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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 2023**

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\$66.5 million for the six months ended 30 June 2023 (six months ended 30 June 2022: approximately HK\$209.9 million).
- Loss attributable to equity holders of the Company for the six months ended 30 June 2023 amounted to approximately HK\$3.9 million (six months ended 30 June 2022: profit of approximately HK\$2.5 million).
- The Board does not declare an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

FINANCIAL RESULTS

The board of directors (the “Board”) of Perfect Optonics 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 2023 together with the comparative unaudited figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Note	Three months ended 30 June		Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	4	29,766	65,729	66,500	209,854
Cost of sales		(25,944)	(55,699)	(56,437)	(157,653)
Gross profit		3,822	10,030	10,063	52,201
Other gains/(losses), net	6	7,936	(18,912)	7,635	(18,041)
Distribution and selling expenses		(5,453)	(4,630)	(10,446)	(14,001)
General and administrative expenses		(5,678)	(6,760)	(11,305)	(13,992)
Research and development expenses		(250)	(274)	(469)	(527)
Operating profit/(loss)		377	(20,546)	(4,522)	5,640
Finance income		69	6	144	15
Finance costs	7	(84)	(102)	(165)	(209)
Finance costs, net		(15)	(96)	(21)	(194)
Profit/(loss) before income tax	8	362	(20,642)	(4,543)	5,446
Income tax expense	9	(3)	(302)	(1)	(3,521)
Profit/(loss) for the period		359	(20,944)	(4,544)	1,925
Other comprehensive income/(loss):					
<i>Item that may be subsequently reclassified to income statement</i>					
Currency translation differences		206	172	127	245
<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		300	(300)	300	(300)
Currency translation differences		60	—	20	—
Total comprehensive income/(loss) for the period		925	(21,072)	(4,097)	1,870
Profit/(loss) for the period attributable to:					
Equity holders of the Company		826	(20,578)	(3,859)	2,515
Non-controlling interests		(467)	(366)	(685)	(590)
		359	(20,944)	(4,544)	1,925
Total comprehensive income/(loss) for the period attributable to:					
Equity holders of the Company		1,332	(20,748)	(3,432)	2,377
Non-controlling interests		(407)	(324)	(665)	(507)
		925	(21,072)	(4,097)	1,870
Basic and diluted earnings/(loss) per share (HK cents)	11	0.06	(1.39)	(0.26)	0.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>Note</i>	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		105	104
Right-of-use assets		5,458	4,261
Intangible assets		5,322	5,322
Deferred income tax assets		78	79
Financial asset at fair value through other comprehensive income	3.4	1,600	1,300
Financial asset at fair value through profit or loss	3.4	<u>32,752</u>	<u>25,201</u>
		<u>45,315</u>	<u>36,267</u>
Current assets			
Inventories		20,393	21,743
Trade and other receivables	12	6,990	10,031
Cash and cash equivalents		<u>71,867</u>	<u>85,709</u>
		<u>99,250</u>	<u>117,483</u>
Total assets		<u><u>144,565</u></u>	<u><u>153,750</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		14,837	14,837
Reserves		116,487	116,060
Accumulated losses		<u>(23,515)</u>	<u>(19,656)</u>
		107,809	111,241
Non-controlling interests		<u>(2,568)</u>	<u>(1,903)</u>
Total equity		<u>105,241</u>	<u>109,338</u>
LIABILITIES			
Non-current liabilities			
Bank loan		4,166	4,516
Lease liabilities		<u>1,913</u>	<u>1,177</u>
		<u>6,079</u>	<u>5,693</u>
Current liabilities			
Trade and other payables	13	28,545	34,464
Current income tax liabilities		395	395
Bank loan		698	690
Lease liabilities		<u>3,607</u>	<u>3,170</u>
		<u>33,245</u>	<u>38,719</u>
Total liabilities		<u>39,324</u>	<u>44,412</u>
Total equity and liabilities		<u><u>144,565</u></u>	<u><u>153,750</u></u>

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, as well as trading of health-related and other products. 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 2023 (the "2023 Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The 2023 Interim Financial Statements do not include all the notes of the type normally included in an annual financial report. Accordingly, the 2023 Interim Financial Statements should be read in conjunction with the annual report for the year ended 31 December 2022, 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 2023.

