Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8311

2019
INTERIM REPORT

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

HIGHLIGHTS

- The Group recorded a revenue of approximately HK$109.3 million for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK$121.1 million).

- Loss attributable to equity holders of the Company for the six months ended 30 June 2019 amounted to approximately HK$19.7 million (six months ended 30 June 2018: approximately HK$25.9 million).

- The Board does not declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 (the "Group") for the six months ended 30 June 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)	**2019 HK$'000 (Unaudited)**	2018 HK$'000 (Unaudited)
Revenue	4	**43,666**	52,344	**109,293**	121,066
Cost of sales		**(46,186)**	(58,226)	**(110,710)**	(126,390)
Gross loss		**(2,520)**	(5,882)	**(1,417)**	(5,324)
Other gains, net	6	**224**	444	**519**	498
Distribution and selling expenses		**(2,100)**	(3,215)	**(4,148)**	(6,042)
General and administrative expenses		**(6,935)**	(6,778)	**(13,428)**	(13,273)
Research and development expenses		**(442)**	(855)	**(961)**	(1,839)
Operating loss		**(11,773)**	(16,286)	**(19,435)**	(25,980)
Finance income		**51**	7	**98**	13
Finance costs	7	**(359)**	(5)	**(714)**	(8)
Finance (costs)/income, net		**(308)**	2	**(616)**	5
Loss before income tax	8	**(12,081)**	(16,284)	**(20,051)**	(25,975)
Income tax	9	**9**	16	**26**	35
Loss for the period		**(12,072)**	(16,268)	**(20,025)**	(25,940)
Other comprehensive income/(loss):					
Items that may be subsequently reclassified to income statement					
Currency translation differences		**(96)**	(381)	**7**	(75)
Items that will not be subsequently reclassified to income statement					
Change in value of financial asset at fair value through other comprehensive income		**(260)**	—	**(260)**	—
Total comprehensive loss for the period		**(12,428)**	(16,649)	**(20,278)**	(26,015)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2019

		Three months ended 30 June		Six months ended 30 June	
	Note	**2019** **HK$'000** **(Unaudited)**	2018 HK$'000 (Unaudited)	**2019** **HK$'000** **(Unaudited)**	2018 HK$'000 (Unaudited)
Loss for the period attributable to:					
Equity holders of the Company		**(11,777)**	(16,268)	**(19,730)**	(25,940)
Non-controlling interests		**(295)**	—	**(295)**	—
		(12,072)	(16,268)	**(20,025)**	(25,940)
Total comprehensive loss for the period attributable to:					
Equity holders of the Company		**(12,133)**	(16,649)	**(19,983)**	(26,015)
Non-controlling interests		**(295)**	—	**(295)**	—
		(12,428)	(16,649)	**(20,278)**	(26,015)
Basic and diluted loss per share	11	**HK(0.79) cents**	HK(1.10) cents	**HK(1.33) cents**	HK(1.75) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,211	3,031
Right-of-use assets	2	15,211	—
Intangible assets	13	5,322	3,122
Deferred income tax assets		91	8
Financial asset at fair value through other comprehensive income	3.4	2,392	2,652
Financial asset at fair value through profit or loss	3.4	55,248	54,988
		80,475	63,801
Current assets			
Inventories		47,633	81,890
Trade and other receivables	14	9,770	13,351
Tax recoverable		265	265
Restricted bank deposits		9,243	10,335
Cash and cash equivalents		74,305	71,153
		141,216	176,994
Total assets		221,691	240,795
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		14,837	14,837
Reserves		116,783	117,036
Retained earnings		51,394	72,092
		183,014	203,965
Non-controlling interests		2,669	—
Total equity		185,683	203,965

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

	Note	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities	2	**10,955**	—
		10,955	—
Current liabilities			
Trade and other payables	15	**11,430**	27,850
Bank borrowings	16	**8,068**	8,979
Lease liabilities	2	**5,555**	—
Current income tax liabilities		**—**	1
		25,053	36,830
Total liabilities		**36,008**	36,830
Total equity and liabilities		**221,691**	240,795

