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TRULY®

TRULY INTERNATIONAL HOLDINGS LIMITED

信利國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00732)

ANNOUNCEMENT OF INTERIM RESULTS 2018

FINANCIAL HIGHLIGHTS

	For the six months ended		Change
	2018	2017	
	Unaudited	Unaudited	
	HK\$'000	HK\$'000	
Revenue	9,065,249	10,834,206	-16.3%
Gross profit	945,849	914,327	+3.4%
Profit (Loss) for the period attributable to the owners of the Company	5,693	(227,380)	N/A
EBITDA and before share of results of associates	1,048,765	759,727	+38.0%
Basic Earnings (Loss) Per Share (<i>HK cents</i>)	0.18	(7.82)	N/A
DPS (<i>HK cents</i>)			
— First Interim	—	1	-100%
— Second Interim	—	—	—

The board of directors (the “Board”) of Truly International Holdings Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 (the “Period”), together with the comparative figures for the corresponding period of 2017 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2018 together with audited comparative figures as at 31 December 2017 as follows and these condensed interim financial statements have not been audited, but have been reviewed by the audit committee and the board of directors of the Company:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
REVENUE		9,065,249	10,834,206
Cost of sales		(8,119,400)	(9,919,879)
Gross profit		945,849	914,327
Other income		47,192	116,064
Other gains and losses		(61,525)	15,396
Credit insurance compensation income			
— LEMOBILE		—	140,400
One-off full provision for bad and doubtful debt — LEMOBILE		—	(554,069)
		—	(413,669)
Impairment loss on financial assets at fair value through profit or loss (“FVTPL”)		(1,172)	—
Impairment loss on available-for-sale investments		—	(4,846)
Administrative expenses		(219,770)	(194,578)
Distribution and selling expenses		(228,703)	(177,441)
Finance costs	4	(170,360)	(160,391)
Share of results of associates		(229,362)	(272,543)
PROFIT (LOSS) BEFORE TAX		82,149	(177,681)
INCOME TAX EXPENSE	5	(43,447)	(83,140)
PROFIT (LOSS) FOR THE PERIOD	6	38,702	(260,821)
OTHER COMPREHENSIVE (EXPENSE) INCOME			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(142,866)	431,513
Share of exchange differences arising on translation of associates		(21,378)	(22,385)
Other comprehensive (expense) income for the period		(164,244)	409,128
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		(125,542)	148,307

		Six months ended 30 June	
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit (Loss) for the period attributable to:			
Owners of the Company		5,693	(227,380)
Non-controlling interests		33,009	(33,441)
		<u>38,702</u>	<u>(260,821)</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(149,587)	166,638
Non-controlling interests		24,045	(18,331)
		<u>(125,542)</u>	<u>148,307</u>
EARNINGS (LOSS) PER SHARE			
Basic — HK cents	7	<u>0.18</u>	<u>(7.82)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		30 June 2018	31 December 2017
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		12,596,242	11,889,808
Prepaid lease payments		230,004	361,225
Goodwill		413	413
Interest in associates		1,498,041	1,748,781
Available-for-sale investments		–	6,174
Financial assets at fair value through profit or loss		5,002	–
Deferred tax assets		67,508	62,989
Deposits paid and other payments for acquisition of property, plant and equipment		344,077	301,833
		14,741,287	14,371,223
CURRENT ASSETS			
Inventories		3,193,357	2,579,619
Prepaid lease payments		6,153	8,829
Trade and other receivables	8	4,342,593	5,757,278
Tax recoverable		406	413
Derivative financial instruments		3,431	17,370
Amount due from an associate		1,110,748	607,858
Restricted bank deposits, bank balances and cash		2,925,249	3,596,240
		11,581,937	12,567,607
CURRENT LIABILITIES			
Trade and other payables	9	9,298,396	8,909,258
Tax liabilities		17,429	41,207
Bank and other borrowings, unsecured		4,369,427	4,370,053
Derivative financial instruments		2,692	140,440
		13,687,944	13,460,958
NET CURRENT LIABILITIES		(2,106,007)	(893,351)
TOTAL ASSETS LESS CURRENT LIABILITIES		12,635,280	13,477,872