The 2023 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 2023 Interim Financial Statements have not been reviewed by the external auditors of the Company but 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 2023 Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

A number of new and amended standards became applicable for the current reporting period and they did not have material impacts on the Group. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments.

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 2023 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 2022.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

3.1 Financial instruments by category

The Group holds the following financial instruments at 30 June 2023:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Financial assets		
Financial assets at amortised cost:		
Trade and other receivables	5,662	7,925
Cash and cash equivalents	71,867	85,709
Financial asset at FVOCI	1,600	1,300
Financial asset at FVTPL	32,752	25,201
	<u>111,881</u>	<u>120,135</u>
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	25,555	30,434
Bank loan	4,864	5,206
Lease liabilities	5,520	4,347
	<u>35,939</u>	<u>39,987</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 2023 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 2022.

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

3.3 Liquidity risk

As at 30 June 2023, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

	Less than 1 year <i>HK\$'000</i>	Between 1 and 2 years <i>HK\$'000</i>	Between 2 and 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total contractual undiscounted cash flows <i>HK\$'000</i>
At 30 June 2023					
(Unaudited)					
Trade payables	17,072	—	—	—	17,072
Other payables	8,483	—	—	—	8,483
Bank loan	857	857	2,572	1,144	5,430
Lease liabilities	3,726	1,916	23	—	5,665
	<u>30,138</u>	<u>2,773</u>	<u>2,595</u>	<u>1,144</u>	<u>36,650</u>
At 31 December 2022					
(Audited)					
Trade payables	22,916	—	—	—	22,916
Other payables	7,518	—	—	—	7,518
Bank loan	853	854	2,562	1,566	5,835
Lease liabilities	3,259	1,136	57	—	4,452
	<u>34,546</u>	<u>1,990</u>	<u>2,619</u>	<u>1,566</u>	<u>40,721</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 2023 and 31 December 2022 on a recurring basis:

	At 30 June 2023				At 31 December 2022			
	Level 1 HK\$'000 (Unaudited)	Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Level 1 HK\$'000 (Audited)	Level 2 HK\$'000 (Audited)	Level 3 HK\$'000 (Audited)	Total HK\$'000 (Audited)
Financial asset at FVTPL								
— Unlisted preferred shares (Note (a))	—	—	32,752	32,752	—	—	25,201	25,201
Financial asset at FVOCI								
— Unlisted equity securities (Note (b))	—	—	1,600	1,600	—	—	1,300	1,300
	—	—	34,352	34,352	—	—	26,501	26,501

Notes:

- (a) The balance comprises the Group’s holding of certain preferred shares in Mobvoi Inc. (“Mobvoi”), a private company principally engaged in rendering of artificial intelligence (“AI”) software solutions and sale of artificial intelligence of things (“AIoT”) smart devices to enterprise and individual customers. There have been no addition to or disposal of such investment by the Group since it made the investment in January 2015. No dividend has been received by the Group from Mobvoi since its investment. During the Period, Mobvoi cancelled the treasury shares arising from the repurchase of its ordinary shares by Mobvoi in exchange for Mobvoi’s disposals of part of/all of the shares in certain of its subsidiaries in 2022. The Group’s shareholding proportion in Mobvoi was approximately 1.57% (on a fully diluted and as converted basis) as at 30 June 2023.
- (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. During the Period, such company allotted new shares and the Group’s shareholding in which was diluted to approximately 1.21% as at 30 June 2023 (31 December 2022: 2%).

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 2023, there were no transfers amongst levels 1, 2, and 3 (six months ended 30 June 2022: 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, bank loan and 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 2023.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2023 and 2022:

	Financial asset at FVTPL HK\$'000 (Unaudited)	Financial asset at FVOCI HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Six months ended 30 June 2023			
Opening balance as at 1 January 2023	25,201	1,300	26,501
Unrealised gains recognised in other gains/(losses), net (<i>Note 6</i>)	7,551	—	7,551
Gains recognised in other comprehensive income	—	300	300
Closing balance as at 30 June 2023	<u>32,752</u>	<u>1,600</u>	<u>34,352</u>
Six months ended 30 June 2022			
Opening balance as at 1 January 2022	38,461	1,652	40,113
Unrealised losses recognised in other gains/(losses), net (<i>Note 6</i>)	(18,213)	—	(18,213)
Losses recognised in other comprehensive loss	—	(300)	(300)
Closing balance as at 30 June 2022	<u>20,248</u>	<u>1,352</u>	<u>21,600</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 inputs	Relationship of unobservable inputs to Value fair value
(a) Preferred shares issued by a private entity	Market comparable companies and equity value allocation with option-pricing method	Volatility	54.10% 10% increase/(decrease) in the volatility would result in (decrease)/increase in fair value by approximately (HK\$86,000)/HK\$78,000
(b) Ordinary shares issued by a private entity	Discounted cash flow method	Weighted average cost of capital ("WACC")	15.98% 10% increase/(decrease) in WACC would result in (decrease)/increase in fair value by approximately (HK\$300,000)/HK\$325,000

