



Perfect Optronics Limited  
圓美光電有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 8311

*Interim Report 2020*

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

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

## HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$37.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$109.3 million).
- Loss attributable to equity holders of the Company for the six months ended 30 June 2020 amounted to approximately HK\$17.5 million (six months ended 30 June 2019: approximately HK\$19.7 million).
- The Board does not declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

## FINANCIAL RESULTS

The board of directors (the "Board") of Perfect Optronics Limited (the "Company") hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

|   | Note | Three months ended<br>30 June   |                                 | Six months ended<br>30 June     |                                 |
|---|------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   |      | 2020<br>HK\$'000<br>(Unaudited) | 2019<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Unaudited) | 2019<br>HK\$'000<br>(Unaudited) |
| <b>Revenue</b>  | 4    | <b>18,235</b>                   | 43,666                          | <b>37,733</b>                   | 109,293                         |
| Cost of sales   |      | <b>(19,969)</b>                 | (46,186)                        | <b>(39,307)</b>                 | (110,710)                       |
| <b>Gross loss</b>   |      | <b>(1,734)</b>                  | (2,520)                         | <b>(1,574)</b>                  | (1,417)                         |
| Other gains, net  | 6    | <b>760</b>                      | 224                             | <b>867</b>                      | 519                             |
| Distribution and selling expenses   |      | <b>(2,756)</b>                  | (2,100)                         | <b>(5,056)</b>                  | (4,148)                         |
| General and administrative expenses   |      | <b>(6,074)</b>                  | (6,935)                         | <b>(11,727)</b>                 | (13,428)                        |
| Research and development expenses   |      | <b>(290)</b>                    | (442)                           | <b>(657)</b>                    | (961)                           |
| <b>Operating loss</b>   |      | <b>(10,094)</b>                 | (11,773)                        | <b>(18,147)</b>                 | (19,435)                        |
| Finance income  |      | <b>9</b>                        | 51                              | <b>16</b>                       | 98                              |
| Finance costs   | 7    | <b>(170)</b>                    | (359)                           | <b>(360)</b>                    | (714)                           |
| Finance costs, net  |      | <b>(161)</b>                    | (308)                           | <b>(344)</b>                    | (616)                           |
| <b>Loss before income tax</b>   | 8    | <b>(10,255)</b>                 | (12,081)                        | <b>(18,491)</b>                 | (20,051)                        |
| Income tax  | 9    | <b>5</b>                        | 9                               | <b>6</b>                        | 26                              |
| <b>Loss for the period</b>  |      | <b>(10,250)</b>                 | (12,072)                        | <b>(18,485)</b>                 | (20,025)                        |
| <b>Other comprehensive income/(loss):</b>   |      |                                 |                                 |                                 |                                 |
| <i>Items that may be subsequently reclassified to income statement</i>              |      |                                 |                                 |                                 |                                 |
| Currency translation differences  |      | <b>85</b>                       | (96)                            | <b>(57)</b>                     | 7                               |
| <i>Items that will not be subsequently reclassified to income statement</i>         |      |                                 |                                 |                                 |                                 |
| Change in value of financial asset at fair value through other comprehensive income |      | <b>(81)</b>                     | (260)                           | <b>(81)</b>                     | (260)                           |
| <b>Total comprehensive loss for the period</b>                                      |      | <b>(10,246)</b>                 | (12,428)                        | <b>(18,623)</b>                 | (20,278)                        |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2020

| Note  | Three months ended<br>30 June   |                                 | Six months ended<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | 2020<br>HK\$'000<br>(Unaudited) | 2019<br>HK\$'000<br>(Unaudited) | 2020<br>HK\$'000<br>(Unaudited) | 2019<br>HK\$'000<br>(Unaudited) |
| <b>Loss for the period attributable to:</b>                     |                                 |                                 |                                 |                                 |
| Equity holders of the Company                                   | (9,731)                         | (11,777)                        | (17,474)                        | (19,730)                        |
| Non-controlling interests                                       | (519)                           | (295)                           | (1,011)                         | (295)                           |
|   | <b>(10,250)</b>                 | <b>(12,072)</b>                 | <b>(18,485)</b>                 | <b>(20,025)</b>                 |
| <b>Total comprehensive loss for the period attributable to:</b> |                                 |                                 |                                 |                                 |
| Equity holders of the Company                                   | (9,732)                         | (12,133)                        | (17,612)                        | (19,983)                        |
| Non-controlling interests                                       | (514)                           | (295)                           | (1,011)                         | (295)                           |
|   | <b>(10,246)</b>                 | <b>(12,428)</b>                 | <b>(18,623)</b>                 | <b>(20,278)</b>                 |
| <b>Basic and diluted loss per share</b>                         |                                 |                                 |                                 |                                 |
| 11  | <b>HK(0.66) cents</b>           | HK(0.79) cents                  | <b>HK(1.18) cents</b>           | HK(1.33) cents                  |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

|  | Note | 30 June<br>2020<br>HK\$'000<br>(Unaudited) | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|--|------|--|--|
| <b>ASSETS</b>  |      |  |  |
| <b>Non-current assets</b>  |      |  |  |
| Property, plant and equipment                                    | 12   | 1,177                                      | 1,732  |
| Right-of-use assets  | 13   | 9,546                                      | 12,292                                       |
| Intangible assets  | 14   | 5,322                                      | 5,322  |
| Deferred tax assets  |      | 156  | 155  |
| Financial asset at fair value through other comprehensive income | 3.4  | 2,592                                      | 2,673  |
| Financial asset at fair value through profit or loss             | 3.4  | 57,743                                     | 57,538                                       |
|  |      | <b>76,536</b>                              | 79,712                                       |
| <b>Current assets</b>  |      |  |  |
| Inventories  |      | 34,532                                     | 32,445                                       |
| Trade and other receivables                                      | 15   | 16,407                                     | 21,198                                       |
| Cash and cash equivalents  |      | 44,074                                     | 70,308                                       |
|  |      | <b>95,013</b>                              | 123,951                                      |
| <b>Total assets</b>  |      | <b>171,549</b>                             | 203,663                                      |
| <b>EQUITY</b>  |      |  |  |
| <b>Equity attributable to equity holders of the Company</b>      |      |  |  |
| Share capital  |      | 14,837                                     | 14,837                                       |
| Reserves   |      | 116,926                                    | 117,064                                      |
| Retained earnings  |      | 19,572                                     | 37,046                                       |
|  |      | <b>151,335</b>                             | 168,947                                      |
| <b>Non-controlling interests</b>                                 |      | <b>399</b>                                 | 1,410  |
| <b>Total equity</b>  |      | <b>151,734</b>                             | 170,357                                      |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