	30 June 2018	31 December 2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Bank and other borrowings, unsecured	3,383,603	4,087,285
Bonds payable	882,385	895,073
Deferred tax liabilities	46,679	47,359
	<u>4,312,667</u>	<u>5,029,717</u>
NET ASSETS	<u>8,322,613</u>	<u>8,448,155</u>
CAPITAL AND RESERVES		
Share capital	62,409	62,409
Share premium and other reserves	7,670,775	7,820,362
	<u>7,733,184</u>	<u>7,882,771</u>
Equity attributable to owners of the Company	7,733,184	7,882,771
Non-controlling interests	589,429	565,384
	<u>8,322,613</u>	<u>8,448,155</u>
TOTAL EQUITY	<u>8,322,613</u>	<u>8,448,155</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRS”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied for the first time, the following new amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKAS 28	<i>As part of the Annual Improvements to HKFRSs 2014–2016 Cycle</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments, the impacts on opening condensed consolidated statement of financial position arising from the application of all new standards are described as below.

2.1 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognized for each individual line item.

	31 December 2017 (Audited) HK\$'000	HKFRS 9 HK\$'000	1 January 2018 (Restated) HK\$'000
Non-current Assets			
Available-for-sale investments	6,174	(6,174)	–
Financial assets at FVTPL	–	6,174	6,174

3. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision makers, for the purpose of resources allocation and assessment of performance focuses on the sales of different types of products. Inter-segment sales are charged at prevailing market rates. Thus the Group is currently organised into two operating segments which are sales of liquid crystal display (“LCD”) products and electronic consumer products. The information for each operating segment is as follows:

LCD products	—	manufacture and distribution of LCD and touch panel products
Electronic consumer products	—	manufacture and distribution of electronic consumer products such as compact camera module, fingerprint identification module, personal health care products and electrical devices

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

Six months ended 30 June 2018 (Unaudited)

	LCD products HK\$'000	Electronic consumer products HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	6,157,388	2,907,861	9,065,249	–	9,065,249
Inter-segment sales	–	119,617	119,617	(119,617)	–
	<u>6,157,388</u>	<u>3,027,478</u>	<u>9,184,866</u>	<u>(119,617)</u>	<u>9,065,249</u>
RESULT					
Segment result	359,360	130,266	489,626	(2,213)	487,413
Finance costs					(170,360)
Share of result of associates					(229,362)
Unallocated expenses					<u>(5,542)</u>
Profit before tax					<u>82,149</u>

Six months ended 30 June 2017 (Unaudited)

	LCD products HK\$'000	Electronic consumer products HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	8,241,457	2,592,749	10,834,206	–	10,834,206
Inter-segment sales	–	109,045	109,045	(109,045)	–
	<u>8,241,457</u>	<u>2,701,794</u>	<u>10,943,251</u>	<u>(109,045)</u>	<u>10,834,206</u>
RESULT					
Segment result	350,847	(75,519)	275,328	(2,017)	273,311
Finance costs					(160,391)
Share of result of associates					(272,543)
Unallocated expenses					<u>(18,058)</u>
Loss before tax					<u>(177,681)</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings wholly repayable within five years	<u>170,360</u>	<u>160,391</u>

5. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Income tax arising in the PRC and other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant law and regulations in the PRC, two of the Company's PRC subsidiaries were approved as Hi-Tech Enterprise and entitled to 15% PRC enterprise income tax for three years from 2015 to 2017 and the applications for extension for further three years with effect from 1 January 2018 were submitted in July and August 2018 respectively.

Pursuant to the PRC Enterprise Income Tax Law and the Detailed Implementation Rules, distribution of the profits earned by the PRC subsidiaries since 1 January 2008 to holding companies incorporated in Hong Kong is subject to PRC withholding tax at the applicable tax rate of 5% to 10%.

