LOSS) FOR THE YEAR	**111,128**	91,110	(69,536)	124,670	64,860
Attributable to					
Owners of the parent	**115,734**	91,110	(69,536)	124,670	64,860
Non-controlling interest	**(4,606)**	–	–	–	–
	111,128	91,110	(69,536)	124,670	64,860

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**2,459,686**	2,120,962	1,334,090	1,224,056	1,098,344
TOTAL LIABILITIES	**(1,846,280)**	(1,752,834)	(1,229,151)	(1,030,168)	(975,081)
Non-controlling interest	**(115,104)**	–	–	–	–
	498,302	368,128	104,939	193,888	123,263