|                                     | Note | 30 June<br>2020<br>HK\$'000<br>(Unaudited) | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|-------------------------------------|------|--|--|
| <b>LIABILITIES</b>                  |      |  |  |
| <b>Non-current liabilities</b>      |      |  |  |
| Lease liabilities                   | 13   | 7,012                                      | 8,692  |
|                                     |      | 7,012                                      | 8,692  |
| <b>Current liabilities</b>          |      |  |  |
| Trade and other payables            | 16   | 8,730                                      | 19,514                                       |
| Lease liabilities                   | 13   | 4,073                                      | 5,098  |
| Current income tax liabilities      |      | —  | 2  |
|                                     |      | 12,803                                     | 24,614                                       |
| <b>Total liabilities</b>            |      | <b>19,815</b>                              | 33,306                                       |
| <b>Total equity and liabilities</b> |      | <b>171,549</b>                             | 203,663                                      |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

|   | Attributable to equity holders of the Company |  |  |   |   |   |  |                                  |  |   |
|---|---|--|--|---|---|---|--|----------------------------------|--|---|
|   | Share capital<br>HK\$'000<br>(Unaudited)      | Share premium<br>HK\$'000<br>(Unaudited) | Other reserves <sup>1</sup><br>HK\$'000<br>(Unaudited) | Merger reserve<br>HK\$'000<br>(Unaudited) | Revaluation reserve <sup>2</sup><br>HK\$'000<br>(Unaudited) | Exchange reserve<br>HK\$'000<br>(Unaudited) | Retained earnings<br>HK\$'000<br>(Unaudited) | Total<br>HK\$'000<br>(Unaudited) | Non-controlling interests<br>HK\$'000<br>(Unaudited) | Total equity<br>HK\$'000<br>(Unaudited) |
| <b>Balance at 1 January 2020</b>  | 14,837  | 465,738                                  | 67,349   | (415,675)                                 | 67  | (415)                                       | 37,046                                       | 168,947                          | 1,410  | 170,357                                 |
| <b>Comprehensive loss</b>   |   |  |  |   |   |   |  |                                  |  |   |
| Loss for the period   | —   | —  | —  | —   | —   | —   | (17,474)                                     | (17,474)                         | (1,011)  | (18,485)                                |
| <b>Other comprehensive loss</b>   |   |  |  |   |   |   |  |                                  |  |   |
| Currency translation differences  | —   | —  | —  | —   | —   | (57)  | —  | (57)                             | —  | (57)                                    |
| Change in value of financial asset at fair value through other comprehensive income | —   | —  | —  | —   | (81)  | —   | —  | (81)                             | —  | (81)                                    |
| Total other comprehensive loss  | —   | —  | —  | —   | (81)  | (57)  | —  | (138)                            | —  | (138)                                   |
| <b>Total comprehensive loss</b>   | —   | —  | —  | —   | (81)  | (57)  | (17,474)                                     | (17,612)                         | (1,011)  | (18,623)                                |
| <b>Balance at 30 June 2020</b>  | 14,837  | 465,738                                  | 67,349   | (415,675)                                 | (14)  | (472)                                       | 19,572                                       | 151,335                          | 399  | 151,734                                 |
| <b>Balance at 1 January 2019</b>  | 14,837  | 465,738                                  | 67,349   | (415,675)                                 | 46  | (422)                                       | 71,124                                       | 202,997                          | —  | 202,997                                 |
| <b>Comprehensive loss</b>   |   |  |  |   |   |   |  |                                  |  |   |
| Loss for the period   | —   | —  | —  | —   | —   | —   | (19,730)                                     | (19,730)                         | (295)  | (20,025)                                |
| <b>Other comprehensive loss</b>   |   |  |  |   |   |   |  |                                  |  |   |
| Currency translation differences  | —   | —  | —  | —   | —   | 7   | —  | 7                                | —  | 7                                       |
| Change in value of financial asset at fair value through other comprehensive income | —   | —  | —  | —   | (260)   | —   | —  | (260)                            | —  | (260)                                   |
| Total other comprehensive loss  | —   | —  | —  | —   | (260)   | 7   | —  | (253)                            | —  | (253)                                   |
| <b>Total comprehensive loss</b>   | —   | —  | —  | —   | (260)   | 7   | (19,730)                                     | (19,983)                         | (295)  | (20,278)                                |
| <b>Contributions from non-controlling interests — Note 19</b>                       | —   | —  | —  | —   | —   | —   | —  | —                                | 2,964  | 2,964                                   |
| <b>Balance at 30 June 2019</b>  | 14,837  | 465,738                                  | 67,349   | (415,675)                                 | (214)   | (415)                                       | 51,394                                       | 183,014                          | 2,669  | 185,683                                 |

- Other reserves include: (1) the difference between the share capital issued by the Company for acquisition of the subsidiaries pursuant to a reorganisation for the listing of the Company and the aggregate capital of the subsidiaries being acquired at the time of the reorganisation; and (2) the amount of the loan waived by the controlling shareholder upon completion of a common control combination.
- Revaluation reserve represents fair value reserve for financial asset at fair value through other comprehensive income.