6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (Loss) for the period has been arrived at after charging:		
Auditor's remuneration	1,785	1,675
Cost of inventories recognised as an expense	6,752,777	8,654,026
Depreciation and amortisation on:		
Property, plant and equipment	566,894	504,474
Loss on disposal of property, plant and equipment	2,475	6,518
Operating lease rental in respect of rented premises	6,924	8,933
Release of prepaid lease payments	3,512	3,608
Staff costs, inclusive of directors' remuneration	995,610	942,267
Other taxes	<u>19,322</u>	<u>20,675</u>

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

<u>Earnings (Loss)</u>	Six months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Earnings (Loss) for the purposes of basic and diluted earnings (loss) per share attributable to the owners of the Company	5,693	(227,380)
<u>Number of shares</u>	2018 <i>'000</i>	2017 <i>'000</i>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	3,120,429	2,907,099

No diluted earnings (loss) per share is presented as there was no significant potential ordinary shares outstanding at the end of 30 June 2018 and 2017, respectively.

8. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period, net of the allowance for doubtful debts, at the reporting date:

	30 June 2018			31 December 2017		
	Trade receivables <i>HK\$'000</i> (Unaudited)	Bills receivables <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	Trade receivables <i>HK\$'000</i> (Audited)	Bills receivables <i>HK\$'000</i> (Audited)	Total <i>HK\$'000</i> (Audited)
Within 60 days	2,073,487	161,403	2,234,890	3,117,306	244,652	3,361,958
61 to 90 days	352,088	7,718	359,806	574,597	13,795	588,392
More than 90 days	367,123	12,891	380,014	392,195	48,961	441,156
	2,792,698	182,012	2,974,710	4,084,098	307,408	4,391,506
Other receivables, deposits and prepayments			1,367,883			1,365,772
			4,342,593			5,757,278

Included in other receivables are other PRC tax recoverable of HK\$460,789,000 (31 December 2017: HK\$511,347,000).

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2018			31 December 2017		
	Trade payables HK\$'000 (Unaudited)	Bills payables HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Trade payables HK\$'000 (Audited)	Bills payables HK\$'000 (Audited)	Total HK\$'000 (Audited)
Within 60 days	3,677,438	628,120	4,305,558	3,370,478	847,175	4,217,653
61 to 90 days	549,364	302,537	851,901	473,841	495,574	969,415
More than 90 days	942,910	141,222	1,084,132	846,482	673	847,155
	<u>5,169,712</u>	<u>1,071,879</u>	<u>6,241,591</u>	<u>4,690,801</u>	<u>1,343,422</u>	<u>6,034,223</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is one of the largest manufacturers of smartphone component parts in China and worldwide top-level automotive display suppliers. The Group is principally engaged in the manufacture and sale of liquid crystal display products including touch panel products and electronic consumer products including compact camera module, fingerprint identification modules, personal health care products and electrical devices.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2018 (the "Period") was approximately HK\$9,065 million, representing a decrease of approximately 16.3% or approximately HK\$1,769 million when compared with the corresponding period of last year. The decrease in revenue was mainly attributable by the decrease in smartphone shipment volume in the People Republic of China for the first half of 2018 when compared with corresponding period of 2017.

Gross Profit and Margin

The Group's gross profit for the Period was approximately HK\$945.8 million and the gross profit margin was approximately 10.4%, which was approximately 2.0% higher than that for the corresponding period of last year. The increase in gross profit margin was mainly because the Group has acted in concert with the Group's major smartphone customers to provide some discounts on some original 16:9 smartphone products sales order in the second quarter of 2017 to accelerate the use of relevant raw materials by the Group but no such discount provided to customers in the Period.

Besides, the gross profit margin of the Group has been decreased from 11.7% in the first quarter of 2018 to 10.4% in the first half of 2018, because it was affected by the depreciation of Renminbi in the second quarter of 2018. Major smartphone related products revenue of the Group was in Renminbi but the core raw materials cost mainly in USD. Therefore, the depreciation of Renminbi would reduce the gross profit margin of the Group's smartphone related products.

Furthermore, the new 5th generation TFT-LCD production line in the Shanwei city of the Group has started the trial production during the Period, the indirect factory overheads were increased accordingly in the Period. The gross profit and margin during the Period was affected also.

Other Income

The Group's other income for the Period was approximately HK\$47.2 million, representing a decrease of approximately 59.3% or approximately HK\$68.9 million when compared with the corresponding period of last year. The decrease in other income was mainly because the government grant received (approximately HK\$80 million) in relation to development on advance technology in the first half of 2017 but not recurred in the Period.

