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Perfect Optronics Limited

圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8311)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2020**

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

HIGHLIGHTS

- The Group recorded revenue of approximately HK\$19.5 million for the three months ended 31 March 2020 (three months ended 31 March 2019: approximately HK\$65.6 million).
- Loss attributable to equity holders of the Company for the three months ended 31 March 2020 amounted to approximately HK\$7.7 million (three months ended 31 March 2019: approximately HK\$8.0 million).
- The Board does not declare an interim dividend for the three months ended 31 March 2020 (three months ended 31 March 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 three months ended 31 March 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2020

		Three months ended 31 March	
		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	19,498	65,627
Cost of sales		<u>(19,338)</u>	<u>(64,524)</u>
Gross profit		160	1,103
Other gains, net	4	107	295
Distribution and selling expenses		(2,300)	(2,048)
General and administrative expenses		(5,653)	(6,493)
Research and development expenses		<u>(367)</u>	<u>(519)</u>
Operating loss		(8,053)	(7,662)
Finance income		7	47
Finance costs	5	<u>(190)</u>	<u>(355)</u>
Finance costs, net		<u>(183)</u>	<u>(308)</u>
Loss before income tax		(8,236)	(7,970)
Income tax	6	<u>1</u>	<u>17</u>
Loss for the period		(8,235)	(7,953)
Other comprehensive (loss)/income:			
<i>Items that may be subsequently reclassified to income statement</i>			
Currency translation differences		<u>(142)</u>	<u>103</u>
Total comprehensive loss for the period		<u>(8,377)</u>	<u>(7,850)</u>
Loss for the period attributable to:			
Equity holders of the Company		(7,743)	(7,953)
Non-controlling interests		<u>(492)</u>	<u>—</u>
		<u>(8,235)</u>	<u>(7,953)</u>
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		(7,880)	(7,850)
Non-controlling interests		<u>(497)</u>	<u>—</u>
		<u>(8,377)</u>	<u>(7,850)</u>
Basic and diluted loss per share	8	<u>HK(0.52) cent</u>	<u>HK(0.54) cent</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March 2020

	Attributable to equity holders of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves ¹	Merger reserve	Revaluation reserve ²	Exchange reserve	Retained earnings			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2020	14,837	465,738	67,349	(415,675)	67	(415)	37,046	168,947	1,410	170,357
Comprehensive loss										
Loss for the period	—	—	—	—	—	—	(7,743)	(7,743)	(492)	(8,235)
Other comprehensive loss										
Currency translation differences	—	—	—	—	—	(137)	—	(137)	(5)	(142)
Total comprehensive loss	—	—	—	—	—	(137)	(7,743)	(7,880)	(497)	(8,377)
Balance at 31 March 2020	<u>14,837</u>	<u>465,738</u>	<u>67,349</u>	<u>(415,675)</u>	<u>67</u>	<u>(552)</u>	<u>29,303</u>	<u>161,067</u>	<u>913</u>	<u>161,980</u>
Balance at 1 January 2019	14,837	465,738	67,349	(415,675)	46	(422)	71,124	202,997	—	202,997
Comprehensive loss										
Loss for the period	—	—	—	—	—	—	(7,953)	(7,953)	—	(7,953)
Other comprehensive income										
Currency translation differences	—	—	—	—	—	103	—	103	—	103
Total comprehensive loss	—	—	—	—	—	103	(7,953)	(7,850)	—	(7,850)
Balance at 31 March 2019	<u>14,837</u>	<u>465,738</u>	<u>67,349</u>	<u>(415,675)</u>	<u>46</u>	<u>(319)</u>	<u>63,171</u>	<u>195,147</u>	<u>—</u>	<u>195,147</u>

1 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.

2 Revaluation reserve represents fair value reserve for financial asset at fair value through other comprehensive income.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

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 consolidated financial results of the Group for the three months ended 31 March 2020 (the "Consolidated Financial Results") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The Consolidated Financial Results 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 and financial asset at fair value through profit or loss ("FVTPL") which have been measured at fair value.

