Transform To A BETTER FUTURE

Interim Report 2018

BOE Varitronix Limited
Stock Code 710

Chairman's Statement

Financial Highlights

HK$ million	Six months ended 30 June 2018	Six months ended 30 June 2017
Revenue	**1,568**	1,297
Profit attributable to shareholders	**20**	23
Basic earnings per share	**2.78 HK cents**	3.07 HK cents

On behalf of BOE Varitronix Limited (the "Company") and its subsidiaries (collectively referred to as "BOE Varitronix" or the "Group"), I present the Group's results for the period ended 30 June 2018.

During the period under review, the Group recorded a revenue of HK$1,568 million, representing an increase of 21% from the HK$1,297 million reported for the first half of 2017. Profit from operations of the Group was HK$27 million, representing a year-on-year decrease of 3%. The Group's profit attributable to shareholders was HK$20 million, representing a decrease of 13% as compared to the same period in 2017.

In the first half of the year, the Group acquired a stable supply of TFT panels from its major shareholder BOE Technology Group Co., Ltd ("BOE"), which is beneficial to obtain orders from customers and carry out mass production to increase revenue from sales. At the same time, the gross profit margin of TFT sales was under pressure due to the increase in the proportion of the Group's TFT business and the intense competition in the market price of TFT. During the period under review, the Group also invested more resources in the talent development and operation expansion of the TFT business, which affected the Group's overall profit margin performance.

Nevertheless, the Group has continually accumulated the experience and strengthened the expertise of production process and costs control of TFT modules business under the continued sales growth. The Group is expected that the gross profit margin of TFT modules will be improved gradually.

DIVIDENDS

The Board of the Directors (the "Board") resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

BUSINESS REVIEW

Automotive Display Business

For the six months ended 30 June 2018, the revenue generated by the automotive display was HK$1,178 million, representing an increase of 30% as compared to the same period in 2017. This business accounted for 75% of the Group's total revenue.

In the first half of the year, the Group's TFT modules sales grew rapidly. The Group's two TFT modules assembly production lines in Chengdu are in the stage of mass production run, and production efficiency is gradually improving. In addition, certain medium-to-large-sized TFT modules sales orders from Europe and the People's Republic of China ("PRC") are also put into mass production, prompting the expansion of the scale of TFT automotive display business.

The revenue of the European market continues to increase, and the European automotive customers tend to adopt medium-to-large-sized TFT display modules. The average selling price of these products is high, but the gross profit margin is relatively slim under the price competition, which is the reason for the increase in revenue but the drop in gross profit margin. Fortunately, the Group has successfully established a group of strategic customers whose orders are characterized by large volume and stability, which will help to establish the economies of scale of TFT modules production.

During the period under review, the sales revenue of the PRC market has recorded remarkable growth which is attributable to the continual sales growth of the TFT modules and touch panel displays for automobiles, particularly the medium-to-large-sized TFT modules are well recognized by the market. Under the stable panel supply from BOE, the Group's customer base in China is increasingly consolidated and is conducive to the long-term development of the TFT modules business.

As the scale of the Group's TFT modules business is continuously growing, the sales portion of monochrome displays business decreased relatively in the Group's sales mix. Combined with the effect of the declining trend of sales quantity and selling price of monochrome displays business, the profit performance is adversely affected. Fortunately, the Group possessed an abundant experience of production and quality control of monochrome displays business. In addition to the relatively concentrated customer base, the Group can manage sales order and control operating costs effectively in order to stabilize the profit margin of this business. The Group still regards the monochrome display as the core fundamental product for the automotive display business. Our current customers are mainly from Europe, the PRC and Japan. In addition, some emerging automotive markets, such as India and South America, will still have a considerable demand for monochrome displays. This business will still contribute certain amount of the sales revenue and profits to the Group.

Industrial Display Business

In the first half of 2018, the industrial display business generated revenue of HK$390 million, which approximated to that of the first half of 2017 and this business accounted for approximately 25% of the Group's total revenue.