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to equity holders of the Company									
	Share capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Other reserves[1] HK$'000 (Unaudited)	Merger reserve HK$'000 (Unaudited)	Revaluation reserve[2] HK$'000 (Unaudited)	Exchange reserve HK$'000 (Unaudited)	Retained earnings HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
Balance at 1 January 2019	14,837	465,738	67,349	(415,675)	46	(422)	72,092	203,965	—	203,965
Adjustment on initial application of HKFRS 16 — Note 2	—	—	—	—	—	—	(968)	(968)	—	(968)
Adjusted opening 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	—	—	—	—	—	—	(19,730)	(19,730)	(295)	(20,025)
Other Comprehensive loss										
Change in value of financial asset at fair value through other comprehensive income	—	—	—	—	(260)	—	—	(260)	—	(260)
Currency translation differences	—	—	—	—	—	7	—	7	—	7
Total other comprehensive loss	—	—	—	—	(260)	7	—	(253)	—	(253)
Total comprehensive loss	—	—	—	—	(260)	7	(19,730)	(19,983)	(295)	(20,278)
Contributions from non-controlling interests — Note 18	—	—	—	—	—	—	—	—	2,964	2,964
Balance at 30 June 2019	14,837	465,738	67,349	(415,675)	(214)	(415)	51,394	183,014	2,669	185,683
Balance at 1 January 2018	14,837	465,738	67,349	(415,675)	72	(157)	127,872	260,036	—	260,036
Comprehensive loss										
Loss for the period	—	—	—	—	—	—	(25,940)	(25,940)	—	(25,940)
Other comprehensive loss										
Currency translation differences	—	—	—	—	—	(75)	—	(75)	—	(75)
Total comprehensive loss	—	—	—	—	—	(75)	(25,940)	(26,015)	—	(26,015)
Balance at 30 June 2018	14,837	465,738	67,349	(415,675)	72	(232)	101,932	234,021	—	234,021

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Net cash generated from/(used in) operating activities		**4,398**	(35,880)
Cash flows from investing activities			
Purchases of property, plant and equipment	12	**(50)**	(1,156)
Addition of intangible asset	13	**(2,200)**	—
Interest received		**98**	13
Net cash used in investing activities		**(2,152)**	(1,143)
Cash flows from financing activities			
Proceeds from bank borrowings	16	**—**	943
Repayment of bank borrowings	16	**(911)**	—
Principal elements of lease payments	2	**(2,236)**	—
Capital contributions from non-controlling interests	18	**2,964**	—
Decrease/(increase) in restricted bank deposits		**1,092**	(1,097)
Net cash generated from/(used in) financing activities		**909**	(154)
Net increase/(decrease) in cash and cash equivalents		**3,155**	(37,177)
Cash and cash equivalents at beginning of period		**71,153**	88,025
Exchange differences on cash and cash equivalents		**(3)**	(30)
Cash and cash equivalents at end of period		**74,305**	50,818

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The Company is an investment holding company and its subsidiaries are principally engaged in the trading and processing of display panels, development and sales of optics products and trading of related electronic components.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 (the "2019 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 2019 Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The 2019 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 2019 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 2019 Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, 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 2019:

HKFRS 16	Leases
HK (IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	'Employee Benefits' on Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of new accounting policies — HKFRS 16 Leases

The Group leases various offices, warehouses and staff quarter. The leases run for periods up to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

— the amount of the initial measurement of lease liability;

— any lease payments made at or before the commencement date less any lease incentives received;

— any initial direct costs; and

— restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in income statement. Short-term leases are leases with a lease term of 12 months or less.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adjustments recognised on adoption of HKFRS 16

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.7%

	HK$'000 (Unaudited)
Operating lease commitments disclosed as at 31 December 2018	5,135
Discounted using the lessee's incremental borrowing rate of at the date of initial application	4,940
Less: short-term leases recognised on a straight-line basis as expense	(660)
Add: adjustments as a result of a different treatment of extension and termination options	11,686
Lease liability recognised as at 1 January 2019	15,966
Of which are:	
Current lease liabilities	4,065
Non-current lease liabilities	11,901
	15,966

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. All the recognised right-of-use assets of the Group relate to properties.