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

|   | Note | Six months ended 30 June        |                                 |
|---|------|---------------------------------|---------------------------------|
|   |      | 2020<br>HK\$'000<br>(Unaudited) | 2019<br>HK\$'000<br>(Unaudited) |
| Net cash (used in)/generated from operating activities      |      | (23,303)                        | 4,398                           |
| <b>Cash flows from investing activities</b>                 |      |                                 |                                 |
| Purchases of property, plant and equipment                  | 12   | —                               | (50)                            |
| Addition of intangible asset                                | 14   | —                               | (2,200)                         |
| Interest received   |      | 16                              | 98                              |
| Net cash generated from/(used in) investing activities      |      | 16                              | (2,152)                         |
| <b>Cash flows from financing activities</b>                 |      |                                 |                                 |
| Repayment of bank borrowings                                | 17   | —                               | (911)                           |
| Payments of principal element of lease liabilities          | 13   | (2,892)                         | (2,236)                         |
| Capital contributions from non-controlling interests        | 19   | —                               | 2,964                           |
| Decrease in restricted bank deposits                        |      | —                               | 1,092                           |
| Net cash (used in)/generated from financing activities      |      | (2,892)                         | 909                             |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(26,179)</b>                 | <b>3,155</b>                    |
| Cash and cash equivalents at beginning of period            |      | 70,308                          | 71,153                          |
| Exchange differences on cash and cash equivalents           |      | (55)                            | (3)                             |
| <b>Cash and cash equivalents at end of period</b>           |      | <b>44,074</b>                   | <b>74,305</b>                   |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 13 June 2013, as an exempted company with limited liability under the Companies Law (as Revised) of the Cayman Islands. The Company's shares are listed on the GEM since 7 February 2014.

The Company is an investment holding company and its subsidiaries are principally engaged in the trading, development and sale of display and optics products and related electronic components. The Group also processes some of the products which it sells.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 (the "2020 Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The 2020 Interim Financial Statements do not include all the notes of the type normally included in an annual financial report. Accordingly, the 2020 Interim Financial Statements should be read in conjunction with the annual report for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and any public announcements made by the Company during the six months ended 30 June 2020.

The 2020 Interim Financial Statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated; and have been prepared under the historical cost convention, except for financial asset at fair value through other comprehensive income ("FVOCI") and financial asset at fair value through profit or loss ("FVTPL") which have been measured at fair value.

The 2020 Interim Financial Statements have been reviewed by the audit committee of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the 2020 Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except as described below.

The Group has adopted and applied, for the first time, the following new standards that have been issued and effective for the accounting periods beginning on 1 January 2020:

|   |  |
|---|--|
| Amendments to Hong Kong Accounting Standard ("HKAS") 1 and HKAS 8 | Definition of Material                               |
| Amendments to HKFRS 3   | Definition of a Business                             |
| Conceptual Framework for Financial Reporting 2018                 | Revised Conceptual Framework for Financial Reporting |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7                        | Interest Rate Benchmark Reform                       |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The adoption of the above amendments to standards did not have significant impact on the Group's accounting policies.

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

The preparation of the 2020 Interim Financial Statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

## 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 3.1 Financial instruments by category

The Group holds the following financial instruments at 30 June 2020:

|                                     | 30 June<br>2020<br>HK\$'000<br>(Unaudited) | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|-------------------------------------|--|--|
| <b>Financial assets</b>             |  |  |
| Financial assets at amortised cost: |  |  |
| Trade and other receivables         | 15,386                                     | 20,254                                       |
| Cash and cash equivalents           | 44,074                                     | 70,308                                       |
| Financial asset at FVOCI            | 2,592                                      | 2,673  |
| Financial asset at FVTPL            | 57,743                                     | 57,538                                       |
|                                     | <b>119,795</b>                             | 150,773                                      |
| <b>Financial liabilities</b>        |  |  |
| Liabilities at amortised cost:      |  |  |
| Trade and other payables            | 8,312                                      | 18,475                                       |
| Lease liabilities                   | 11,085                                     | 13,790                                       |
|                                     | <b>19,397</b>                              | 32,265                                       |

### 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

#### 3.2 Financial risk factors

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

The 2020 Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

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

#### 3.3 Liquidity risk

As at 30 June 2020, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

|                              | Less than<br>1 year<br>HK\$'000 | Between<br>1 to 5 years<br>HK\$'000 | Total<br>contractual<br>cash flows<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|------------------------------|---------------------------------|-------------------------------------|--|--------------------------------|
| <b>At 30 June 2020</b>       |                                 |                                     |  |                                |
| <b>(Unaudited)</b>           |                                 |                                     |  |                                |
| Trade payables               | 4,935                           | —                                   | 4,935  | 4,935                          |
| Other payables               | 3,377                           | —                                   | 3,377  | 3,377                          |
| Lease liabilities            | 4,580                           | 7,541                               | 12,121   | 11,085                         |
| <b>Total non-derivatives</b> | <b>12,892</b>                   | <b>7,541</b>                        | <b>20,433</b>                                  | <b>19,397</b>                  |
| <b>At 31 December 2019</b>   |                                 |                                     |  |                                |
| <b>(Audited)</b>             |                                 |                                     |  |                                |
| Trade payables               | 14,467                          | —                                   | 14,467   | 14,467                         |
| Other payables               | 4,008                           | —                                   | 4,008  | 4,008                          |
| Lease liabilities            | 5,735                           | 9,453                               | 15,188   | 13,790                         |
| <b>Total non-derivatives</b> | <b>24,210</b>                   | <b>9,453</b>                        | <b>33,663</b>                                  | <b>32,265</b>                  |

### 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

#### 3.4 Fair value measurements

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2020 and 31 December 2019 on a recurring basis:

|  | At 30 June 2020                    |                                    |                                    |                                  | At 31 December 2019              |                                  |                                  |                                |
|--|------------------------------------|------------------------------------|------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|--------------------------------|
|  | Level 1<br>HK\$'000<br>(Unaudited) | Level 2<br>HK\$'000<br>(Unaudited) | Level 3<br>HK\$'000<br>(Unaudited) | Total<br>HK\$'000<br>(Unaudited) | Level 1<br>HK\$'000<br>(Audited) | Level 2<br>HK\$'000<br>(Audited) | Level 3<br>HK\$'000<br>(Audited) | Total<br>HK\$'000<br>(Audited) |
| <b>Financial asset at FVTPL</b>            |                                    |                                    |                                    |                                  |                                  |                                  |                                  |                                |
| — Unlisted preferred shares<br>(Note (a))  | —                                  | —                                  | 57,743                             | 57,743                           | —                                | —                                | 57,538                           | 57,538                         |
| <b>Financial asset at FVOCI</b>            |                                    |                                    |                                    |                                  |                                  |                                  |                                  |                                |
| — Unlisted equity securities<br>(Note (b)) | —                                  | —                                  | 2,592                              | 2,592                            | —                                | —                                | 2,673                            | 2,673                          |
|  | —                                  | —                                  | 60,335                             | 60,335                           | —                                | —                                | 60,211                           | 60,211                         |

Notes:

- (a) The balance comprises the Group's holding of certain preferred shares in Mobvoi Inc. ("Mobvoi"), a private company principally engaged in the business of developing and providing voice search artificial intelligence ("AI") systems on mobile, smart wearable, automotive and other devices. There have been no addition to or disposal of such investment by the Group since it made the investment in January 2015. The Group's shareholding proportion in Mobvoi was approximately 1.50% (on a fully diluted and as converted basis) as at 30 June 2020 (31 December 2019: 1.50%). No dividend has been received by the Group from Mobvoi since its investment.
- (b) The balance comprises the Group's equity investment in certain ordinary shares issued by a private company principally engaged in the research and development, manufacturing and sale of separator which is a key component in lithium batteries, representing approximately 3.03% of the shareholding of such company as at 30 June 2020 (31 December 2019: 3.03%).