The industrial display business continues to focus on the European and the United States markets. Currently, monochrome displays still dominate in the basic application of industrial displays and are mostly used in electricity meters and industrial instruments. Customer base of the industrial sectors mainly includes Europe, the United States and the PRC. During the first half of 2018, the revenue from the industrial display business remains relatively stable beneficial from the solid customer base. However, such businesses are characterized by large volume, relatively low average selling price and low gross profit margin, so the profit did not record growth.

The white goods manufacturers in Europe increasingly prefer to install TFT modules. In the first half of this year, the Group has also secured orders for certain TFT modules for white goods and gradually commenced the mass production.

The revenue from the United States recorded growth during the period under review, which was related to the Group's completion of adjustments to the customer portfolio of the business in the United States and the recovery of the United States industrial market. Orders for TFT modules in the United States market also increased in the first half of this year. Although the number of sales orders is not large, such increase reflects the development opportunities of the TFT market in the United States.

PROSPECTS

Automotive Display Business

The TFT automotive display business of the Group has developed into a larger scale than that of the monochrome automotive displays business. BOE has provided a stable supply of TFT panels to the Group at a competitive price. In addition, BOE has provided the Group a comprehensive quality support and customized design of TFT panels which greatly facilitated the Group in acquiring orders under the challenging TFT market environment. As the TFT orders keep growing, the Group has accumulated considerable experience in TFT modules production efficiency, production material procurement, TFT business human resources management and even the logistics cost control. At present, the TFT modules production is stepping on the path towards the economies of scale.

The Group has a strong automobile customer base in Europe which contributes steady automotive TFT modules sales orders with certain room for further development. The Group has selected Chengdu plant as the major production facilities for the medium-to-large-sized TFT products for European customers, in order to control production costs more effectively and enhance production efficiency. It is expected that the profit margin of automotive TFT modules business will further improve during the second half of the year.

More orders from the PRC automobile customers will enter into mass production phase in the second half of the year, which demonstrates optimistic prospects. However, the trade war between the PRC and the United States may have an influence on the export volumes of the PRC automotive manufacturers and certain customers may, therefore, delay placement of orders. The Group will keep close monitoring on the development of the situation.

Despite that the TFT modules business is the core development sector of the Group, we will still maintain the development of monochrome display business to meet the different customers' requirements of Europe, the PRC and Japan in order to stabilize the sales revenue of this business. In the meantime, the Group will continually strike to optimize the cost structure and production process so as to maintain the profit contribution of this business to the Group.

Industrial Display Business

Currently, monochrome displays still dominate in the basic application of industrial displays and are mostly used in electricity meters and industrial instruments, whereas the white goods manufacturers increasingly prefer the use of TFT modules with a huge growth potentials. It is expected that the orders from European electricity meter segment will continue to be steady in the coming years. In addition, a certain amount of monochrome display orders will sustain mass production along with the recovery of the American industrial equipment market. During the development process of the Group's industrial displays business, the Group shall design TFT modules products to cater for the needs of white goods customers on the one hand and address the demands of the customers who still adopt monochrome displays on the other hand.

The Group will continue to optimize the industrial monochrome display product mix for European and American markets and seek an appropriate balance between production volumes and product values in order to improve the efficiency of production lines. In the meantime, the Group believes that there is a considerable room for the development of TFT industrial display products in European and American markets. The sales team will devote more resources to explore the potential business opportunities for TFT products, so as to enhance the overall sales revenue industrial display business.

DEVELOPMENT STRATEGY

The TFT modules business is expected to grow continuously. The Group is also developing standardized platform TFT modules to promote to our customers in order to achieve further economies of scale. The Group is the sole platform of automotive display module and system business within BOE and will leverage on BOE's various competitive edges, such as panel research, manufacturing process, human resources management and management structure, to strengthen the cooperation and business development with BOE in proximity to BOE's TFT panel production facilities such as Chengdu and Hefei, etc. The Group will further develop high-value areas, especially in system business, automotive head-up display (HUD), touch panel and display related technology research.