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

Right-of-use assets — increase by HK$14,943,000 (unaudited)
Deferred tax assets — increase by HK$55,000 (unaudited)
Lease liabilities — increase by HK$15,966,000 (unaudited)

The net impact on retained earnings on 1 January 2019 was a decrease of HK$968,000 (unaudited).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

— the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and

— the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

Amounts recognised in the consolidated statement of financial position and consolidated statement of comprehensive income

	Right-of-use assets — Properties HK$'000 (Unaudited)	Lease liabilities HK$'000 (Unaudited)
As at 1 January 2019	14,943	15,966
Additions (Note 19)	2,764	2,764
Depreciation expense (Note 8)	(2,515)	—
Interest expense (Note 7)	—	459
Payments	—	(2,695)
Currency translation differences	19	16
As at 30 June 2019	15,211	16,510

The Group recognised rent expense from short-term leases of HK$598,000 for the six months ended 30 June 2019.

The adoption of other new standards, amendments to standards and interpretations did not have significant impact on the Group's accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2019 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 2018.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

3.1 Financial instruments by category

The Group holds the following financial instruments at 30 June 2019:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Financial assets		
Financial assets at amortised cost:		
Trade and other receivables	7,934	12,121
Restricted bank deposits	9,243	10,335
Cash and cash equivalents	74,305	71,153
Financial asset at FVOCI	2,392	2,652
Financial asset at FVTPL	55,248	54,988
	149,122	151,249
Financial liabilities		
Liabilities at amortised cost:		
Trade and other payables	7,673	18,797
Bank borrowings	8,068	8,979
Lease liabilities	16,510	—
	32,251	27,776

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

3.2 Financial risk factors

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

The 2019 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 2018.

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

3.3 Liquidity risk

As at 30 June 2019, 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
Contractual maturities of financial liabilities				
At 30 June 2019 (unaudited)				
Non-derivatives				
Trade payables	**5,250**	**—**	**5,250**	**5,250**
Other payables	**2,423**	**—**	**2,423**	**2,423**
Bank borrowings	**8,092**	**—**	**8,092**	**8,068**
Lease liabilities	**6,346**	**12,003**	**18,349**	**16,510**
Total non-derivatives	**22,111**	**12,003**	**34,114**	**32,251**
Contractual maturities of financial liabilities				
At 31 December 2018 (Audited)				
Non-derivatives				
Trade payables	15,370	—	15,370	15,370
Other payables	3,427	—	3,427	3,427
Bank borrowings	9,255	—	9,255	8,979
Total non-derivatives	28,052	—	28,052	27,776

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

3.4 Fair value measurements

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

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

	At 30 June 2019				At 31 December 2018			
	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))	—	—	55,248	55,248	—	—	54,988	54,988
Financial asset at FVOCI — Unlisted equity securities (Note (b))	—	—	2,392	2,392	—	—	2,652	2,652
	—	—	57,640	57,640	—	—	57,640	57,640

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 (i) providing voice interaction methods, including voice search, computer vision and gesture controls on mobile, automotive and other devices, (ii) developing operating systems for smart wearable, automotive and other devices, and (iii) the sale and design of smart wearable, in-car 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 1.53% (on a fully diluted and as converted basis) as at 30 June 2019 (31 December 2018: 1.53%). 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 2019 (31 December 2018: 3.33%).

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

3.4 Fair value measurements (Continued)

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. During the six months ended 30 June 2019, there were no transfers amongst levels 1, 2, and 3 (six months ended 30 June 2018: Nil).

The Group's other financial assets, including cash and cash equivalents, restricted bank deposits and trade and other receivables; and the Group's financial liabilities, including trade and other payables, bank borrowings and lease liabilities are not measured at fair value in the 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 2019.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2019 and 2018:

	Financial asset at FVTPL HK$'000 (Unaudited)	**Financial asset at FVOCI** HK$'000 (Unaudited)	**Total** HK$'000 (Unaudited)
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 (Note 6)	**260**	**—**	**260**
Losses recognised in other comprehensive income	**—**	**(260)**	**(260)**
Closing balance as at 30 June 2019	**55,248**	**2,392**	**57,640**
Six months ended 30 June 2018			
Opening balance as at 1 January 2018	54,269	2,678	56,947
Unrealised gains recognised in other gains, net (Note 6)	508	—	508
Closing balance as at 30 June 2018	54,777	2,678	57,455