### 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

#### 3.4 Fair value measurements (Continued)

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. During the six months ended 30 June 2020, there were no transfers amongst levels 1, 2, and 3 (six months ended 30 June 2019: Nil).

The Group's other financial assets, including cash and cash equivalents, trade and other receivables; and the Group's financial liabilities, including trade and other payables, lease liabilities are not measured at fair value in the condensed consolidated statement of financial position. The fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2020.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2020 and 2019:

|   | <b>Financial<br/>asset at<br/>FVTPL</b><br>HK\$'000<br>(Unaudited) | <b>Financial<br/>asset at<br/>FVOCI</b><br>HK\$'000<br>(Unaudited) | <b>Total</b><br>HK\$'000<br>(Unaudited) |
|---|--|--|---|
| <b>Six months ended 30 June 2020</b>                        |  |  |   |
| Opening balance as at<br>1 January 2020                     | 57,538   | 2,673  | 60,211                                  |
| Unrealised gains recognised in<br>other gains, net (Note 6) | 205  | —  | 205                                     |
| Losses recognised in other<br>comprehensive income          | —  | (81)   | (81)                                    |
| Closing balance as at<br>30 June 2020                       | 57,743   | 2,592  | 60,335                                  |
| <b>Six months ended 30 June 2019</b>                        |  |  |   |
| Opening balance as at<br>1 January 2019                     | 54,988   | 2,652  | 57,640                                  |
| Unrealised gains recognised in<br>other gains, net (Note 6) | 260  | —  | 260                                     |
| Losses recognised in other<br>comprehensive income          | —  | (260)  | (260)                                   |
| Closing balance as at<br>30 June 2019                       | 55,248   | 2,392  | 57,640                                  |

### 3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

#### 3.4 Fair value measurements (Continued)

The following table summarises the valuation techniques used and the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

| Description                                     | Valuation technique  | Significant unobservable input            | Value  | Relationship of unobservable inputs to fair value  |
|---|--|---|--------|--|
| (a) Preferred shares issued by a private entity | Comparable transaction method and equity value allocation with option-pricing method | Volatility                                | 53.00% | 10% increase/(decrease) in the volatility would result in (decrease)/increase in fair value by approximately (HK\$239,000)/HK\$204,000 |
| (b) Ordinary shares issued by a private entity  | Discounted cash flow method  | Weighted average cost of capital ("WACC") | 14.89% | 10% increase/(decrease) in WACC would result in (decrease)/increase in fair value by approximately (HK\$351,000)/HK\$432,000           |

Valuations of the above financial assets held by the Group as at the end of the reporting period were performed by independent valuers. There were no changes made to any of the valuation techniques applied as of 31 December 2019.

### 4. REVENUE

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

## 5. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision-maker, for the purposes of resource allocation and assessment focuses on the revenue analysis by products.

Previously, the Group had disclosed two reportable operating segments, including the display products segment and the optics products segment. Due to the recent decline in contribution from optics products segment to the Group, no other discrete financial information is provided for the assessment of different business activities, other than the Group's results and financial position as a whole since 2020. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

- (a) The Group's revenues from its major products for the six months ended 30 June 2020 are as follows:

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2020                     | 2019           |
|   | HK\$'000                 | HK\$'000       |
|   | (Unaudited)              | (Unaudited)    |
| Thin film transistor liquid crystal display<br>("TFT-LCD") panels and modules | 20,096                   | 98,669         |
| Polarisers  | 7,873                    | 488            |
| Electronic signage  | 3,719                    | 2,822          |
| Light guide plates  | 1,065                    | 1,709          |
| Optics products   | 510                      | 1,689          |
| Integrated circuits   | 13                       | 1,028          |
| Others  | 4,457                    | 2,888          |
|   | <b>37,733</b>            | <b>109,293</b> |

- (b) Revenue by customers' geographical location

During the six months ended 30 June 2020, revenue from external customers by locations where the Group's products were delivered to its customers is shown in the table below.

|  | Six months ended 30 June |                |
|--|--------------------------|----------------|
|  | 2020                     | 2019           |
|  | HK\$'000                 | HK\$'000       |
|  | (Unaudited)              | (Unaudited)    |
| Hong Kong                                  | 27,895                   | 90,911         |
| The People's Republic of China (the "PRC") | 8,088                    | 15,508         |
| Taiwan                                     | 1,750                    | 2,874          |
|  | <b>37,733</b>            | <b>109,293</b> |



## 5. SEGMENT INFORMATION (CONTINUED)

- (c) Revenues from major customers who have individually contributed to 10% or more of the total revenue of the Group for the six months ended 30 June 2020 are disclosed as follows:

|            | Six months ended 30 June |             |
|------------|--------------------------|-------------|
|            | 2020                     | 2019        |
|            | HK\$'000                 | HK\$'000    |
|            | (Unaudited)              | (Unaudited) |
| Customer A | 8,209                    | 699         |
| Customer B | 3,866                    | 2,875       |
|            | 12,075                   | 3,574       |