Facing the uncertainties arose from the stringent trade relations between the PRC and the United States, the Group will maintain vigilance and handle the related sales orders carefully in order to minimize the risks. The Group will further strengthen internal production management, sales and purchases orders review and ensure sufficient risk mitigation measures in place.

TECHNOLOGY DEVELOPMENT

Digital cockpit display solution is forming a trend in the automotive market. This display solution puts multi-displays under one special and big cover glass to cover digital and infotainment instrument cluster. The display module usually composes dual 12.3 inches TFT panels. In order to making the two display panels look like one single seamless display, we have developed robust and rigid TFT modules and high elongation optical bonding technologies for better image homogeneity. So far, four custom-cockpit display modules have been developed and two of them will gradually commence production this year.

Based on the digital cockpit display solution technology, we move forward to develop curved solution that can provide better visibility with aesthetic design to passengers. The main bottleneck of the curved solution is its high cost, low productivity and quality. To overcome these shortcomings, we have started the related research and development project on the technology called "Cold Forming Technology" that would facilitate us to achieve higher productivity and quality.

OLED display technology, which is the best solution for the flexible display at present, has gradually introduced into the automotive display sector in recent years. BOE Group is the major supplier of global OLED and is actively deploying the automotive OLED market. Currently, BOE Group has launched the research and development of the automotive grading OLED products. The Group is BOE's sole distribution platform of automotive modules and system products and would also develop the European and the PRC markets of automotive OLED with BOE actively. It is believed that we will get a good return in the future.

We have become the pioneer developer of automotive a-Si Gate On Array (GOA) display solution. Utilizing our advanced ADS technology, our newly developed a-Si GOA could meet the most important quality requirements for automotive applications, and is able to perform stably in low temperature environment. Comparing to Low Temperature Poly-silicon (LTPS), this technology can provide economical solutions to our customers.

LTPS's high transmittance is very suitable for automotive head-up display products (HUD). In the first half of the year, the Group has won a tender and developed successfully a LTPS HUD product. In the future, we will strive for the further development of application markets with the advantage of BOE's LTPS technology.

For the Group's research and development of automotive system products, the Group leverages our strength in display modules to research and develop products such as Augmented Reality Head-up Display (AR HUD) and Rearveiw Mirrors and has approached several PRC automotive customers. In addition, we have further strengthened the strategic cooperation with certain PRC famous automotive manufacturer in 2018. It is believed that we will generate more fruitful results in the future.

We are developing Multi-layer on Cell (MLOC) of 10.1 inches and 12.8 inches touch panel products. MLOC technology saves from the adoption of extra touch glass and optical bonding process, thereby making our products more economical. In addition, we are developing Full In-cell Touch (FIT) of 10.25 inches and 12.3 inches touch panel products. FIT technology can achieve narrower border and lower surface reflection that are sought after by high end automotive market.

ACKNOWLEDGEMENT

Although the Group is still under the fast expansion stage of the TFT modules business, we have preliminarily grasped the critical success factors of TFT modules business which are formulated and implemented in our TFT development strategy. We expect to generate more fruitful results gradually in the next few years. On behalf of the Board, I would like to take this opportunity to sincerely thank the business partners, the shareholders and all staffs as your participation and cooperation make the management more motivated to march forward to our goals.

Yao Xiangjun
Chairman
Hong Kong, 28 August 2018

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2018	2017
	Note	**$'000**	$'000
Revenue	3	**1,568,096**	1,296,612
Other operating income	4	**25,218**	23,030
Change in inventories of finished goods and work in progress		**(96,943)**	66,953
Raw materials and consumables used		**(996,803)**	(938,084)
Staff costs		**(262,590)**	(233,559)
Depreciation		**(50,946)**	(49,135)
Other operating expenses		**(158,784)**	(137,679)
Profit from operations		**27,248**	28,138
Finance costs	5(a)	**–**	(49)
Share of losses of an associate		**–**	(491)
Profit before taxation	5	**27,248**	27,598
Income tax	6	**(6,778)**	(5,056)
Profit for the period attributable to the equity shareholders of the Company		**20,470**	22,542
Earnings per share (in HK cents)	7		
Basic		**2.78 cents**	3.07 cents
Diluted		**2.78 cents**	3.07 cents