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

3.4 Fair value measurements (Continued)

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

Description	Valuation technique	Significant unobservable input	Value	Relationship of unobservable inputs to fair value
(a) Preferred shares issued by a private entity	Business valuation based on discounted cash flow under income approach; equity value allocation based on option-pricing method with inputs of volatility, risk-free interest rate, and dividend yield	Volatility	43.61%	10% increase/(decrease) in the volatility would result in increase/(decrease) in fair value by approximately HK$31,000/ (HK$53,000)
		Weighted average cost of capital ("WACC")	16.18%	5% increase/(decrease) in WACC would result in (decrease)/ increase in fair value by approximately (HK$3,576,000)/ HK$3,994,000
(b) Ordinary shares issued by a private entity	Discounted cash flow method	WACC	12.45%	10% increase/(decrease) in WACC would result in (decrease)/ increase in fair value by approximately (HK$286,000)/ HK$338,000

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 2018.

4. REVENUE

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

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.

The Group has two reportable operating segments, including the display products segment and the optics products segment.

The directors assess the performance of the operating segments based on a measure of revenue and results of each segment and do not assess the performance based on segment assets and liabilities.

(a) The segment information provided to the directors for the reportable segments for the six months ended 30 June 2019 is as follows:

	Display products		Optics products		Total	
	2019	2018	2019	2018	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue (all from external customers)	107,604	116,668	1,689	4,398	109,293	121,066
Segment results	(2,058)	(6,131)	(320)	(1,032)	(2,378)	(7,163)
Unallocated operating costs					(17,057)	(18,817)
Finance (costs)/income, net					(616)	5
Loss before income tax					(20,051)	(25,975)

(b) The Group's revenues from its major products for the six months ended 30 June 2019 are as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	98,669	104,779
Electronic signage	2,822	—
Light guide plates	1,709	5,111
Optics products	1,689	4,398
Driver integrated circuits ("ICs")	1,028	1,704
Polarisers	488	2,389
Others	2,888	2,685
	109,293	121,066

5. SEGMENT INFORMATION (CONTINUED)

(c) Segment revenue by customers' geographical location

During the six months ended 30 June 2019, 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	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Hong Kong	**90,911**	102,304
The People's Republic of China (the "PRC")	**15,508**	17,568
Taiwan	**2,874**	1,194
	109,293	121,066

(d) 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 2019 are disclosed as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Customer A	**18,777**	—
Customer B	**12,511**	19,655
Customer C	**12,067**	—
	43,355	19,655

The above three customers are included in the display products segment.

5. SEGMENT INFORMATION (CONTINUED)

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

	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000
As at 30 June 2019 (Unaudited):			
Non-current assets			
Property, plant and equipment	**431**	**1,780**	**2,211**
Right-of-use assets	**5,251**	**9,960**	**15,211**
Intangible assets	**4,200**	**1,122**	**5,322**
	9,882	**12,862**	**22,744**
As at 31 December 2018 (Audited):			
Non-current assets			
Property, plant and equipment	767	2,264	3,031
Intangible assets	2,000	1,122	3,122
	2,767	3,386	6,153

6. OTHER GAINS, NET

	Six months ended 30 June	
	2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Fair value changes in financial asset at FVTPL (Note 3.4)	**260**	508
Net exchange gain/(loss)	**139**	(109)
Others	**120**	99
	519	498

7. FINANCE COSTS

	Six months ended 30 June	
	2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Interest expense on bank borrowings	**255**	5
Interest expense on lease liabilities (Note 2)	**459**	—
Factoring charges	**—**	3
	714	8

8. LOSS BEFORE INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**120,879**	122,992
(Write-back of provision)/provision for obsolete inventories, net	**(12,706)**	203
Depreciation of property, plant and equipment	**828**	958
Depreciation of right-of-use assets (Note 2)	**2,515**	—

9. INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current income tax	**(2)**	(2)
Deferred income tax	**28**	37
	26	35

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit during the period arising in or derived from Hong Kong (six months ended 30 June 2018: 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 2019 (six months ended 30 June 2018: 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	
	2019	2018
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company (HK$'000)	**(19,730)**	(25,940)
Weighted average number of ordinary shares in issue (thousands)	**1,483,687**	1,483,687
Basic and diluted loss per share (HK cents per share)	**(1.33)**	(1.75)

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 2019 and 2018 as the Group had no potentially dilutive ordinary shares in issue during these periods.