The Consolidated Financial Results 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 Consolidated Financial Results 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 Conceptual Framework for Financial Reporting 2018	Definition of a Business Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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 Consolidated Financial Results 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. REVENUE

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

The Group's revenue from its major products are as follows:

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	9,397	61,829
Polarisers	4,736	185
Electronic signage	2,326	690
Light guide plates	691	1,183
Optics products	81	24
Integrated circuits	13	645
Others	2,254	1,071
	<u>19,498</u>	<u>65,627</u>

4. OTHER GAINS, NET

	Three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fair value changes in financial asset at FVTPL	207	128
Exchange (losses)/gains	(112)	89
Others	12	78
	<u>107</u>	<u>295</u>

The Group's fair value changes in financial asset at FVTPL for the three months ended 31 March 2020 and 31 March 2019 represented the changes in fair value of the Group's investment in 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 since the Group made the investment in January 2015. The most recent issue by Mobvoi of new preferred shares to investors took place in September 2019 and the Group's shareholding in Mobvoi was diluted to approximately 1.50% from approximately 1.53% (on a fully diluted and as converted basis). No dividend has been received by the Group from Mobvoi. The fair value of the Group's financial asset at FVTPL as at 31 March 2020 amounted to approximately HK\$57,745,000 (unaudited) (31 December 2019: HK\$57,538,000), which is based on comparable transaction method and equity value allocation with option-pricing method performed by an independent valuer. The fair value is within level 3 of the fair value hierarchy.

5. FINANCE COSTS

	Three months ended 31 March	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	190	225
Interest expense on bank loans	—	130
	<u>190</u>	<u>355</u>

6. INCOME TAX

The amount of income tax credited to the unaudited consolidated statement of comprehensive income represents:

	Three months ended 31 March	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current income tax	—	(2)
Deferred income tax	1	19
	<u>1</u>	<u>17</u>

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 three months ended 31 March 2020 (three months ended 31 March 2019: Nil). Taxation on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

7. INTERIM DIVIDEND

The Board does not declare an interim dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

8. 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.

	Three months ended 31 March	
	2020	2019
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>(7,743)</u>	<u>(7,953)</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>1,483,687</u>	<u>1,483,687</u>
Basic and diluted loss per share	<u>HK(0.52) cent</u>	<u>HK(0.54) cent</u>

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 three months ended 31 March 2020 and 2019 as the Group had no potentially dilutive ordinary shares in issue during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

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 (“COVID-19 outbreak”) in early 2020 has seriously affected the world economy. To control the spread of the COVID-19 outbreak, a series of precautionary and control measures have been and continued to be implemented across the country/regions in which the Group has business operations, causing temporary disruption to the operations of the Group and market uncertainties. During the three months ended 31 March 2020 (the “Period”), the Group recorded a significant drop in revenue by approximately 70% from approximately HK\$65,627,000 during the three months ended 31 March 2019 to approximately HK\$19,498,000 during the Period. Drastic plunge in customer orders during the suspension of factories nationwide due to the prevention and control measures for the COVID-19 outbreak and the sluggish retail market significantly affected the Group’s revenue during the Period. However, the decrease in operating expenses and cost of sales of the Group had alleviated the above negative impacts to the Group during the Period. Loss attributable to equity holders of the Company for the Period amounted to approximately HK\$7,743,000, which was comparable to the loss of approximately HK\$7,953,000 for the three months ended 31 March 2019.

According to China Academy of Information and Communications Technology, China’s domestic mobile phone shipments during the Period decreased by 36.4% to 49 million units, as compared with the three months ended 31 March 2019. Besides the impacts of the COVID-19 outbreak, the declining customers’ consumption desires for mobile phones and 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. Under the COVID-19 outbreak, the Group’s sales of TFT-LCD panels and modules during the Period amounted to approximately HK\$9,397,000, which decreased by approximately 85% as compared with approximately HK\$61,829,000 during the corresponding period in 2019.

Notwithstanding that the Group's total revenue decreased significantly during the Period, revenue from certain products such as polarisers and electronic signage showed an increase as compared with the corresponding period in 2019. Taking advantage of the marketing strategy of the Group's supplier, sales of polarisers during the Period amounted to approximately HK\$4,736,000, which increased by approximately HK\$4,551,000 as compared with approximately HK\$185,000 for the corresponding period in 2019. For the Group's recently developed electronic signage products, which include digital information signage, electronic shelf displays and electronic white boards, etc., although the sales of which had also been affected by the COVID-19 outbreak, they continued to develop and recorded a revenue of approximately HK\$2,326,000 during the Period, representing an increase of approximately HK\$1,636,000 as compared with the revenue of approximately HK\$690,000 for the corresponding period in 2019.

On the other hand, the Group's optics products were still having a difficult time during the Period. The Group's sales of optics products during the Period amounted to approximately HK\$81,000, while that for the three months ended 31 March 2019 amounted to approximately HK\$24,000.

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, Mobvoi continued to launch some new products including TicWatch Pro 2020, a smart watch that features dual-layer display, and TicPods 2 Pro, a wireless earbud headphone with lightweight and several AI features. The Group believes that the growth of Mobvoi may generate a good investment return to the Group.