The notes on pages 12 to 27 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 13(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Profit for the period	**20,470**	22,542
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
– Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	**64**	–
Items that may be reclassified subsequently to profit or loss:		
– Foreign currency translation adjustments: net movement in exchange reserve	**(10,376)**	28,354
– Debt securities: net movement in fair value reserve (recycling)	**(3,496)**	1,164
Other comprehensive income for the period	**(13,808)**	29,518
Total comprehensive income for the period attributable to the equity shareholders of the Company	**6,662**	52,060

The notes on pages 12 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2018 $'000	At 31 December 2017 $'000
Non-current assets			
Fixed assets	8		
– Property, plant and equipment		516,334	491,169
– Interest in leasehold land held for own use under operating leases		9,245	9,678
		525,579	500,847
Interest in an associate		4,436	4,436
Intangible assets		5,760	–
Other financial assets		–	13,069
Non-current deposits		68,288	63,010
Deferred tax assets		6,686	10,348
		610,749	591,710
Current assets			
Inventories	9	707,007	803,152
Trade and other receivables	10	806,547	850,855
Other financial assets		–	20,700
Current tax recoverable		6,589	1,013
Fixed deposits with more than three months to maturity when placed	11	179	222,137
Cash and cash equivalents	11	1,245,723	980,402
		2,766,045	2,878,259
Current liabilities			
Trade and other payables	12	542,825	656,784
Current tax payable		1,471	32
Deferred income		4,286	1,344
Dividends payable		7,352	–
		555,934	658,160
Net current assets		2,210,111	2,220,099
Total assets less current liabilities		2,820,860	2,811,809
Non-current liabilities			
Deferred tax liabilities		8,167	8,162
Deferred income		11,342	1,606
NET ASSETS		2,801,351	2,802,041
CAPITAL AND RESERVES	13		
Share capital		183,794	183,794
Reserves		2,617,557	2,618,247
TOTAL EQUITY		2,801,351	2,802,041

The notes on pages 12 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Exchange reserve $'000	Fair value reserve (recycling) $'000	Fair value reserve (non-recycling) $'000	Capital reserve $'000	Other reserves $'000	Contributed surplus $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2017	183,764	1,306,815	(32,243)	(488)	–	17,927	21,549	720,191	514,092	2,731,607
Changes in equity for 2017:										
Profit for the period	–	–	–	–	–	–	–	–	22,542	22,542
Other comprehensive income	–	–	28,354	1,164	–	–	–	–	–	29,518
Total comprehensive income	–	–	28,354	1,164	–	–	–	–	22,542	52,060
Equity settled share-based transactions	–	–	–	–	–	489	–	–	–	489
Final dividend approved in respect of the previous year	–	–	–	–	–	–	–	–	(18,376)	(18,376)
Balance at 30 June 2017	183,764	1,306,815	(3,889)	676	–	18,416	21,549	720,191	518,258	2,765,780

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Exchange reserve $'000	Fair value reserve (recycling) $'000	Fair value reserve (non-recycling) $'000	Capital reserve $'000	Other reserves $'000	Contributed surplus $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2018	183,794	1,307,585	30,891	1,736	–	18,466	21,549	720,191	517,829	2,802,041
Impact on initial application of HKFRS 9	–	–	–	1,760	(1,760)	–	–	–	–	–
Adjusted balance at 1 January 2018	183,794	1,307,585	30,891	3,496	(1,760)	18,466	21,549	720,191	517,829	2,802,041
Changes in equity for 2018:										
Profit for the period	–	–	–	–	–	–	–	–	20,470	20,470
Other comprehensive income	–	–	(10,376)	(3,496)	64	–	–	–	–	(13,808)
Total comprehensive income	–	–	(10,376)	(3,496)	64	–	–	–	20,470	6,662
Disposal of equity securities at fair value through other comprehensive income	–	–	–	–	1,696	–	–	–	(1,696)	–
Final dividend approved in respect of the previous year	–	–	–	–	–	–	–	–	(7,352)	(7,352)
Balance at 30 June 2018	183,794	1,307,585	20,515	–	–	18,466	21,549	720,191	529,251	2,801,351