12. PROPERTY, PLANT AND EQUIPMENT

	HK$'000
	(Unaudited)
Six months ended 30 June 2019	
Net book value	
Opening amount as at 1 January 2019	**3,031**
Additions	**50**
Depreciation	**(828)**
Disposals	**(49)**
Currency translation differences	**7**
Closing amount as at 30 June 2019	**2,211**
Six months ended 30 June 2018	
Net book value	
Opening amount as at 1 January 2018	3,005
Additions	1,156
Depreciation	(958)
Currency translation differences	(45)
Closing amount as at 30 June 2018	3,158

13. INTANGIBLE ASSETS

	Club memberships HK$'000 (Unaudited)
Six months ended 30 June 2019	
Net book value	
Opening amount as at 1 January 2019	**3,122**
Additions	**2,200**
Amortisation	**—**
Closing amount as at 30 June 2019	**5,322**
Six months ended 30 June 2018	
Net book value	
Opening amount as at 1 January 2018	3,122
Amortisation	—
Closing amount as at 30 June 2018	3,122

14. TRADE AND OTHER RECEIVABLES

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Trade receivables (Note)	**4,890**	8,218
Bills receivables (Note)	**139**	—
	5,029	8,218
Prepayments, deposits and other receivables	**4,741**	5,133
	9,770	13,351

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

Note:

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

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
0–30 days	**1,864**	5,930
31–60 days	**2,105**	955
61–90 days	**347**	450
91–180 days	**359**	883
181 days–12 months	**354**	—
	5,029	8,218

15. TRADE AND OTHER PAYABLES

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Trade payables (Note)	**5,250**	15,370
Deposits received from customers	**3,756**	9,032
Accruals and other payables	**2,424**	3,448
	11,430	27,850

Note:

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

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
0–30 days	**4,990**	14,341
31–60 days	**251**	762
61–90 days	**9**	59
91–180 days	**—**	208
	5,250	15,370

16. BANK BORROWINGS

As at 30 June 2019, the Group had short-term bank loans of approximately HK$8,068,000 (31 December 2018: HK$8,979,000), which were at fixed interest rate and denominated in Renminbi. The movements in the Group's bank borrowings during the six months ended 30 June 2019 and 2018 were analysed as follows:

	HK$'000 (Unaudited)
Six months ended 30 June 2019	
Opening amount as at 1 January 2019	**8,979**
Repayment of bank loan	**(911)**
Closing amount as at 30 June 2019	**8,068**
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	—
Proceeds from new bank loan	943
Closing amount as at 30 June 2018	943

17. RELATED PARTY TRANSACTIONS

Key management compensation

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**3,843**	3,816
Post-employment benefits — defined contribution plans	**27**	27
	3,870	3,843

18. CONTRIBUTIONS FROM NON-CONTROLLING INTERESTS

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

19. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2019, the Group entered into a lease arrangement in respect of property. Right-of-use asset of HK$2,764,000 was recognised.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

In recent years, China's mobile phone market has undergone tremendous transformations which caused severe impact to the Group's core business of trading of display components. For the six months ended 30 June 2019 (the "Period"), the Group recorded a decrease in revenue and a decrease in loss as compared with the six months ended 30 June 2018. During the Period, the Group's revenue amounted to approximately HK$109,293,000, which decreased by approximately 10% as compared to corresponding period in 2018 of approximately HK$121,066,000. Loss attributable to equity holders of the Company for the Period amounted to approximately HK$19,730,000, representing a decrease in loss of approximately HK$6,210,000 as compared with the six months ended 30 June 2018 of approximately HK$25,940,000.

According to information issued by the China Academy of Information and Communications Technology, China's domestic mobile phone shipments during the Period reached 186.1 million units and number of new model release reached 246, down 5.1% and 38.0% year-over-year respectively. These figures reflect the continuous shrinkage of China's domestic mobile phone market. Meanwhile, the market continued to concentrate in a few dominating brands. The Group, being an upstream mobile phone component supplier for those scattered non-mainstream or second tier mobile phone manufacturers, continued to be affected under such transformations and trends.