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 2022.

4. REVENUE

Revenue represents the sales of display products, optics products and related electronic components, health-related products 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.

Other than the Group's results and financial position as a whole, no other discrete financial information is provided for the assessment of different business activities. 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 2023 are as follows:

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display (“TFT-LCD”) panels and modules	48,398	110,067
Health-related products	11,913	66,191
Electronic signage	5,023	3,989
Integrated circuits	771	1,829
Polarisers	356	25,825
Optics products	39	532
Others	—	1,421
	<u>66,500</u>	<u>209,854</u>

- (b) Revenue from external customers of the Group by geographical location for the six months ended 30 June 2023 is shown as follows:

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong	60,259	198,627
The People's Republic of China (the “PRC”)	5,888	10,831
Taiwan	353	396
	<u>66,500</u>	<u>209,854</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 2023 are disclosed as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	<u>13,996</u>	<u>12,758</u>

- (d) An analysis of the Group's non-current assets (other than financial assets and deferred income 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 2023 (Unaudited):				
Non-current assets				
Property, plant and equipment	—	27	78	105
Right-of-use assets	4,777	528	153	5,458
Intangible assets	<u>4,200</u>	<u>1,122</u>	—	<u>5,322</u>
	<u>8,977</u>	<u>1,677</u>	<u>231</u>	<u>10,885</u>
As at 31 December 2022 (Audited):				
Non-current assets				
Property, plant and equipment	—	49	55	104
Right-of-use assets	2,980	1,095	186	4,261
Intangible assets	<u>4,200</u>	<u>1,122</u>	—	<u>5,322</u>
	<u>7,180</u>	<u>2,266</u>	<u>241</u>	<u>9,687</u>

6. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fair value changes in financial asset at FVTPL (<i>Note 3.4</i>)	7,551	(18,213)
Government subsidies	129	395
Net exchange loss	(48)	(226)
Others	<u>3</u>	<u>3</u>
	<u>7,635</u>	<u>(18,041)</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
Lease liabilities	77	119
Bank loan	84	79
Factoring charges	4	11
	<u>165</u>	<u>209</u>

8. PROFIT/(LOSS) BEFORE INCOME TAX

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	55,766	151,845
(Reversal of provision)/provision for obsolete inventories, net	(791)	3,938
Depreciation of property, plant and equipment	41	94
Depreciation of right-of-use assets	2,092	2,096
	<u>56,908</u>	<u>157,973</u>

9. INCOME TAX EXPENSE

The amount of income tax charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax — Hong Kong profits tax	—	3,521
Deferred income tax	1	—
	<u>1</u>	<u>3,521</u>

No Hong Kong profits tax has been provided for the six months ended 30 June 2023 as the Group has no estimated assessable profit arising in or derived from Hong Kong during the six months ended 30 June 2023. Pursuant to the enactment of two-tiered profits tax rates by the Inland Revenue Department of Hong Kong from the year of assessment 2018/19 onwards, the Group's first HK\$2 million of assessable profits during the six months ended 30 June 2022 under Hong Kong profits tax was subject to tax rate of 8.25%. The Group's remaining assessable profits during the six months ended 30 June 2022 above HK\$2 million continued to be subject to a tax rate of 16.5%. Taxation on profits assessable elsewhere has 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 2023 (six months ended 30 June 2022: Nil).

11. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit 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	
	2023 (Unaudited)	2022 (Unaudited)
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	<u>(3,859)</u>	<u>2,515</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,483,687</u>	<u>1,483,687</u>
Basic and diluted (loss)/earnings per share (HK cents per share)	<u>(0.26)</u>	<u>0.17</u>

For the purpose of determining the diluted (loss)/earnings per share amount, no adjustment has been made to the basic (loss)/earnings per share amount for the six months ended 30 June 2023 and 2022 as the Group had no potentially dilutive ordinary shares in issue during these periods.

12. TRADE AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
	Trade receivables (Note)	<u>2,943</u>
Prepayments, deposits and other receivables	<u>4,047</u>	<u>4,835</u>
	<u>6,990</u>	<u>10,031</u>

Note:

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0–30 days	1,734	3,960
31–60 days	194	866
61–90 days	294	197
Over 90 days	721	173
	<u>2,943</u>	<u>5,196</u>

13. TRADE AND OTHER PAYABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables (<i>Note</i>)	17,072	22,916
Deposits received from customers	7,142	5,171
Accruals and other payables	4,331	6,377
	<u>28,545</u>	<u>34,464</u>

Note:

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0–30 days	8,472	17,597
31–60 days	8,518	5,288
61–90 days	30	—
Over 90 days	52	31
	<u>17,072</u>	<u>22,916</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the trading, development and sales of display and optics products and other related electronic components, as well as trading of health-related products and other products. The Group also processes some of the products that it sells.

Stepping into 2023, the demand for display panels continued to decline due to the downward pressure on the economy and inflation. In addition, the market inventory continued to pile up, keeping the display panel market at a relatively weak level. Furthermore, the demand of the Group's health-related products declined following the ease of the COVID-19 pandemic in Hong Kong. The Group's financial performance was seriously affected as a result. The Group recorded a significant drop in revenue during the six months ended 30 June 2023 (the "Period") as compared with the six months ended 30 June 2022. Revenue of the Group for the Period amounted to approximately HK\$66,500,000 representing a decrease of approximately 68% as compared to approximately HK\$209,854,000 for the corresponding period in 2022. During the Period, the significant decrease in revenue had offset the positive impact of the fair value gain on the Group's financial asset at FVTPL recorded and among others, led to a consolidated loss attributable to equity holders of the Company for the Period of approximately HK\$3,859,000 as compared to a consolidated profit attributable to equity holders of the Company of approximately HK\$2,515,000 for the six months ended 30 June 2022.

During the Period, sales of medium-to-large sized display products, including display panels and modules for computer notebooks, monitors and televisions, continued to be the main revenue driver of the Group. However, demand for display panels declined with the cool down in the need for remote working and online studying. With the economy being uncertain and consumer price index remaining high, consumer sentiment was also affected. Such weak market demand resulted in the piling up of inventories and drop in market prices of display panels. During the Period, there was a reduction in supply of TFT-LCD panels and modules which could have served as a measure to stabilise market prices. These factors led to a significant decrease in the sales of the Group's TFT-LCD panels and modules during the Period as compared to the corresponding period in 2022. The Group's sales of TFT-LCD panels and modules amounted to approximately HK\$48,398,000 during the Period, representing a decrease of approximately 56% as compared with approximately HK\$110,067,000 for the corresponding period in 2022. The Group also recorded a significant drop in sales of polarisers from approximately HK\$25,825,000 during the six months ended 30 June 2022 to approximately HK\$356,000 during the Period. Such decrease was mainly due to the decrease in shipment of the mobile phones which the Group's polarisers applied on during the Period. Apart from that, sales of integrated circuits and optics products also remained feeble during the Period.

Following the ease of COVID-19 pandemic and Hong Kong's return to normalcy from having various anti-epidemic measures, the demands for rapid antigen test kits for COVID-19 ("RAT") and disinfectant products decrease rapidly during the Period. This led to the significant drop in the sales of Group's health-related products, including RAT and the Group's personal hygiene and disinfectant products with brand "K-clean", during the Period as compared with the corresponding period in 2022 when the fifth wave of COVID-19 pandemic was breaking out. Sales of the Group's health-related products amounted to approximately HK\$11,913,000 during the Period, representing a decrease of approximately 82% as compared with approximately HK\$66,191,000 for the corresponding period in 2022. In order to widen the Group's health-related products portfolio and to capture the opportunities of the increased health consciousness of the public, the Group has also introduced health supplements products to the market during the Period. The Group is dedicated to providing high quality products for its customers. It is expected that the good reputation built-up by K-clean amongst its consumers group may benefit the promotion of the Group's health supplements products.