The notes on pages 12 to 27 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Cash generated from/ (used in) operations	**68,369**	(115,868)
Tax paid		
– People's Republic of China ("PRC") income taxes paid	**(5,670)**	(1,831)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC	**(1,583)**	(3,339)
Net cash generated from/ (used in) operating activities	**61,116**	(121,038)
Payment for the purchase of fixed assets	**(83,845)**	(109,192)
Proceeds from disposal of fixed assets	**144**	–
Government grants received relating to acquisition of property, plant and equipment	**19,638**	–
Payment for the costs of enterprise reporting system implementation	**(6,764)**	–
Proceeds from redemption of held-to-maturity debt securities	**–**	32,574
Payment for the purchase of certificate of deposits	**(11,775)**	–
Proceeds from redemption of certificates of deposits	**32,900**	10,084
Placement of fixed deposits with banks	**(187,500)**	(941,189)
Proceeds on maturity of fixed deposits with banks	**409,458**	993,481
Proceeds from disposal of equity securities	**360**	–
Proceeds from disposal of debt securities	**12,042**	–
Proceeds from consideration received from disposal of non-listed available-for-sale equity securities and associated loans receivable	**15,500**	–
Other cash flows arising from investing activities	**7,909**	12,584
Net cash generated from/ (used in) investing activities	**208,067**	(1,658)
Repayment of bank loans	**–**	(8,890)
Other cash flows arising from financing activities	**–**	(49)
Net cash used in financing activities	**–**	(8,939)
Net increase/(decrease) in cash and cash equivalents	**269,183**	(131,635)
Cash and cash equivalents at 1 January	**980,402**	1,098,672
Effect of foreign exchange rates changes	**(3,862)**	6,424
Cash and cash equivalents at 30 June	**1,245,723**	973,461

The notes on pages 12 to 27 form part of this interim financial report.

Notes to the unaudited Interim Financial Report

(Expressed in Hong Kong dollars otherwise indicated)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 28 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 28.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets. Details of the changes in accounting policies are discussed in note 2(a) for HKFRS 9.

(a) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets. The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on reserves at 1 January 2018.

	$'000
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (recycling) at 1 January 2018	1,760
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and decrease in fair value reserve (non-recycling) at 1 January 2018	(1,760)

(Expressed in Hong Kong dollars otherwise indicated)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 , Financial instruments (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9, Financial instruments (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 $'000	Reclassification $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets measured at FVOCI (non-recycling)			
Equity securities (note (i))	–	296	296
Financial assets carried at FVOCI (recycling)			
Debt securities (note (ii))	–	12,773	12,773
Financial assets classified as available-for-sale under HKAS 39 (notes (i) and (ii))	13,069	(13,069)	–

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its equity investment at FVOCI (non-recycling), as the investment is held for strategic purposes.

(ii) Under HKAS 39, debt securities were classified as available-for-sale financial assets. These assets continue to be measured at FVOCI (recycling) under HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Financial assets measured at fair value, including debt securities and equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9, Financial instruments (Continued)

(ii) Credit losses (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9, Financial instruments (Continued)

(ii) Credit losses (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractual due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9, Financial instruments (Continued)

(ii) Credit losses (Continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– information relating to comparative periods has not been restated. The information presented for 2017 continues to be reported under HKAS 39.

– the following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  • the determination of the business model within which a financial asset is held; and

  • the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– if, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(b) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 15, Revenue from contracts with customers (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. when the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. when the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods. Taking into account the contract terms and the Group's business practice, the sales of goods do not meet the criteria for recognising revenue over time and therefore such revenue continues to be recognised at a point in time. This change in accounting policy had no material impact on opening balances as at 1 January 2018.