Display Products Segment

In response to the continually shrinking market for its mobile phone display panels, the Group enriched its products portfolio through the sales of medium-to-large size display products, such as display modules for computer notebooks, monitors and televisions. These medium-to-large size display products continued to be the revenue driver of the Group for the Period. Yet, in light of the recent uncertainties in China's economy, the Group inclined to be more prudent in the procurement of products. The Group recorded revenue of approximately HK$107,604,000 from its display products segment during the Period, which decreased by approximately 8% as compared to the revenue of approximately HK$116,668,000 in the corresponding period of 2018. Sales of TFT-LCD panels and modules amounted to approximately HK$98,669,000 during the Period, decreased by approximately 6% as compared to that for the corresponding period in 2018 of approximately HK$104,779,000. Other major display products such as light guide plates, driver ICs and polarisers also experienced a drop in revenue during the Period as compared with the corresponding period in 2018.

Despite the decrease in revenue in traditional display products, the Group has introduced its latest display products, namely, electronic signage, to the market, which include digital information signage, electronic shelf displays, electronic white boards, etc. To enhance the market's attention and interest in electronic signage products, the Group showcased its electronic signage products at the Retail Asia Conference & Expo in Hong Kong in May 2019. Through the Group's efforts on products development and promotion, the electronic signage business began to contribute revenue to the Group. Besides, two companies listed on the Taiwan Stock Exchange, namely Innolux Corporation ("Innolux") and Novatek Microelectronics Corp. ("Novatek"), through their subsidiaries entered into a subscription and shareholders' agreement with the Group in March 2019 for investment in the Group's electronic signage business. The subscription was completed in April 2019 and each of Innolux and Novatek, through their subsidiaries, respectively invested USD190,000 and holds a 19% equity interest in Perinnova, a subsidiary of the Group carrying out the electronic signage business. Both Innolux and Novatek are suppliers of the Group and have expertise in developing, manufacturing and supplying display components and integrated circuit solutions. The Group believes their participation will help the Group capture the rising market in electronic signage.

Optics Products Segment

During the Period, the Group's optics products segment recorded revenue of approximately HK$1,689,000, decreased by approximately HK$2,709,000 as compared to that for the corresponding period in 2018 of approximately HK$4,398,000. Fierce price competition of similar products in the market and a lack of breakthrough in content development in virtual reality products brought difficult challenges to the Group in selling its optics products. In order to drive performance, the Group will control its costs and will update its technology for maximizing its opportunities when the augmented reality and virtual reality markets manifest more robust growth.

Investment

As for the Group's investment in Mobvoi, there was no material change in fair value of the Group's investment in Mobvoi during the Period. The Group's shareholding proportion in Mobvoi was maintained at approximately 1.53% (on a fully diluted and as converted basis) throughout the Period. Mobvoi continued launching new products, including new models of smart watches and AI smart watches for kids, during the Period. Mobvoi has also reached collaborations with various telecom leaders. In respect of the China market, China Mobile and China Unicom are using its smart watches as major products to promote their eSIM services. In respect of the overseas market, Mobvoi cooperated with Verizon to launch its smart watches supporting 4G/LTE service in the United States in July 2019. Mobvoi is going to further enrich its product lines, enhance its technologies and expand its global footprint. The Group is optimistic about the prospects of Mobvoi, which may generate a good investment return to the Group.

For the Group's investment in a Taiwan private company which engages in the business of the separator (a key component in lithium batteries), such company allotted additional shares to raise capital during the Period and the Group's shareholding was diluted slightly from approximately 3.33% to approximately 3.03%.

Prospects

Looking ahead to the second half of 2019, the Group does not expect a major change in the trends of China mobile phone display panel market. Display products segment is expected to remain as the Group's core business and the Group will adopt flexible strategies to widen its revenue base and enrich its products portfolio, including electronic signage. The Group is dedicated to enhance its products diversity, widen customer base and introduce new suppliers from different territories. 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

For the six months ended 30 June 2019, total revenue of the Group amounted to approximately HK$109,293,000, representing a decrease of approximately 10% as compared with the corresponding period in 2018 of approximately HK$121,066,000. The sales of TFT-LCD panels and modules, light guide plates, driver ICs, polarisers and optics products decreased, while there was an increase in revenue from electronic signage during the Period.

Gross loss

Gross loss amounted to approximately HK$1,417,000 was recorded for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$5,324,000). The decrease in gross loss was mainly attributable to the decrease in inventories provision during the Period.