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

|                               | Hong Kong | The PRC  | Taiwan   | Total    |
|-------------------------------|-----------|----------|----------|----------|
|                               | HK\$'000  | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>As at 30 June 2020</b>     |           |          |          |          |
| <b>(Unaudited):</b>           |           |          |          |          |
| <b>Non-current assets</b>     |           |          |          |          |
| Property, plant and equipment | 117       | 976      | 84       | 1,177    |
| Right-of-use assets           | 1,913     | 7,475    | 158      | 9,546    |
| Intangible assets             | 4,200     | 1,122    | —        | 5,322    |
|                               | 6,230     | 9,573    | 242      | 16,045   |
| <b>As at 31 December 2019</b> |           |          |          |          |
| <b>(Audited):</b>             |           |          |          |          |
| <b>Non-current assets</b>     |           |          |          |          |
| Property, plant and equipment | 253       | 1,386    | 93       | 1,732    |
| Right-of-use assets           | 3,402     | 8,698    | 192      | 12,292   |
| Intangible assets             | 4,200     | 1,122    | —        | 5,322    |
|                               | 7,855     | 11,206   | 285      | 19,346   |

## 6. OTHER GAINS, NET

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2020                     | 2019        |
|   | HK\$'000                 | HK\$'000    |
|   | (Unaudited)              | (Unaudited) |
| Fair value changes in financial asset at FVTPL (Note 3.4) | 205                      | 260         |
| Net exchange (loss)/gain                                  | (94)                     | 139         |
| Others  | 756                      | 120         |
|   | 867                      | 519         |

## 7. FINANCE COSTS

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2020                     | 2019        |
|   | HK\$'000                 | HK\$'000    |
|   | (Unaudited)              | (Unaudited) |
| Interest expense on lease liabilities (Note 13) | 360                      | 459         |
| Interest expense on bank borrowings             | —                        | 255         |
|   | 360                      | 714         |

## 8. LOSS BEFORE INCOME TAX

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

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2020                     | 2019        |
|   | HK\$'000                 | HK\$'000    |
|   | (Unaudited)              | (Unaudited) |
| Cost of inventories sold                                | 39,545                   | 120,879     |
| Write-back of provision for obsolete inventories, net   | (2,421)                  | (12,706)    |
| Depreciation of property, plant and equipment (Note 12) | 530                      | 828         |
| Depreciation of right-of-use assets (Note 13)           | 2,956                    | 2,515       |

## 9. INCOME TAX

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

|                     | Six months ended 30 June |             |
|---------------------|--------------------------|-------------|
|                     | 2020                     | 2019        |
|                     | HK\$'000                 | HK\$'000    |
|                     | (Unaudited)              | (Unaudited) |
| Current income tax  | 5                        | (2)         |
| Deferred income tax | 1                        | 28          |
|                     | 6                        | 26          |

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit arising in or derived from Hong Kong during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil). Taxation on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

## 10. DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

## 11. BASIC AND DILUTED LOSS PER SHARE

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

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2020                     | 2019        |
|  | (Unaudited)              | (Unaudited) |
| Loss attributable to equity holders of the Company<br>(HK\$'000)   | (17,474)                 | (19,730)    |
| Weighted average number of ordinary shares in issue<br>(thousands) | 1,483,687                | 1,483,687   |
| Basic and diluted loss per share (HK cents per share)              | (1.18)                   | (1.33)      |

For the purpose of determining the diluted loss per share amount, no adjustment has been made to the basic loss per share amount for the six months ended 30 June 2020 and 2019 as the Group had no potentially dilutive ordinary shares in issue during these periods.

## 12. PROPERTY, PLANT AND EQUIPMENT

|                                      | HK\$'000    |
|--------------------------------------|-------------|
|                                      | (Unaudited) |
| <b>Six months ended 30 June 2020</b> |             |
| <i>Net book value</i>                |             |
| Opening amount as at 1 January 2020  | 1,732       |
| Depreciation (Note 8)                | (530)       |
| Currency translation differences     | (25)        |
| Closing amount as at 30 June 2020    | 1,177       |
| <b>Six months ended 30 June 2019</b> |             |
| <i>Net book value</i>                |             |
| Opening amount as at 1 January 2019  | 3,031       |
| Additions                            | 50          |
| Depreciation (Note 8)                | (828)       |
| Disposals                            | (49)        |
| Currency translation differences     | 7           |
| Closing amount as at 30 June 2019    | 2,211       |

### 13. LEASES

|                               | <b>Right-of-use<br/>assets —<br/>Properties</b> | <b>Lease<br/>liabilities</b> |
|-------------------------------|---|------------------------------|
|                               | HK\$'000<br>(Unaudited)                         | HK\$'000<br>(Unaudited)      |
| As at 1 January 2020          | <b>12,292</b>                                   | <b>13,790</b>                |
| Additions                     | <b>366</b>                                      | <b>366</b>                   |
| Depreciation expense (Note 8) | <b>(2,956)</b>                                  | <b>—</b>                     |
| Interest expense (Note 7)     | <b>—</b>  | <b>360</b>                   |
| Payments of principal element | <b>—</b>  | <b>(2,892)</b>               |
| Payments of interest element  | <b>—</b>  | <b>(360)</b>                 |
| Exchange realignment          | <b>(156)</b>                                    | <b>(179)</b>                 |
| As at 30 June 2020            | <b>9,546</b>                                    | <b>11,085</b>                |
| Current                       |   | <b>4,073</b>                 |
| Non-current                   |   | <b>7,012</b>                 |
|                               |   | <b>11,085</b>                |
| As at 1 January 2019          | 14,943  | 15,966                       |
| Additions                     | 2,764   | 2,764                        |
| Depreciation expense (Note 8) | (2,515)   | —                            |
| Interest expense (Note 7)     | —   | 459                          |
| Payments of principal element | —   | (2,236)                      |
| Payments of interest element  | —   | (459)                        |
| Exchange realignment          | 19  | 16                           |
| As at 30 June 2019            | 15,211  | 16,510                       |
| Current                       |   | 5,555                        |
| Non-current                   |   | 10,955                       |
|                               |   | 16,510                       |

The Group recognised rent expense from short-term leases of HK\$16,600 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$598,000).

### 14. INTANGIBLE ASSETS

During the six months ended 30 June 2020, there were no movements in the Group's intangible assets (six months ended 30 June 2019: additions of HK\$2,200,000).