3. REVENUE AND SEGMENT REPORTING

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

(a) Operating segment results

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal displays and related products is the only reporting segment and virtually all of the revenue and operating profits is derived from this business segment. The interim financial report has already presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Accordingly, no separate business segment information is disclosed.

(Expressed in Hong Kong dollars otherwise indicated)

3. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Operating segment results (Continued)

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined that a single operating segment exists based on this internal reporting.

The Board assesses the performance of the operating segments based on revenue which is consistent with that in the interim financial report. Other information, being the total assets excluding deferred tax assets, other financial assets, current tax recoverable and interest in an associate, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's fixed assets, intangible assets and interest in an associate ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of operations, in the case of intangible assets and interest in an associate.

(i) Group's revenue from external customers

	Six months ended 30 June	
	2018	2017
	$'000	$'000
The PRC (place of domicile)	**537,869**	398,753
Europe	**679,429**	559,222
America	**144,502**	127,184
Korea	**67,080**	80,008
Others	**139,216**	131,445
	1,030,227	897,859
Consolidated revenue	**1,568,096**	1,296,612

Revenue from external customers located in Europe is analysed as follows:

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Germany	**185,611**	120,497
Czech Republic	**134,303**	65,485
France	**62,343**	54,841
United Kingdom	**46,094**	66,122
Italy	**42,629**	28,191
Other European countries	**208,449**	224,086
	679,429	559,222

3. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Geographic information (Continued)

(ii) Group's specified non-current assets

	At 30 June 2018 $'000	At 31 December 2017 $'000
The PRC (place of domicile)	527,800	497,092
Korea	4,436	4,436
Others	3,539	3,755
	535,775	505,283

4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2018 $'000	2017 $'000
Interest income from listed debt securities	390	309
Other interest income	7,637	11,382
Net realised gain on debt securities	2,718	–
Government grants (note (i))	10,906	6,560
Net exchange gain	3,203	5,075
Gain on disposal of fixed assets	37	–
Other net gain/(loss)	327	(296)
	25,218	23,030

Note:

(i) The amount mainly represents the incentives granted by the PRC authorities to the Group for engaging in research and development of high technology manufacturing of $4,550,000 (2017: $6,560,000) and amortisation of government grant received from the PRC authorities in relation to acquiring machineries of $6,356,000 (2017: Nil). There is no unfulfilled conditions attaching to these government grants.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018 $'000	2017 $'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	–	49
(b) Other item		
Cost of inventories	1,315,590	1,101,326

6. INCOME TAX

	Six months ended 30 June	
	2018 $'000	2017 $'000
Current tax – The PRC income taxes	1,207	5,954
Current tax – Jurisdictions outside Hong Kong and the PRC	1,909	2,525
Deferred taxation	3,662	(3,423)
	6,778	5,056

(Expressed in Hong Kong dollars otherwise indicated)

6. INCOME TAX (CONTINUED)

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) to the six months ended 30 June 2018. The Group's operations in the PRC are subject to Corporate Income Tax Law of the PRC. The standard PRC corporate income tax rate is 25%. Varitronix (Heyuan) Display Technology Limited ("Varitronix Heyuan"), a subsidiary of the Group, was designated as high and new technology enterprise, which qualified for a reduced Corporate Income Tax rate of 15%. Accordingly, Varitronix Heyuan's applicable tax rate is 15% for the periods ended 30 June 2018 and 2017. Other subsidiaries incorporated in the PRC are subject to the standard PRC corporate income tax rate of 25%. Withholding tax is levied on dividend distributions arising from profits of the PRC entities of the Group earned after 1 January 2008 based on an applicable tax rate at 5%. Taxation for subsidiaries operating outside Hong Kong and the PRC is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant jurisdictions.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $20,470,000 (six months ended 30 June 2017: $22,542,000) and the weighted average number of shares of 735,175,204 shares (six months ended 30 June 2017: 735,055,204 shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $20,470,000 (six months ended 30 June 2017: $22,542,000) and the weighted average number of ordinary shares of 735,175,204 shares (six months ended 30 June 2017: 735,055,204 shares).