Other Gains or Losses

The Group's other gains or losses for the Period was approximately HK\$61.5 million net other losses but it was approximately HK\$15.4 million net other gains in the corresponding period of last year. The change from net other gains in the first half of 2017 to net other losses in the Period was mainly because of the exchange loss on Renminbi recognised in the Period while the exchange gain on Renminbi recognised in the corresponding period of last year.

Distribution and Selling Expenses

The Group's distribution and selling expenses for the six months ended 30 June 2018 increased by approximately 28.9% or approximately HK\$51.3 million to approximately HK\$228.7 million when compared to the corresponding period of last year. The increase in absolute amount was mainly attributable to the increased freight charges and increased commissions.

Profit (Loss) for the Period Attributable to Owners of the Company

The profit for the period attributable to owners of the Company for the six months ended 30 June 2018 was improved to approximately HK\$5.7 million from the loss of approximately HK\$227.4 million attributable to owners of the Company for the corresponding period of last year. The improvement in absolute amount was mainly attributable to net effect of (i) the one-off full provision for bad and doubtful debts of a specific customer, net of insurance compensation, (approximately HK\$414 million) in the first half of last year, which did not have similar event being recurred in the Period; (ii) the government grant received (approximately HK\$80 million) in the first half of 2017 but not recurred in the Period; and (iii) the increased distribution and selling expenses (HK\$51.3 million) in the Period.

BUSINESS REVIEW

During the first half of 2018, the global economy is still under growth. However, the smartphone industry was not in the same growth trend in the Period. According to the China Academy of Information and Communications Technology, the domestic mobile phone market shipment volume for the Period was 196 million units, representing a decrease of 17.8% when compared to the corresponding period of last year. Besides, the number of new model of mobile phone launched in the Period has been obviously decreased by 30% when compared to the corresponding period of last year. Thus, the competition in smartphone market has become keener in the Period. It was the main reason for the decrease in the Group's revenue in the Period. Furthermore, the sharp depreciation of Renminbi in the second quarter of 2018 affected the Group's revenue and gross profit margin. However, the Group has been strengthening its research and development capacity and enhancing co-operation with customers in developing their new products. Therefore, the management believes that the Group could continue to maintain its competitive power.

The revenue of the LCD products segment of the Group decreased in the Period by 25.3% when compared to the corresponding period of last year. It was mainly attributable by the downward trend of mobile phone industry during the Period. The revenue of the electronic consumer products segment of the Group has increased by 12.1% in the Period when compared to the corresponding period of last year, particular for the sales growth on the compact camera module product. It was mainly attributable by the past few years' successful capex investment on the compact camera module production plant and machinery and continuing research and development on the production process.

The smartphone related products' revenue of the Group decreased in the same direction of the domestic mobile phone market shipment volume during the Period when compared to the corresponding period of last year. The non-smartphone related products' revenue of the Group continued to grow during the Period. Therefore, the product mix of the Group was improving during the Period.

OUTLOOK

Based on the current order status and communications with the Group's major customers, the management thinks that the revenue of the Group in the second half of 2018 would be better than the first half of 2018. Therefore, comparing to 2017, the management expect that the decrease magnitude in the Group's 2018 revenue would be improved accordingly.

However, the trading relationship between the PRC and USA is very tense recently, it threatens the global economy, particular for the PRC and USA. It would affect the growth of the global economy and increase the uncertainty in the second half of 2018.

The Group would continue to improve the Group's product mix by enhancing the development on non-smartphone related products business.

Besides, the management would focus on finalizing the trial production period of the Shanwei new 5th generation TFT-LCD production line in the second half of 2018 and entering the mass production. It can help to speed up the development on non-smartphone related products of the Group and support the growth of the non-smartphone related products business.

The Group has been continuing to share the loss from the major associate of the Group, Truly (Huizhou) Smart Display Limited (“Truly Huizhou”), since it started mass production in late 2016. It was attributable to the low production yield rate. Although the production yield rate has been gradually improving, the management did not satisfy the progress in 2017 and the Period. The management has allocated more resources to speed up the improvement on the production process of the associate during the Period; therefore, the management expect this major associate can achieve breakeven in the last quarter of 2018. The financial burden from this major associate to the Group can be released in 2019.