## 15. TRADE AND OTHER RECEIVABLES

|   | <b>30 June</b><br><b>2020</b><br><b>HK\$'000</b><br><b>(Unaudited)</b> | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|---|--|--|
| Trade receivables (Note)                    | <b>12,614</b>  | 17,460                                       |
| Bills receivables (Note)                    | —  | 298  |
|   | <b>12,614</b>  | 17,758                                       |
| Prepayments, deposits and other receivables | <b>3,793</b>   | 3,440  |
|   | <b>16,407</b>  | 21,198                                       |

Note:

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

|                    | <b>30 June</b><br><b>2020</b><br><b>HK\$'000</b><br><b>(Unaudited)</b> | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|--------------------|--|--|
| 0–30 days          | <b>1,569</b>   | 6,810  |
| 31–60 days         | <b>1,828</b>   | 7,286  |
| 61–90 days         | <b>1,869</b>   | 3,371  |
| 91–180 days        | <b>5,316</b>   | 144  |
| 181 days–12 months | <b>2,032</b>   | 147  |
|                    | <b>12,614</b>  | 17,758                                       |

## 16. TRADE AND OTHER PAYABLES

|                                  | <b>30 June</b><br><b>2020</b><br><b>HK\$'000</b><br><b>(Unaudited)</b> | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|----------------------------------|--|--|
| Trade payables (Note)            | <b>4,935</b>   | 14,467                                       |
| Deposits received from customers | <b>1,908</b>   | 1,872  |
| Accruals and other payables      | <b>1,887</b>   | 3,175  |
|                                  | <b>8,730</b>   | 19,514                                       |

Note:

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

|                    | <b>30 June</b><br><b>2020</b><br><b>HK\$'000</b><br><b>(Unaudited)</b> | 31 December<br>2019<br>HK\$'000<br>(Audited) |
|--------------------|--|--|
| 0–30 days          | <b>2,459</b>   | 8,349  |
| 31–60 days         | <b>49</b>  | 3,653  |
| 61–90 days         | <b>5</b>   | 2,465  |
| 91–180 days        | <b>38</b>  | —  |
| 181 days–12 months | <b>2,384</b>   | —  |
|                    | <b>4,935</b>   | 14,467                                       |

## 17. BANK BORROWINGS

During the six months ended 30 June 2020, the Group had no bank borrowings (six months ended 30 June 2019: repayment of bank loan of HK\$911,000).

## 18. RELATED PARTY TRANSACTIONS

### Key management compensation

Key management includes directors and senior management. The compensation paid or payable to key management for employee services is shown below:

|   | Six months ended 30 June |              |
|---|--------------------------|--------------|
|   | 2020                     | 2019         |
|   | HK\$'000                 | HK\$'000     |
|   | (Unaudited)              | (Unaudited)  |
| Short-term employee benefits (Note)                   | 4,074                    | 3,843        |
| Post-employment benefits — defined contribution plans | 27                       | 27           |
|   | <b>4,101</b>             | <b>3,870</b> |

Note: Include lease payments of HK\$516,000 for staff quarter (six months ended 30 June 2019: HK\$516,000).

## 19. CONTRIBUTIONS FROM NON-CONTROLLING INTERESTS

In March 2019, the Group entered into a subscription and shareholders' agreement with two independent third parties (the "Investors") for investments in shares of Perinnova Limited ("Perinnova"), a subsidiary of the Group. The subscription was completed in April 2019 and each of the Investors invested USD190,000 (approximately HK\$2,964,000 in aggregate) and each holds 19% equity interest, with the Group holding the remaining 62% equity interest, in Perinnova.

## 20. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2020, the Group entered into lease arrangements in respect of properties and right-of-use asset of HK\$366,000 (six months ended 30 June 2019: HK\$2,764,000) was recognised.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

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

The outbreak of the Coronavirus Disease 2019 (the “COVID-19”) in early 2020 has disrupted the world economy to a large extent. During the six months ended 30 June 2020 (the “Period”), series of stringent precautionary and control measures have been implemented by governments of various countries and regions, in some of which the Group has business operations, to control the spread of the COVID-19, which led to market uncertainties and drastic drop of demands for the Group’s products. The Group recorded a significant decrease in revenue during the Period as compared with the six months ended 30 June 2019. During the Period, the Group’s revenue amounted to approximately HK\$37,733,000, which decreased by approximately 65% as compared to the revenue in the corresponding period in 2019 of approximately HK\$109,293,000. Nevertheless, the decrease in cost of sales and reduction of operating expenses of the Group had alleviated the above negative impacts and the Group continued to reduce its loss. Loss attributable to equity holders of the Company for the Period amounted to approximately HK\$17,474,000, representing a decrease in loss of approximately HK\$2,256,000 as compared with the loss of approximately HK\$19,730,000 for the six months ended 30 June 2019.

According to information issued by China Academy of Information and Communications Technology, China’s domestic mobile phone shipments during the Period went down 17.7% year on year to 153 million units as compared with the six months ended 30 June 2019. Meanwhile, the concentrated mobile phone market situation, which is dominated by the major brands, continuously affected the Group’s small-sized display panel business. Sales of medium-to-large sized display products remained as the main revenue driver of the Group during the Period, but as affected by the COVID-19 outbreak and market uncertainties, the Group’s sales of TFT-LCD panels and modules during the Period amounted to approximately HK\$20,096,000, representing a decrease of approximately 80% as compared with approximately HK\$98,669,000 for the six months ended 30 June 2019.



Despite the significant decrease in the Group's total revenue during the Period, the Group's polarisers and electronic signage recorded an increase in revenue as compared with the corresponding period in 2019. Riding on the success of the marketing strategy of its longstanding supplier, the Group's sales of polarisers increased significantly from approximately HK\$488,000 in corresponding period of 2019 to HK\$7,873,000 during the Period. Electronic signage products, which include digital information signage, electronic shelf displays and electronic white boards, etc. are the Group's new products developed in recent years. Although affected by the COVID-19 outbreak, the Group has continued to expand the customer base for its electronic signage products. During the Period, the revenue from electronic signage products reached HK\$3,719,000, having increased by approximately HK\$897,000 as compared with approximately HK\$2,822,000 for the corresponding period in 2019.

As constrained by limited contents and applications, the growth of virtual reality market remained fragile across a very fierce competitive landscape. The Group has taken a precautionary approach towards the development of its optics products. During the Period, revenue from optics products amounted to approximately HK\$510,000, representing a decrease of approximately HK\$1,179,000 as compared with the corresponding period in 2019 of approximately HK\$1,689,000.

