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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 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 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 30 June		Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	4	18,235	43,666	37,733	109,293
Cost of sales		(19,969)	(46,186)	(39,307)	(110,710)
Gross loss		(1,734)	(2,520)	(1,574)	(1,417)
Other gains, net	6	760	224	867	519
Distribution and selling expenses		(2,756)	(2,100)	(5,056)	(4,148)
General and administrative expenses		(6,074)	(6,935)	(11,727)	(13,428)
Research and development expenses		(290)	(442)	(657)	(961)
Operating loss		(10,094)	(11,773)	(18,147)	(19,435)
Finance income		9	51	16	98
Finance costs	7	(170)	(359)	(360)	(714)
Finance costs, net		(161)	(308)	(344)	(616)
Loss before income tax	8	(10,255)	(12,081)	(18,491)	(20,051)
Income tax	9	5	9	6	26
Loss for the period		(10,250)	(12,072)	(18,485)	(20,025)
Other comprehensive income/(loss):					
<i>Items that may be subsequently reclassified to income statement</i>					
Currency translation differences		85	(96)	(57)	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		(81)	(260)	(81)	(260)
Total comprehensive loss for the period		(10,246)	(12,428)	(18,623)	(20,278)
Loss for the period attributable to:					
Equity holders of the Company		(9,731)	(11,777)	(17,474)	(19,730)
Non-controlling interests		(519)	(295)	(1,011)	(295)
		(10,250)	(12,072)	(18,485)	(20,025)
Total comprehensive loss for the period attributable to:					
Equity holders of the Company		(9,732)	(12,133)	(17,612)	(19,983)
Non-controlling interests		(514)	(295)	(1,011)	(295)
		(10,246)	(12,428)	(18,623)	(20,278)
Basic and diluted loss per share	11	HK(0.66) cents	HK(0.79) cents	HK(1.18) cents	HK(1.33) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020	31 December 2019
	<i>Note</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		1,177	1,732
Right-of-use assets	12	9,546	12,292
Intangible assets		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
		76,536	79,712
Current assets			
Inventories		34,532	32,445
Trade and other receivables	13	16,407	21,198
Cash and cash equivalents		44,074	70,308
		95,013	123,951
Total assets		171,549	203,663
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		14,837	14,837
Reserves		116,926	117,064
Retained earnings		19,572	37,046
		151,335	168,947
Non-controlling interests		399	1,410
Total equity		151,734	170,357
LIABILITIES			
Non-current liabilities			
Lease liabilities	12	7,012	8,692
		7,012	8,692
Current liabilities			
Trade and other payables	14	8,730	19,514
Lease liabilities	12	4,073	5,098
Current income tax liabilities		—	2
		12,803	24,614
Total liabilities		19,815	33,306
Total equity and liabilities		171,549	203,663

NOTES:

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 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 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 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Financial assets		
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
	<u>119,795</u>	<u>150,773</u>
Financial liabilities		
Liabilities at amortised cost:		
Trade and other payables	8,312	18,475
Lease liabilities	11,085	13,790
	<u>19,397</u>	<u>32,265</u>

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 1 year HK\$'000	Between 1 to 5 years HK\$'000	Total contractual cash flows HK\$'000	Carrying amount HK\$'000
At 30 June 2020 (Unaudited)				
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
	<u>12,892</u>	<u>7,541</u>	<u>20,433</u>	<u>19,397</u>
At 31 December 2019 (Audited)				
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
	<u>24,210</u>	<u>9,453</u>	<u>33,663</u>	<u>32,265</u>

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 <i>HK\$'000</i> (Unaudited)	Level 2 <i>HK\$'000</i> (Unaudited)	Level 3 <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	Level 1 <i>HK\$'000</i> (Audited)	Level 2 <i>HK\$'000</i> (Audited)	Level 3 <i>HK\$'000</i> (Audited)	Total <i>HK\$'000</i> (Audited)
Financial asset at FVTPL								
— Unlisted preferred shares <i>(Note (a))</i>	—	—	57,743	57,743	—	—	57,538	57,538
Financial asset at FVOCI								
— Unlisted equity securities <i>(Note (b))</i>	—	—	2,592	2,592	—	—	2,673	2,673
	<u>—</u>	<u>—</u>	<u>60,335</u>	<u>60,335</u>	<u>—</u>	<u>—</u>	<u>60,211</u>	<u>60,211</u>

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%).

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:

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

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("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
	<u>37,733</u>	<u>109,293</u>

- (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
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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
	<u>37,733</u>	<u>109,293</u>

- (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
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A	8,209	699
Customer B	3,866	2,875
	<u>12,075</u>	<u>3,574</u>

- (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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 June 2020 (Unaudited):				
Non-current assets				
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
	<u>6,230</u>	<u>9,573</u>	<u>242</u>	<u>16,045</u>
As at 31 December 2019 (Audited):				
Non-current assets				
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
	<u>7,855</u>	<u>11,206</u>	<u>285</u>	<u>19,346</u>

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
	<u>867</u>	<u>519</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities (Note 12)	360	459
Interest expense on bank borrowings	—	255
	<u>360</u>	<u>714</u>

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	530	828
Depreciation of right-of-use assets (Note 12)	2,956	2,515
	<u>2,956</u>	<u>2,515</u>

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
	<u>6</u>	<u>26</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 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 (HK\$'000)	<u>(17,474)</u>	<u>(19,730)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,483,687</u>	<u>1,483,687</u>
Basic and diluted loss per share (HK cents per share)	<u>(1.18)</u>	<u>(1.33)</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 six months ended 30 June 2020 and 2019 as the Group had no potentially dilutive ordinary shares in issue during these periods.

12. LEASES

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

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).

13. TRADE AND OTHER RECEIVABLES

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

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

14. TRADE AND OTHER PAYABLES

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

Note:

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

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

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 precautious 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:

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

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%).

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).

CAPITAL COMMITMENTS

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

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 Limited, 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 announcement, 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 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 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.

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, 7 August 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>.