



Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8311

2019

THIRD QUARTERLY REPORT

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

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This report, for which the directors (the “Directors”) of Perfect Optronics Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable 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\$140.0 million for the nine months ended 30 September 2019 (nine months ended 30 September 2018: HK\$193.8 million).
- Loss attributable to equity holders of the Company for the nine months ended 30 September 2019 amounted to approximately HK\$25.9 million (nine months ended 30 September 2018: HK\$39.2 million).
- The Board does not declare an interim dividend for the nine months ended 30 September 2019 (nine months ended 30 September 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 nine months ended 30 September 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2019

| | Note | Three months ended 30 September | | Nine months ended 30 September | |
|-------------------------------------------------------------------------------------|------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Revenue | 3 | 30,658 | 72,713 | 139,951 | 193,779 |
| Cost of sales | | (30,376) | (75,657) | (141,086) | (202,047) |
| Gross profit/(loss) | | 282 | (2,944) | (1,135) | (8,268) |
| Other gains, net | 4 | 2,752 | 160 | 3,271 | 658 |
| Distribution and selling expenses | | (2,588) | (2,912) | (6,736) | (8,954) |
| General and administrative expenses | | (6,585) | (6,513) | (20,013) | (19,786) |
| Research and development expenses | | (487) | (836) | (1,448) | (2,675) |
| Operating loss | | (6,626) | (13,045) | (26,061) | (39,025) |
| Finance income | | 50 | 44 | 148 | 57 |
| Finance costs | 5 | (247) | (260) | (961) | (268) |
| Finance costs, net | | (197) | (216) | (813) | (211) |
| Loss before income tax | | (6,823) | (13,261) | (26,874) | (39,236) |
| Income tax | 6 | 59 | 3 | 85 | 38 |
| Loss for the period | | (6,764) | (13,258) | (26,789) | (39,198) |
| Other comprehensive loss: | | | | | |
| <i>Items that may be subsequently reclassified to income statement</i> | | | | | |
| Currency translation differences | | (192) | (263) | (185) | (338) |
| <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 | | — | — | (260) | — |
| Total comprehensive loss for the period | | (6,956) | (13,521) | (27,234) | (39,536) |

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the nine months ended 30 September 2019

| Note | Three months ended 30 September | | Nine months ended 30 September | | |
|-----------------------------------------------------------------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|----------------|
| | 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 | (6,153) | (13,258) | (25,883) | (39,198) | |
| Non-controlling interests | (611) | — | (906) | — | |
| | (6,764) | (13,258) | (26,789) | (39,198) | |
| Total comprehensive loss for the period attributable to: | | | | | |
| Equity holders of the | | | | | |
| Company | (6,345) | (13,521) | (26,328) | (39,536) | |
| Non-controlling interests | (611) | — | (906) | — | |
| | (6,956) | (13,521) | (27,234) | (39,536) | |
| Basic and diluted loss per share | 8 | HK(0.41) cent | HK(0.89) cent | HK(1.74) cents | HK(2.64) cents |

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

| | Attributable to equity holders of the Company | | | | | | | | Non-controlling interests | Total equity |
|-------------------------------------------------------------------------------------|-----------------------------------------------|---------------|-----------------------------|----------------|----------------------------------|------------------|-------------------|-------------|---------------------------|--------------|
| | Share capital | Share premium | Other reserves ¹ | Merger reserve | Revaluation reserve ² | Exchange reserve | Retained earnings | Total | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (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 | — | — | — | — | — | — | (25,883) | (25,883) | (906) | (26,789) |
| Other comprehensive loss | | | | | | | | | | |
| Change in value of financial asset at fair value through other comprehensive income | — | — | — | — | (260) | — | — | (260) | — | (260) |
| Currency translation differences | — | — | — | — | — | (185) | — | (185) | — | (185) |
| Total other comprehensive loss | — | — | — | — | (260) | (185) | — | (445) | — | (445) |
| Total comprehensive loss | — | — | — | — | (260) | (185) | (25,883) | (26,328) | (906) | (27,234) |
| Contributions from non-controlling interests — Note 9 | — | — | — | — | — | — | — | — | 2,964 | 2,964 |
| Balance at 30 September 2019 | 14,837 | 465,738 | 67,349 | (415,675) | (214) | (607) | 45,241 | 176,669 | 2,058 | 178,727 |
| 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 | — | — | — | — | — | — | (39,198) | (39,198) | — | (39,198) |
| Other comprehensive loss | | | | | | | | | | |
| Currency translation differences | — | — | — | — | — | (338) | — | (338) | — | (338) |
| Total comprehensive loss | — | — | — | — | — | (338) | (39,198) | (39,536) | — | (39,536) |
| Balance at 30 September 2018 | 14,837 | 465,738 | 67,349 | (415,675) | 72 | (495) | 88,674 | 220,500 | — | 220,500 |