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 first half of 2020. To tackle these challenges, the Group will continue to take different strategies to enlarge its revenue base and seize new business opportunities to reduce the impact of the economic decline led by the COVID-19 pandemic and the increasing international conflicts. The Group will explore all kinds of opportunities with new suppliers and customers from various industries or areas.

Financial review

Revenue

In light of the temporary disruptions to the Group's operations and market uncertainties caused by the COVID-19 outbreak in early 2020, total revenue of the Group for the three months ended 31 March 2020 amounted to approximately HK\$19,498,000, representing a decrease of approximately 70% as compared with approximately HK\$65,627,000 for the three months ended 31 March 2019. The significant drop in sales of TFT-LCD panels and modules during the three months ended 31 March 2020 offset the increase in sales of polarisers and electronic signage.

Gross profit

The Group's gross profit for the three months ended 31 March 2020 amounted to approximately HK\$160,000, which decreased by approximately HK\$943,000 as compared with approximately HK\$1,103,000 for the three months ended 31 March 2019. The decrease in gross profit was mainly due to the decrease in revenue. The Group's gross profit margin decreased from approximately 1.7% for the three months ended 31 March 2019 to approximately 0.8% for the three months ended 31 March 2020.

Expenses

The Group's distribution and selling expenses for the three months ended 31 March 2020 amounted to approximately HK\$2,300,000, which increased by approximately 12% as compared with approximately HK\$2,048,000 for the three months ended 31 March 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.

The Group's general and administrative expenses for the three months ended 31 March 2020 amounted to approximately HK\$5,653,000, representing an approximately 13% decrease as compared with approximately HK\$6,493,000 for the three months ended 31 March 2019. The decrease was mainly attributable to the decrease in professional fees.

Research and development expenses amounted to approximately HK\$367,000 for the three months ended 31 March 2020, which decreased by approximately HK\$152,000 as compared with approximately HK\$519,000 for the three months ended 31 March 2019. The decrease was mainly due to the decrease in staff costs for the three months ended 31 March 2020.

Finance costs

The Group's finance costs for the three months ended 31 March 2020 represented interest expense on lease liabilities of approximately HK\$190,000 (three months ended 31 March 2019: HK\$225,000). Since the Group's bank loans had been fully repaid during 2019, no interest expense on bank loans was incurred during the three months ended 31 March 2020 (three months ended 31 March 2019: HK\$130,000).

Loss for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the three months ended 31 March 2020 amounted to approximately HK\$7,743,000, representing a decrease in loss of approximately HK\$210,000 as compared with approximately HK\$7,953,000 for the three months ended 31 March 2019. During the three months ended 31 March 2020, the decrease in operating expenses and cost of sales of the Group had alleviated the negative impact of the significant drop in revenue.

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 31 March 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 (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 31 March 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 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 31 March 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 (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 31 March 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 three months ended 31 March 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 three months ended 31 March 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 three months ended 31 March 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, undertook and covenanted with the Company that with effect from the listing date of the Company and for as long as the shares of the Company remain so listed on the Stock Exchange and he/it, individually or collectively with any other Covenantor(s), is, directly or indirectly, interested in 30% or more of the shares of the Company in issue, or is otherwise regarded as a controlling shareholder (as defined under the GEM Listing Rules from time to time) of the Company, he/it shall not, and shall procure that none of his/its associates (for the purpose of the Non-Competition Deed, shall have the meaning as defined under Rule 1.01 of the GEM Listing Rules but excluding the Group) shall:

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

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

COMPETING INTERESTS

Based on the information available to the Company and within the knowledge and belief of the Directors, none of the Directors or the controlling shareholders of the Company (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 three months ended 31 March 2020.

LEGAL PROCEEDINGS INVOLVING THE COMPANY AND THE DIRECTORS

Reference is made to the announcements of the Company dated 4 October 2019, 10 January 2020 and 9 April 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 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). The Company is only a nominal respondent to the Petition and is not required to actively participate in the legal proceedings. The Company understands the Director Respondents disagree with the allegations of the SFC in the Petition, and intend to vigorously contest the Petition.

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 and 9 April 2020, the Company has received resumption guidance from the Stock Exchange and has sought legal advice and submitted a resumption proposal addressing the resumption guidance to the Stock Exchange. As at the date of this announcement, 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 three months ended 31 March 2020, the Company has complied with all the code provisions of the CG Code, except the deviation stipulated below.

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the code provision C.3.3 of the CG Code. The audit committee consists of 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 announcement and has provided advice and comments thereon.

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

Hong Kong, 8 May 2020

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

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least 7 days from the day of its publication and on the Company’s website at <http://www.perfect-optronics.com>.