Notwithstanding the decrease in the sales of the Group's other major products, the Group's electronic signage products, which include digital information signages, electronic shelf displays and electronic white boards, etc., recorded a revenue of approximately HK\$5,023,000 during the Period, representing an increase of approximately 26% as compared with approximately HK\$3,989,000 for the corresponding period in 2022. As electronic signages become popular, more and more places have installed such products, including retail stores, schools, etc. and there is an increasing demand for electronic signage products. The Group will continue to expand the customer base and capture the rising electronic signage market.

The Group holds certain preferred shares of Mobvoi, which is principally engaged in rendering of AI software solutions and sale of AIoT smart devices to enterprise and individual customers. Such investment is classified as financial asset at FVTPL. Fair value of such investment amounted to approximately HK\$32,752,000 as at 30 June 2023, which increased by around 30% as compared to approximately HK\$25,201,000 as at 31 December 2022. A fair value gain of approximately HK\$7,551,000 was recognised during the Period as compared to the fair value loss of approximately HK\$18,213,000 recognised during the corresponding period in 2022. The Company understands that the fair value of such investment had benefited from the surge of interest in the capital markets towards stocks of the AI sector during the Period. During the Period, Mobvoi cancelled the treasury shares arising from the repurchase of its ordinary shares by Mobvoi in exchange for Mobvoi's disposals of part of/all of the shares in certain of its subsidiaries in 2022. The Group's shareholding proportion in Mobvoi was approximately 1.57% (on a fully diluted and as converted basis) as at 30 June 2023. Recently, Mobvoi has developed and announced its AI foundation model, namely, Sequence Monkey. Mobvoi has also rolled out a series of artificial intelligence-generated content products. Furthermore, Mobvoi submitted its listing application to the Stock Exchange in May 2023.

Another investment of the Group was classified as financial asset at FVOCI, being the Group's investment in a Taiwan private company that engages in the separator (a key component in lithium batteries) business. The fair value of such investment amounted to approximately HK\$1,600,000 as at 30 June 2023 (31 December 2022: HK\$1,300,000). During the Period, such company allotted additional shares to raise capital and the Group's shareholding therein was diluted to approximately 1.21% as at 30 June 2023 (31 December 2022: 2%).

Prospects

Looking forward to the second half of 2023, the Group's display panels business will remain challenging but market prices of certain products are expected to recover. On the other hand, since the pandemic has brought about behavioral changes in people's lifestyle, the demands for personal hygiene and health-related products still provide great business opportunities notwithstanding the world having entered the post-pandemic era. The Group will continue to diversify its health-related products to minimise the adverse impact arising from any individual product. In the long run, the Group will continue to explore opportunities with new suppliers and customers from various areas to create greater value for the Company and its shareholders.

Financial Review

Revenue

Total revenue of the Group for the Period amounted to approximately HK\$66,500,000, representing an approximately 68% decrease as compared to approximately HK\$209,854,000 for the six months ended 30 June 2022. Except for electronic signage, the Group's major products, including health-related products, TFT-LCD panels and modules, polarisers, integrated circuits and optics products, recorded a significant drop in revenue during the Period as compared to the corresponding period in 2022.

Gross profit

The Group's gross profit for the Period amounted to approximately HK\$10,063,000, which decreased by approximately 81% as compared with approximately HK\$52,201,000 for the six months ended 30 June 2022. The decrease in gross profit was mainly due to the decrease in revenue during the Period.

Other gains/(losses), net

Net other gains of approximately HK\$7,635,000 was recorded for the Period, while net other losses of approximately HK\$18,041,000 was recorded for the corresponding period in 2022. The balance mainly included the fair value gain of approximately HK\$7,551,000 recognised for the Group's financial asset at FVTPL in respect of its investment in Mobvoi during the Period (six months ended 30 June 2022: fair value loss of HK\$18,213,000).

Expenses

The Group's distribution and selling expenses for the Period amounted to approximately HK\$10,446,000, which decreased by approximately 25% as compared with approximately HK\$14,001,000 for the six months ended 30 June 2022. The decrease was mainly attributable to the decrease in sales commissions, transportation and promotion expenses incurred for the Group's health-related products as the sales decreased.