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

1. BASIS OF PREPARATION

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

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

The unaudited consolidated financial results of the Group for the nine months ended 30 September 2019 (the "Consolidated Financial Results") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The Consolidated Financial Results are presented in Hong Kong dollars ("HK\$"), unless otherwise stated; and have been prepared under the historical cost convention, except for financial asset at fair value through other comprehensive income ("FVOCI") and financial asset at fair value through profit or loss ("FVTPL") which have been measured at fair value.

The Consolidated Financial Results have been reviewed by the audit committee of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the Consolidated Financial Results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 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 Hong Kong Accounting Standard ("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. The lease payments are discounted using the interest rate implicit in the lease.

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.

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. 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.

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).

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

For those new standards, amendments 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The preparation of the Consolidated Financial Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

3. REVENUE

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

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|----------------------------------------------------------------------------|------------------------------------|-------------|-----------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Thin film transistor liquid crystal display ("TFT-LCD") panels and modules | 21,684 | 67,877 | 120,353 | 172,656 |
| Electronic signage | 2,579 | — | 5,401 | — |
| Polarisers | 1,502 | 1,355 | 1,990 | 3,744 |
| Optics products | 294 | 156 | 1,983 | 4,554 |
| Driver integrated circuits ("ICs") | 948 | 549 | 1,976 | 2,253 |
| Light guide plates | 128 | 1,399 | 1,837 | 6,509 |
| Others | 3,523 | 1,377 | 6,411 | 4,063 |
| | 30,658 | 72,713 | 139,951 | 193,779 |

4. OTHER GAINS, NET

| | Three months ended 30 September | | Nine months ended 30 September | |
|----------------------------------------------------------------|------------------------------------|-------------|-----------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Fair value changes in financial asset at FVTPL (<i>Note</i>) | 2,736 | 132 | 2,996 | 640 |
| Net exchange gains/(losses) | (8) | (105) | 131 | (214) |
| Others | 24 | 133 | 144 | 232 |
| | 2,752 | 160 | 3,271 | 658 |

4. OTHER GAINS, NET (CONTINUED)

Note:

The Group's fair value changes in financial asset at FVTPL for the nine months ended 30 September 2019 and 30 September 2018 represented the changes in fair value of the Group's investment in certain preferred shares in Mobvoi Inc. ("Mobvoi"), a private company principally engaged in the business of developing and providing voice search AI systems on mobile, smart wearable, automotive and other devices. There have been no addition to or disposal of such investment since the Group made the investment in January 2015. No dividend has been received by the Group from Mobvoi. The most recent issue by Mobvoi of new preferred shares to investors took place in September 2019 and the Group's shareholding in Mobvoi (on a fully diluted and as converted basis) was diluted from approximately 1.53% to approximately 1.50%. The fair value of the Group's financial asset at FVTPL as at 30 September 2019 amounted to approximately HK\$57,984,000 (unaudited) (31 December 2018: HK\$54,988,000), which is based on comparable transaction method and equity value allocation with option-pricing method performed by an independent valuer. The fair value is within level 3 of the fair value hierarchy.

5. FINANCE COSTS

| | Three months ended | | Nine months ended | |
|---------------------------------------|--------------------|--------------|-------------------|--------------|
| | 30 September | 30 September | 30 September | 30 September |
| | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Interest expense on bank borrowings | 22 | 260 | 277 | 265 |
| Interest expense on lease liabilities | 225 | — | 684 | — |
| Factoring charges | — | — | — | 3 |
| | 247 | 260 | 961 | 268 |

6. INCOME TAX

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

| | Three months ended | | Nine months ended | |
|---------------------|--------------------|--------------|-------------------|--------------|
| | 30 September | 30 September | 30 September | 30 September |
| | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Current income tax | 51 | (16) | 49 | (18) |
| Deferred income tax | 8 | 19 | 36 | 56 |
| | 59 | 3 | 85 | 38 |

6. INCOME TAX (CONTINUED)

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 (nine months ended 30 September 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.