PROPOSED SPIN-OFF UPDATE

The management would like to update the Shareholders of the Company and investors that the Proposed Spin-off is still under progress in PRC.

The 2018 interim update of the relevant document for the PRC A share listing application would be submitted to CSRC in September 2018.

Further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Update on the Shanwei 5th generation TFT-LCD Production Line Progress

The trial production has been starting in early 2018. The management expects the trial production period to be completed in late 2018 and entering the mass production.

Litigation in relation to Investment in Leshi Zhixin Electronic Technology (Tianjin) Limited

In February 2017, Truly Electronics Manufacturing Limited (信利電子有限公司) (“Truly Electronics”), an indirectly wholly-owned subsidiary of the Company, entered into an investment agreement, pursuant to which Truly Electronics conditionally agreed to acquire in aggregate of 2.3438% equity interest in Leshi Zhixin Electronic Technology (Tianjin) Limited* (樂視致新電子科技(天津)有限公司) (“Leshi Zhixin”) at a consideration of RMB720,000,000. The first instalment of the consideration in the amount of RMB240 million was paid in March 2017. Subsequently, as the Company’s management considered that a condition of the relevant investment agreement has been breached by Leshi Zhixin and/or Leshi Holding (Beijing) Co., Ltd.* (樂視控股(北京)有限公司) (“Leshi Holding”), Truly Electronics suspended the payment of the remaining instalments of the consideration in the amount of RMB480 million and terminated the said investment agreement in July 2017. In August 2017, Truly Electronics (as plaintiff) filed a civil complaint against Leshi Zhixin and Leshi Holding (as defendants) to seek rectification of the breach by Leshi Zhixin and Leshi Holding and refund of the first instalment of RMB240 million paid by Truly Electronics. For further details, please refer to the Company’s announcements dated 29 August 2017 and 23 March 2018, and the 2017 Annual Report of the Company.

The first hearing by the court of the said case has been completed on 4 June 2018 in Beijing. Recently, the Group has been informed by the Group's PRC lawyer that a decision letter issued by the relevant court has been received in August 2018, which the court has decided to turn down the Group's civil complaint in relation to the dispute on the investment agreement. After discussion with the Group's PRC lawyers, the Group has lodged an objection to the relevant court in Beijing on 31 August 2018 as the management believes after being advised by the PRC lawyers, that the Group has reasonable grounds to challenge the said court decision.

Further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules.

Update on investment in Truly (Renshou) High-end Display Technology Limited* (信利(仁壽)高端顯示科技有限公司) (“Truly Renshou”)

The Group has contributed RMB500 million by cash to Truly Renshou during 2017 according to the relevant agreements. Truly Renshou has started to construct the fifth generation of TFT-LCD factory in Renshou since late 2017. The construction work of the factory would be completed in late 2019 or early 2020 by the management's estimation.

As the Group has significant influence to Truly Renshou, the investment in Truly Renshou is treated as investment in associates. Thus, the results and assets and liabilities of Truly Renshou is incorporated in the Group's consolidated financial statements using equity method of accounting.

Update on Major Transaction Formation of the AMOLED JV Company

On 14 July 2017, Truly Electronics Manufacturing Limited (信利電子有限公司), a company incorporated in the PRC and an indirectly wholly-owned subsidiary of the Company, entered into the AMOLED JV agreement in relation to the formation of the AMOLED JV Company in Renshou County, Meishan City, Sichuan Province, the PRC as the project company for the AMOLED Project. The total investment of the AMOLED JV Company will be RMB27,900 million and production facilities for the sixth generation of AMOLED will be established. The Group will contribute RMB2,000 million for 13.3% equity interest. For detail of it, please refer to the announcement of the Company, Major Transaction Formation of the AMOLED JV Company, dated 14 July 2017.

As additional time is required for preparing and finalizing certain information to be included in the Circular, the dispatch of the Circular has been further delayed to a date on or before 28 September 2018. For detail of it, please refer to the announcement of the Company, Further Delay in Despatch of Circular in Relation to A Major Transaction for the Formation of the AMOLED JV Company, dated 31 July 2018.