Expenses

The Group's distribution and selling expenses for the six months ended 30 June 2019 amounted to approximately HK$4,148,000, representing an approximately 31% decrease as compared with the corresponding period in 2018 of approximately HK$6,042,000. The decrease was primarily attributable to the decrease in warehouse storage costs during the Period.

The Group's general and administrative expenses for the six months ended 30 June 2019 amounted to approximately HK$13,428,000, which is comparable to the corresponding period in 2018 of approximately HK$13,273,000.

Research and development expenses amounted to approximately HK$961,000 for the six months ended 30 June 2019, decreased by approximately 48% as compared with the corresponding period in 2018 of approximately HK$1,839,000. The decrease was mainly attributable to the decrease in staff costs and development fees incurred for products development.

Finance costs

The Group's finance costs for the Period mainly included bank loans interest expenses of approximately HK$255,000 (six months ended 30 June 2018: HK$5,000) and finance cost of approximately HK$459,000 on lease liabilities recognised under the new accounting standard, HKFRS 16 (six months ended 30 June 2018: Nil). For details of the adoption of HKFRS 16, please refer to Note 2 to the condensed consolidated interim financial statements.

Loss for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the six months ended 30 June 2019 amounted to approximately HK$19,730,000, representing a decrease of approximately HK$6,210,000 as compared with the corresponding period in 2018 of approximately HK$25,940,000, which was mainly attributable to the decrease in gross loss and reduction in operating expenses during the Period.

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. An analysis of the Group's bank deposits, bank balances and cash is as follows:

	30 June 2019 HK$'000	31 December 2018 HK$'000
Total bank deposits, bank balances and cash	**83,548**	81,488
Less: Restricted bank deposits included in current assets	**(9,243)**	(10,335)
Cash and cash equivalents	**74,305**	71,153

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

	30 June 2019 HK$'000	31 December 2018 HK$'000
United States dollars ("USD")	**65,009**	71,371
Renminbi ("RMB")	**12,324**	3,107
Hong Kong dollars	**5,596**	6,288
New Taiwan dollars	**619**	722
	83,548	81,488

As at 30 June 2019, the Group's bank borrowings comprised fixed interest rate bank loan of approximately HK$8,068,000 (31 December 2018: HK$8,979,000), which was denominated in RMB and repayable within a period not exceeding one year.

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 approximately 4.3% as at 30 June 2019 (31 December 2018: 4.4%).

CAPITAL STRUCTURE

The capital of the Company only comprises of ordinary shares. There has been no change in the capital structure of the Group during the six months ended 30 June 2019.

TREASURY POLICIES

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

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

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

CHARGE OF ASSETS

As at 30 June 2019, the Group had pledged its bank deposits of approximately HK$9,243,000 (31 December 2018: HK$10,335,000) to bank to secure the banking facilities granted to the Group.

FOREIGN CURRENCY

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

CAPITAL COMMITMENTS

As at 30 June 2019, the Group did not have any significant capital commitments (31 December 2018: Nil).

SIGNIFICANT INVESTMENTS HELD

Save for the Group's investment in certain preferred shares of Mobvoi, the Group did not hold any significant investment in equity interest in any other company as at 30 June 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have plans for material investments and capital assets as at 30 June 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the six months ended 30 June 2019.

INFORMATION ON EMPLOYEES

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

As at 30 June 2019, the employee headcount of the Group was 75 (31 December 2018: 72) and the total staff costs, including directors' emoluments, amounted to approximately HK$11,033,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$12,750,000).

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

As at 30 June 2019, 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 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%

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

Save as disclosed above, as at 30 June 2019, 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 30 June 2019, other than the Director 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 30 June 2019, no other person had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the Share Option Scheme, at no time during the six months ended 30 June 2019 was the Company, its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2019, 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 2019.

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") have entered into a deed of non-competition undertaking ("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) have any business or interest which competes or may compete with the business of the Group, or have any other conflict of interest which any such person has or may have with the Group throughout the six months ended 30 June 2019.

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 2019, 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.

DISCLOSURE OF INFORMATION ON DIRECTORS

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

With effect from 24 May 2019, Mr. Wong Yik Chung John is appointed as an independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd. (stock code: 3833), the shares of which are listed on the Stock Exchange.

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 three 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 and Mr. Li Shui Yan. The audit committee has reviewed this report and has provided advice and comments thereon.

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

Hong Kong, 8 August 2019