As to the Group's investment in Mobvoi, there was no material change in fair value of the Group's investment in Mobvoi during the Period. During the Period, besides continuing to launch new models of its existing products such as smart watches, Mobvoi also developed various new lines of products, including a smart wall-mountable modular LEDs. In April 2020, Mobvoi announced its partnership with MiaoMiao to provide patients with digital diabetic monitoring tools. MiaoMiao is a smart reader which enables patients to send their blood sugar data directly to Mobvoi's smart watches at regular intervals, without the need for manual monitoring. Furthermore, Mobvoi's automotive AI voice interactive system has been applied to certain new car models launched in China during the Period. With Mobvoi's spectacular profile of shareholders and continuing development in various fields, the Group maintains a bullish view on the value and development of Mobvoi.

## Prospects

Looking forward, the economic landscape will continue to be clouded by the COVID-19 pandemic and the increasing international conflicts. Continued weakness in sales of electronic components and products are expected in the second half of 2020. The Group will adopt flexible strategies to widen its revenue base and enrich its products portfolio. The Group is dedicated to enhance its product diversity, widen customer base and introduce new products and new suppliers from different industries or areas. In the meantime, the Group will also maintain a flexible business strategy to explore new business opportunities for the development of the Group.

## **Financial Review**

### ***Revenue***

Owing to the COVID-19 outbreak and market uncertainties which affected the demands for the Group's products, the total revenue of the Group for the six months ended 30 June 2020 amounted to approximately HK\$37,733,000, representing a decrease of approximately 65% as compared with approximately HK\$109,293,000 for the six months ended 30 June 2019. The significant drop in sales of TFT-LCD panels and modules offset the increase in sales of polarisers and electronic signage.

### ***Gross loss***

The Group's gross loss for the six months ended 30 June 2020 amounted to approximately HK\$1,574,000, which increased by approximately HK\$157,000 as compared with approximately HK\$1,417,000 for the six months ended 30 June 2019. The gross loss incurred was mainly attributable to the weakness in revenue.

### ***Expenses***

The Group's distribution and selling expenses for the six months ended 30 June 2020 amounted to approximately HK\$5,056,000, which increased by approximately 22% as compared with approximately HK\$4,148,000 for the six months ended 30 June 2019. The increase was mainly attributable to the increase in expenses incurred for the Group's Taiwan branch which was newly established in late 2019 and the increase in promotion expenses for the Group's new products.

The Group's general and administrative expenses for the six months ended 30 June 2020 amounted to approximately HK\$11,727,000, which decreased by approximately 13% as compared with approximately HK\$13,428,000 for the six months ended 30 June 2019. The decrease was mainly attributable to the decrease in professional fees and travelling expenses.

The Group's research and development expenses for the six months ended 30 June 2020 amounted to approximately HK\$657,000, which decreased by approximately 32% as compared with approximately HK\$961,000 for the six months ended 30 June 2019. The decrease was mainly due to the decrease in staff costs.

### ***Finance costs***

The Group's finance costs for the six months ended 30 June 2020 represented interest expense on lease liabilities of approximately HK\$360,000 (six months ended 30 June 2019: HK\$459,000). Since the Group's bank loans had been fully repaid in 2019, no interest expense on bank loans was incurred during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$255,000).

### **Loss for the period attributable to equity holders of the Company**

Loss attributable to the equity holders of the Company for the six months ended 30 June 2020 amounted to approximately HK\$17,474,000, representing a decrease in loss of approximately HK\$2,256,000 as compared with approximately HK\$19,730,000 for the six months ended 30 June 2019. During the six months ended 30 June 2020, the decrease in operating expenses and cost of sales of the Group had alleviated the negative impact of the significant drop in revenue.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations. The Group's cash and cash equivalents as at 30 June 2020 and 31 December 2019 comprised bank deposits, bank balances and cash.

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

|                               | <b>30 June<br/>2020<br/>HK\$'000</b> | 31 December<br>2019<br>HK\$'000 |
|-------------------------------|--------------------------------------|---------------------------------|
| United States dollars ("USD") | <b>28,291</b>                        | 57,491                          |
| Renminbi                      | <b>8,563</b>                         | 4,777                           |
| Hong Kong dollars             | <b>5,893</b>                         | 6,986                           |
| New Taiwan dollars            | <b>1,327</b>                         | 1,054                           |
|                               | <b>44,074</b>                        | 70,308                          |

## **GEARING RATIO**

The Group's gearing ratio (calculated based on the Group's total interest-bearing bank borrowings divided by the Group's total equity) was 0% as at 30 June 2020 (31 December 2019: 0%).

## **CAPITAL STRUCTURE**

The capital of the Company only comprises of ordinary shares. There has been no change in the capital structure of the Group during the six months ended 30 June 2020.

## **TREASURY POLICIES**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period.

The Group strives to reduce exposure to credit risk by monitoring on an ongoing basis with reference to the financial position of the debtors, past experience and other factors. The Group performs regular credit evaluations of its major customers. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintains sufficient cash and an adequate amount of committed credit facilities to settle the payables of the Group.

## **CONTINGENT LIABILITIES**

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

## **CHARGE OF ASSETS**

As at 30 June 2020, the Group had no charge of assets (31 December 2019: Nil).

## **FOREIGN CURRENCY**

The Group's business transactions, assets and liabilities are principally denominated in United States dollars, Hong Kong dollars, Renminbi and New Taiwan dollars. The Group currently does not have a foreign currency hedging policy. However, the Board will continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## **CAPITAL COMMITMENTS**

As at 30 June 2020, the Group did not have any significant capital commitments (31 December 2019: Nil).

## **SIGNIFICANT INVESTMENTS HELD**

In January 2015, the Group subscribed for 25,213,220 Series A-2 Preferred Shares of Mobvoi at a consideration of USD3,000,000. Mobvoi is principally engaged in the business of developing and providing voice search AI systems on mobile, smart wearable, automotive and other devices. The Company considers that the investment in Mobvoi, which is intended to be held by the Group for long-term investment purpose, will provide an opportunity to the Group to share in and gain from the development potentials of Mobvoi and its products and technology. The Group does not have any management or operational role in Mobvoi. There have been no addition to or disposal of such investment by the Group since it made the investment in January 2015. Mobvoi has undertaken several rounds of fundraising in recent years. During the year ended 31 December 2019, Mobvoi completed a further round of issuance of new preferred shares to investors and the Group's shareholding in Mobvoi (on a fully diluted and as converted basis) was diluted from approximately 1.53% to approximately 1.50%, which remained the same as at 30 June 2020.