Further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules.

POTENTIAL BREACHING OF CERTAIN BANKS AND OTHER BORROWINGS AGREEMENTS

In early June 2018, the Company has estimated that the Group might potentially breach certain financial covenants in relation to certain ratios of net borrowings of some bank loan agreements for the testing date on 30 June 2018. It was mainly because the relevant financial covenants are tightened up gradually from 2018 to 2020 and yet the Group's smartphone related products' revenue decreased significantly in last quarter of 2017 and the first quarter of 2018. Therefore, the Group had written to lenders requesting for a waiver for complying with these financial covenants (i.e. the requirement of the ratio of the adjusted consolidated net borrowings (excluding (to the extent included) the related party contingent liabilities) of the Group to its consolidated tangible net worth and the ratio of the consolidated net borrowings of the Group to its consolidated tangible net worth be no more than 0.80:1 and 1:1, respectively) for the testing date on 30 June 2018 as mentioned above in early June 2018 and had successfully received the lenders' consent on 30 June 2018.

As referred to the Company's unaudited condensed consolidated financial statements for the 6 months ended 30 June 2018, the Company has marginally breached a financial covenant at approximately 1.03 in relation to the ratio of the consolidated net borrowing of the Group to its consolidated tangible net worth no more than 1:1 as at 30 June 2018. As the Company has obtained the waiver consent in relation to this breach of a financial covenant from the lenders not later than 30 June 2018, no reclassification of the relevant borrowings under the non-current liabilities to the current liabilities in the Company's condensed consolidated statement of financial position as at 30 June 2018 is required under the relevant accounting standards.

The management would continuously seek other measures to improve the Group's financial ratios thereafter.

EQUITY FUNDS RAISING BY SHARES SUBSCRIPTION

On 31 July 2018, the Company entered into the Subscription Agreement with the Subscriber, the Controlling Shareholder of the Company, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 168,800,000 new Shares at the Subscription Price of HK\$1.18 per Subscription Share to the Subscriber. For detail, please refer to the announcement of the Company dated 31 July 2018 in relation to (1) Connected Transaction in relation to subscription of new shares by the controlling shareholder; (2) proposed share issuance under specific mandate; and (3) application for whitewash waiver.

As additional time is required to prepare and finalise certain information to be contained in the Circular, including but not limited to the financial information of the Group, an application has been made to the Executive pursuant to Rule 8.2 of the Takeovers Code for its consent to extend the deadline for the despatch of the Circular to a date falling on or before 14 September 2018, and the Executive has granted such consent.

Had the Subscription taken place on 30 June 2018, the ratio of the consolidated net borrowings of the Group to its consolidated tangible net worth would have been reduced to approximately 0.98:1, which would have been in compliance with the relevant financial covenant.

Further announcements will be made by the Company as and when appropriate in compliance with the Listing Rules.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's assets have been decreased by approximately HK\$615.6 million and liabilities have been decreased by approximately HK\$490.1 million during the Period.

As at 30 June 2018, the outstanding bonds payable, bank and other borrowings, net of restricted bank deposits, cash and bank balances, were approximately HK\$5,710 million (approximately HK\$5,756 million at 31 December 2017). Among the total gross borrowings of approximately HK\$8,635 million at 30 June 2018, approximately HK\$4,369 million would be repayable within a year with the remaining balances repayable within a period of two to four years if no breaching of bank and other borrowings agreements was occurred.

As at 30 June 2018, the Group had net current liabilities of approximately HK\$2,106 million (as at 31 December 2017, approximately HK\$893 million net current liabilities) and its current ratio decreased to 0.85 times as at 30 June 2018 from 0.93 times as at 31 December 2017. The management continues seeking to have more long-term loans refinancing and other measures to improve the net current liabilities position in 2018.

As at 30 June 2018, the Group has restricted bank deposits, cash and bank balances approximately HK\$2,925 million together with adequate unutilized banking facilities. The Group's working capital is mainly financed by internal cash flow generate from its operation and banking facilities granted by financial institutions. The gearing ratio based on total interest bearing debts, net of restricted bank deposits, cash and bank balances was approximately 74%, which has slightly increased from 73% at 31 December 2017.