7. DIVIDEND

The Board does not declare an interim dividend for the nine months ended 30 September 2019 (nine months ended 30 September 2018: Nil).

8. BASIC AND DILUTED LOSS PER SHARE

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

| | Nine months ended 30 September | |
|--------------------------------------------------------------------|-----------------------------------|-------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Loss attributable to equity holders of the Company (HK\$'000) | (25,883) | (39,198) |
| 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) | (1.74) | (2.64) |

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 nine months ended 30 September 2019 and 2018 as the Group had no potentially dilutive ordinary shares in issue during these periods.

9. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

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

During the nine months ended 30 September 2019 (the "Period"), the US-China trade conflicts continued and uncertainties of the economy increased. Meanwhile, the market consolidation of China mobile phones continued to make adverse impacts to the Group's performance during the Period. The Group recorded an approximately 28% decrease in revenue to approximately HK\$139,951,000 for the Period as compared to the nine months ended 30 September 2018 of approximately HK\$193,779,000. Loss attributable to equity holders of the Company for the Period amounted to approximately HK\$25,883,000, represented a decrease in loss of approximately HK\$13,315,000 as compared to the corresponding period in 2018 of approximately HK\$39,198,000.

According to China Academy of Information and Communications Technology, as compared with the nine months ended 30 September 2018, China's domestic mobile phone shipments during the nine months ended 30 September 2019 slipped by 5.7% to 287.4 million units and the number of new model release reduced by 31.8% to 433. China's domestic mobile phone market was shrinking and 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.

To alleviate the severe impacts of the decrease in sales revenue of mobile phone display panels from the small-sized display panel market, the Group continued to focus on the sales of medium-to-large sized display products, including display modules for computer notebooks, monitors and televisions. Sales of medium-to-large sized display products remains as the key revenue driver of the Group during the Period. However, as affected by recent uncertainties in China's economy, the Group recorded a revenue of approximately HK\$137,968,000 from its display products segment during the Period, represented a decrease of approximately 27% as compared to the nine months ended 30 September 2018 of approximately HK\$189,225,000. Sales of TFT-LCD panels and modules amounted to approximately HK\$120,353,000 during the Period, represented a drop of approximately 30% from the corresponding period in 2018 of approximately HK\$172,656,000. Sales of other major display products such as polarisers, driver ICs and light guide plates, also dropped during the Period as compared with the corresponding period in 2018.

To further enrich its products portfolio, 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. Besides retailing customers, the Group also targets on providing comprehensive display solutions, including electronic white boards in classrooms, to academy customers. Through the Group's efforts on products development and promotion, the electronic signage business began to contribute revenue to the Group. Furthermore, two companies listed on the Taiwan Stock Exchange, namely Innolux Corporation ("Innolux") and Novatek Microelectronics Corp. ("Novatek"), through their subsidiaries invested in the Group's electronic signage business during the Period. 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. The Group will continue to deepen the business development to capture the rising market in electronic signage for greater shareholders' value.

On the other hand, due to market uncertainties and fierce price competition of similar products in the virtual reality products market, the Group was facing difficult challenges in selling its optics products. During the Period, the Group's optics products segment recorded a revenue of approximately HK\$1,983,000, decreased by approximately HK\$2,571,000 as compared to the corresponding period in 2018 of approximately HK\$4,554,000.

As for the Group's investment in Mobvoi which is classified as financial asset at FVTPL, Mobvoi continued to launch 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. China Mobile and China Unicom are using Mobvoi's smart watches as major products to promote their eSIM services. In the overseas market, Mobvoi cooperated with Verizon to launch its smart watches supporting 4G/LTE service in the United States in July 2019. The Group understands that Mobvoi will further enrich its product lines, enhance its technologies and expand its global footprint. In addition, Mobvoi has completed a new round of issuance of new preferred shares to investors during the Period and the Group's shareholding proportion in Mobvoi (on a fully diluted and as converted basis) was diluted from approximately 1.53% to approximately 1.50%. The fair value of the Group's investment in Mobvoi further increased following the new round of fundraising and a fair value gain in financial asset at FVTPL of approximately HK\$2,996,000 was recognised during the Period. The Group believes that such fundraising exercise of Mobvoi enabled Mobvoi to obtain new capital to further enhance its research and development activities, which may generate good investment returns to the Group.