The Group's investment in Mobvoi is classified as financial asset at fair value through profit or loss. As at 30 June 2020, the fair value of the Group's investment in Mobvoi was approximately HK\$57,743,000, representing approximately 34% of the Group's total assets. No dividend has been received by the Group from Mobvoi since making its investment. A fair value gain of approximately HK\$205,000 was recognised during the six months ended 30 June 2020.

Save for the abovementioned, the Group did not hold any significant investment in equity interest in any other company as at 30 June 2020.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The Group did not have plans for material investments and capital assets as at 30 June 2020.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the six months ended 30 June 2020.

## **INFORMATION ON EMPLOYEES**

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses and a share option scheme.

As at 30 June 2020, the employee headcount of the Group was 69 (31 December 2019: 74) and the total staff costs, including directors' emoluments, amounted to approximately HK\$10,348,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$10,508,000). The amount of total staff costs for the six months ended 30 June 2020 excluded depreciation and finance costs associated with the lease of staff quarter, amounting to approximately HK\$487,000 (six months ended 30 June 2019: HK\$487,000) and approximately HK\$11,000 (six months ended 30 June 2019: HK\$38,000) respectively.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

### Long positions in shares of the Company:

| Name of Director  | Capacity                           | Number of shares held | Percentage of the Company's issued share capital |
|-------------------|------------------------------------|-----------------------|--|
| Mr. Cheng Wai Tak | Interest in controlled corporation | 923,427,151<br>(Note) | 62.24%   |
|                   | Beneficial owner                   | 2,220,000             | 0.15%  |
| Mr. Kan Man Wai   | Beneficial owner                   | 320,000               | 0.02%  |

Note: These 923,427,151 shares are held by Winful Enterprises Limited ("Winful Enterprises"), which in turn is wholly and beneficially owned by Mr. Cheng Wai Tak. As such, Mr. Cheng Wai Tak is deemed under the SFO to be interested in these 923,427,151 shares held by Winful Enterprises.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executives of the Company had registered an interest 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) which 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 interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 30 June 2020, other than the Directors and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO:

### Long position in shares of the Company:

| Name               | Nature of interests         | Number of shares held | Percentage of the Company's issued share capital |
|--------------------|-----------------------------|-----------------------|--|
| Winful Enterprises | Directly beneficially owned | 923,427,151<br>(Note) | 62.24%   |

Note: Mr. Cheng Wai Tak is deemed under the SFO to be interested in these 923,427,151 shares held by Winful Enterprises.

Save as disclosed above, as at 30 June 2020, no other person had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

## SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted by the sole shareholder of the Company by way of written resolutions passed on 20 January 2014.

No share option has been granted under the Share Option Scheme since its adoption.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the Share Option Scheme, at no time during the six months ended 30 June 2020 was the Company, its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2020, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any shares of the Company.

## **COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2020.

## **NON-COMPETITION UNDERTAKING**

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

- (a) directly or indirectly (other than through the Group) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with existing business activity of the Group and any business activities undertaken by the Group from time to time (the "Restricted Business") except for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any publicly listed company; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the Restricted Business including, but not limited to, solicitation of the Group's customers, suppliers or staff.

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



## COMPETING INTERESTS

Based on the information available to the Company and within the knowledge and belief of the Directors, none of the Directors or the controlling shareholders of the Company (as defined under the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group, nor was there any other conflict of interest which any such person had or might have with the Group throughout the six months ended 30 June 2020.

## LEGAL PROCEEDINGS INVOLVING THE COMPANY AND THE DIRECTORS

Reference is made to the announcements of the Company dated 26 September 2019, 4 October 2019, 10 January 2020, 9 April 2020 and 10 July 2020. On 25 September 2019, the Company received a sealed copy of a petition (the "Petition") issued by the High Court of the Hong Kong Special Administrative Region (the "High Court") which was taken out by the Securities and Futures Commission (the "SFC") pursuant to section 214 of the SFO against six Directors, namely Mr. Cheng Wai Tak, Mr. Liu Ka Wing, Mr. Tse Ka Wing, Mr. Wong Yik Chung John, Mr. Wong Chi Chiu and Mr. Li Shui Yan (collectively "the Director Respondents"), and the Company. The SFC alleged in the Petition that the Director Respondents had breached their duties as directors of the Company in relation to the disposal of a subsidiary of the Company holding an approximately 50.14% shareholding in 尚立光電股份有限公司 (Shinyoptics Corporation\*) (details of such disposal were disclosed in the announcement of the Company dated 22 December 2016). As the Company is only a nominal respondent to the Petition and pursuant to the order of the High Court, the Company is not required to actively participate in the legal proceedings in respect of the Petition.

The Company understands the Director Respondents disagree with the allegations of the SFC in the Petition, and intend to vigorously contest the Petition. As at the date of this report, the legal proceedings of the Petition are ongoing.

Trading in the shares of the Company on GEM has been suspended since 9:00 a.m. on 26 September 2019 until further notice. As disclosed in the announcements of the Company dated 10 January 2020, 9 April 2020 and 10 July 2020, the Company has received resumption guidance from the Stock Exchange and has sought legal advice and submitted a revised resumption proposal addressing the reply from the Stock Exchange on the Company's resumption proposal previously submitted. As at the date of this report, the Company is still liaising with the Stock Exchange to resolve the issues in connection with the trading suspension of its shares.

\* *for identification purpose only*

## CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules. Throughout the six months ended 30 June 2020, the Company had complied with all the code provisions of the CG Code, except for the deviation stipulated below.

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

## DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 17.50A of the GEM Listing Rules, the changes in information on Directors are as follows:

Mr. Cho Chi Kong, an independent non-executive Director, retired as Professor of Practice (LAW) at the School of Accounting and Finance, the Hong Kong Polytechnic University with effect from 1 July 2020.

## AUDIT COMMITTEE

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

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

Hong Kong, 7 August 2020