The Group's general and administrative expenses for the Period amounted to approximately HK\$11,305,000, which decreased by approximately 19% as compared with approximately HK\$13,992,000 for the six months ended 30 June 2022. The decrease was mainly attributable to the decrease in staff costs and bank charges.

The Group's research and development expenses for the Period amounted to approximately HK\$469,000, which decreased by approximately 11% as compared with approximately HK\$527,000 for the six months ended 30 June 2022. The decrease was mainly due to the decrease in staff costs.

Finance costs

The Group's finance costs for the Period mainly represented interest expenses on lease liabilities and bank loan of approximately HK\$77,000 (six months ended 30 June 2022: HK\$119,000) and HK\$84,000 (six months ended 30 June 2022: HK\$79,000), respectively.

Profit/(loss) for the period attributable to equity holders of the Company

Although the Group recorded a fair value gain of approximately HK\$7,551,000 on its financial asset at FVTPL during the Period as compared to a fair value loss of approximately HK\$18,213,000 for the six months ended 30 June 2022, primarily attributable to the significant decrease in sales of the Group's health-related products and TFT-LCD panels and modules, the Group recorded a loss attributable to equity holders of the Company for the Period which amounted to approximately HK\$3,859,000, as compared to a profit attributable to equity holders of the Company of approximately HK\$2,515,000 for the six months ended 30 June 2022.

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 and bank borrowings. The Group's cash and cash equivalents as at 30 June 2023 and 31 December 2022 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 2023	31 December 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
United States dollars	31,386	39,487
HK\$	29,543	39,005
Renminbi	9,392	6,510
New Taiwan dollars	1,546	707
	<u>71,867</u>	<u>85,709</u>

As at 30 June 2023, the Group's total bank borrowings comprised bank loan of approximately HK\$4,864,000 (31 December 2022: HK\$5,206,000), which was obtained under the SME Financing Guarantee Scheme launched by the Government of HKSAR, will mature in 2029. The bank loan was denominated in HK\$ and carried a floating interest rate of prime rate minus 2.5% per annum. The scheduled repayment date of the Group's bank loan, as set out in the loan agreement and without considering the effect of any repayment on demand clauses were as follows:

	30 June 2023	31 December 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within a period not exceeding 1 year	698	690
Within a period of more than 1 year but not exceeding 2 years	723	712
Within a period of more than 2 years but not exceeding 5 years	2,327	2,288
Within a period of more than 5 years	1,116	1,516
	<u>4,864</u>	<u>5,206</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 4.6% as at 30 June 2023 (31 December 2022: 4.8%).

CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

CHARGE OF ASSETS

As at 30 June 2023, no trade receivables of the Group was charged (31 December 2022: HK\$480,000) in favour of a bank to secure the banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2023, the Group did not have any significant capital commitments (31 December 2022: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period, 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 Period.

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 Period.

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, 10 July 2020 and 25 September 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 Securities and Futures Ordinance against certain 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.

As detailed in the Company’s announcement dated 25 September 2020, with effect from 25 September 2020, pending the outcome of the legal proceedings of the Petition, the Director Respondents have been suspended from their duties as Directors. Mr. Cheng Wai Tak has also been suspended from his duties as the Chairman of the Board and the Chief Executive Officer (“CEO”) of the Company. Mr. Kan Man Wai, an independent non-executive Director, has been appointed as the acting Chairman in place of Mr. Cheng Wai Tak. The function of the CEO is shared among the management staff of the Company and other members of the Board.

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.

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 Period, the Company had complied with all the code provisions of the CG Code.

* *for identification purpose only*

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the code provision D.3.3 of the CG Code. The audit committee consists of three independent non-executive Directors, namely Ms. Hsu Wai Man Helen, who has the appropriate accounting and related financial management expertise and serves as the chairperson of the audit committee, 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
Kan Man Wai
Acting Chairman

Hong Kong, 7 August 2023

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Cheng Wai Tak (suspended), Mr. Liu Ka Wing (suspended), Mr. Tse Ka Wing (suspended) and Mr. Chang Huan Chia; and five independent non-executive directors, namely, Mr. Wong Yik Chung John (suspended), Mr. Wong Chi Chiu (suspended), Mr. Kan Man Wai (acting Chairman), Mr. Cho Chi Kong and Ms. Hsu Wai Man Helen.

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>.