For the Group's financial asset at FVOCI, representing 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%.

Looking forward, the Group will be subject to a complex international environment and intensive market competition. To deal with these challenges, the Group will continue to take different strategies to enlarge its revenue base and seize new business opportunities. To reinforce and widen the customer base, the Group will continue to widen its product diversity and explore all kinds of opportunities with new suppliers from different areas in order to expand its cooperation with different customers from various territories or industries.

Financial review

Revenue

For the nine months ended 30 September 2019, total revenue of the Group amounted to approximately HK\$139,951,000, decreased by approximately 28% as compared with the corresponding period in 2018 of approximately HK\$193,779,000. The sales of display products such as TFT-LCD panels and modules, driver ICs, light guide plates, 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\$1,135,000 was recorded for the nine months ended 30 September 2019 (nine months ended 30 September 2018: HK\$8,268,000). Decrease in gross loss amount was mainly attributable to the decrease in inventories provision during the Period.

Other gains, net

Net other gains of approximately HK\$3,271,000 was recorded for the nine months ended 30 September 2019 (nine months ended 30 September 2018: HK\$658,000). The balance mainly included the fair value gain in the Group's investment in Mobvoi of approximately HK\$2,996,000 during the nine months ended 30 September 2019 (nine months ended 30 September 2018: HK\$640,000).

Expenses

The Group's distribution and selling expenses for the nine months ended 30 September 2019 amounted to approximately HK\$6,736,000, representing an approximately 25% decrease as compared with the corresponding period in 2018 of approximately HK\$8,954,000. The decrease was mainly attributable to the decrease in warehouse storage costs during the Period.

The Group's general and administrative expenses for the nine months ended 30 September 2019 amounted to approximately HK\$20,013,000, which is comparable to the corresponding period in 2018 of approximately HK\$19,786,000.

Research and development expenses amounted to approximately HK\$1,448,000 for the nine months ended 30 September 2019, decreased by approximately HK\$1,227,000 as compared with the corresponding period in 2018 of approximately HK\$2,675,000. The decrease was mainly due to the decrease in staff costs and development fees incurred for products development.

Finance costs

The Group's finance costs for the nine months ended 30 September 2019 included bank loans interest expenses of approximately HK\$277,000 (nine months ended 30 September 2018: HK\$265,000) and finance cost of approximately HK\$684,000 on lease liabilities recognised under the new accounting standard, HKFRS 16 (nine months ended 30 September 2018: Nil). Please refer to Note 2 above for details of the adoption of HKFRS 16.

Loss for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the nine months ended 30 September 2019 amounted to approximately HK\$25,883,000, representing a decrease of approximately HK\$13,315,000 as compared with the corresponding period in 2018 of approximately HK\$39,198,000, which was mainly attributable to the decreases in gross loss, distribution and selling expenses, research and development expenses, as well as the increase in fair value gain in the Group's financial asset at FVTPL.

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 September 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 September 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 September 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 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2019.

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, or had any other conflict of interest which any such person has or may have with the Group throughout the nine months ended 30 September 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”) 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.

LEGAL PROCEEDINGS INVOLVING THE COMPANY AND THE DIRECTORS

As announced by the Company in its announcement dated 4 October 2019, on 25 September 2019, the Company received a sealed copy of a petition (the “Petition”) issued by the High Court of the Hong Kong Special Administrative Region which was taken out by the Securities and Futures Commission (the “SFC”) pursuant to section 214 of the SFO against all the Directors (collectively “the Director Respondents”) and the Company. The SFC alleged in the Petition that the Director Respondents had breached their duties as directors of the Company in relation to the disposal of a subsidiary of the Company holding an approximately 50.14% shareholding in 尚立光電股份有限公司 (Shinyoptics Corporation*) (details of such disposal were disclosed in the announcement of the Company dated 22 December 2016). The Company understands the Director Respondents disagree with the allegations of the SFC in the Petition, and intend to vigorously contest the Petition.

* for identification purpose only

Trading in the shares of the Company on GEM has been suspended since 9:00 a.m. on 26 September 2019 until further notice.

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 nine months ended 30 September 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.

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 November 2019