Capital Commitments

At 30 June 2018, the Group's contracted capital commitments for the acquisition of property, plant and equipment were approximately HK\$962 million (approximately HK\$457 million at 31 December 2017) and will be financed principally from internal reserves and bank loans.

Contingent Liabilities

At 31 December 2017, a claim against a subsidiary of the Group for Euro 7.2 million in aggregate being disclosed in the 2017 annual report, which has rejected by the Court's decision dated 9 May 2018. This Court decision has become final by the end of June 2018 without any appeal made by the plaintiff. Therefore, the Group need not pay to the plaintiff in this claim.

In addition, at 30 June 2018, the Group has given corporate guarantee for bank borrowings granted to an associate, 信利(惠州)智能顯示有限公司 ("Truly Huizhou"), with the borrowing limit at approximately HK\$3.51 billion and the bank loans with the amount of approximately HK\$2.81 billion were utilized by the associate.

Furthermore, at 30 June 2018, the other shareholder of Truly Huizhou provides corporate guarantee to the above bank borrowings in proportion to its respective ownership interest amounting to approximately HK\$827 million. A counter-indemnity in favour of the other shareholder is executed pursuant to which the Group undertakes to indemnify the other shareholder's liabilities arising from the bank borrowings.

The directors assess the risk of default of Truly Huizhou at the end of reporting period and consider the risk to be insignificant and it is less likely that any guaranteed amount will be claimed by the counterparties.

Material Acquisitions and Disposals

The Group had no material acquisitions or material disposal of subsidiaries and associated companies for the six months ended 30 June 2018 except the above mentioned.

General

There are approximately 18,000 workers and employees currently employed in the Group's Shan Wei factories and around 100 staff in our Hong Kong office.

Exposure to fluctuations in exchange rates will be considered to hedge, if any. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

OTHER INFORMATION

Interim Dividends

The Directors do not recommend the payment of second interim dividend for the six months ended 30 June 2018 (2017: Nil). Together with none of the first interim dividend was declared for the three months ended 31 March 2018, the total interim dividends were nil per share (2017: 1 HK cent).

Purchase, Sale or Redemption of Security

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

Model Code

None of the Directors of the Company is aware of information that would reasonably indicate that the Company was not in the period under review in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

Audit Committee

The Company has an audit committee which was established in accordance with the code provisions of the Corporate Governance Code (the “Code”) for the purposes of reviewing and providing supervision over the Group’s financial reporting matters and internal controls. The Audit Committee comprises all the three independent non-executive directors namely Mr. Chung Kam Kwong, being the Committee Chairman, Mr. Ip Cho Ting, Spencer and Mr. Heung Kai Sing. They meet at least four times a year.

Corporate Governance

We have complied with all the applicable code provisions set out in the “Corporate Governance Code” contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018, except for major deviations as below:

— *Code Provision A.2.1*

The roles of the Chairman and the Chief Executive are not separated and are performed by the same individual, Mr. Lam Wai Wah. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Company’s management and believes that this structure will enable us to make and implement decisions promptly and efficiently.

— *Code Provision A.6.7*

Mr. Heung Kai Sing, an independent non-executive director of the Company, and Mr. Li Jian Hua, a non-executive director of the Company, were unable to attend the annual general meeting of the Company held on 30 May 2018 due to prior business commitment respectively.

Publications of Interim Results and Interim Report

This interim results announcement is published on the HKExnews website at www.hkexnews.hk and on the website of the Company at www.truly.com.hk. The 2018 Interim Report containing all the information required under Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be published on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
Lam Wai Wah
Chairman

Hong Kong, 31 August 2018

As at the date of this announcement, the Board comprises Mr. Lam Wai Wah, Mr. Wong Pong Chun, James and Mr. Cheung Tat Sang as executive directors, Mr. Li Jian Hu as a non-executive director and Mr. Chung Kam Kwong, Mr. Ip Cho Ting, Spencer and Mr. Heung Kai Sing as independent non-executive directors.

* *For identification purpose only*