8. FIXED ASSETS

During the six months ended 30 June 2018, the Group acquired items of fixed assets with a cost of $79,503,000 (six months ended 30 June 2017: $106,707,000). Items of fixed assets with a net book value of $107,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil), resulting in a gain on disposal of $37,000 (six months ended 30 June 2017: Nil).

9. INVENTORIES

During the six months ended 30 June 2018, the Group recognised inventory write-down of $9,635,000 (2017: $4,678,000) in profit or loss and reversal of write-down of inventories of $8,405,000 (2017: $2,040,000) as a reduction in the amount of inventories recognised as an expense in profit or loss.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of loss allowance of $4,938,000 (31 December 2017: $5,172,000)) with the following ageing analysis, based on invoice date, as of the end of the reporting period:

	At 30 June 2018 $'000	At 31 December 2017 $'000
Within 60 days of the invoice issue date	505,983	458,085
61 to 90 days after the invoice issue date	114,124	131,329
91 to 120 days after the invoice issue date	32,726	65,810
More than 120 days but less than 12 months	74,498	76,618
	727,331	731,842

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of the billing.

11. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

	At 30 June 2018 $'000	At 31 December 2017 $'000
Fixed deposits with banks and other financial institutions with more than three months to maturity when placed	179	222,137
Fixed deposits with banks and other financial institutions with three months or less maturity when placed	183,692	424,265
Cash at banks and in hand	1,062,031	556,137
Cash and cash equivalents	1,245,723	980,402

12. TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2018 $'000	At 31 December 2017 $'000
Within 60 days of supplier invoice date	333,415	522,201
61 to 120 days after supplier invoice date	105,450	45,995
More than 120 days but within 12 months after supplier invoice date	31,067	2,707
More than 12 months after supplier invoice date	138	316
	470,070	571,219

(Expressed in Hong Kong dollars otherwise indicated)

13. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous year, approved and paid during the interim period

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Final dividend in respect of the previous financial year, approved during the following interim period, of 1.0 HK cent (2017: 2.5 HK cents) per share	**7,352**	18,376

(b) Equity settled share-based transactions

During the six months ended 30 June 2018, no options were exercised to subscribe for ordinary shares in the Company (2017: Nil).

There were no options forfeited during the period ended 30 June 2018 (2017: Nil).

(c) Reserves

(i) Fair value reserve (recycling)

Prior to 1 January 2018, the fair value reserve (recycling) included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. The amount related to equity securities designated at FVOCI has been reclassified to fair value reserve (non-recycling) upon the initial adoption of HKFRS 9 at 1 January 2018 (see note 2(a)(i)).

(ii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 2(a)(i)).

14. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Level 1 $'000	Total $'000
Recurring fair value measurement at 30 June 2018		
Financial assets		
Listed debt securities (note)	–	–
Listed equity securities (note)	–	–
	–	–

	Level 1 $'000	Total $'000
Recurring fair value measurement at 31 December 2017		
Financial assets		
Listed available-for-sale debt securities (note)	12,773	12,773
Listed available-for-sale equity securities (note)	296	296
	13,069	13,069

Note: Available-for-sale debt securities and equity securities were reclassified to financial assets measured at FVOCI (recycling) and designated as FVOCI (non-recycling) respectively upon the adoption of HKFRS 9 at 1 January 2018 (see note 2(a)(i)).

During the six months ended 30 June 2018 there were no significant transfers between levels of the fair value hierarchy.

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2018 and 31 December 2017.

(Expressed in Hong Kong dollars otherwise indicated)

15. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

The following transactions were carried out with related parties, including BOE Technology Group Co., Ltd. ("BOE"), the parent of the Company, and its subsidiaries other than the Group ("BOE Group"), except for disclosed elsewhere in these unaudited condensed consolidated interim financial report:

		Six months ended 30 June	
		2018	2017
	Note	**$'000**	$'000
Purchase of goods from BOE Group	1	**193,270**	192,408
Subcontracting fee charged by BOE Group	1	**632**	3,412
Rental, management, utilities services fees and CIM system charged by BOE Group	2	**5,406**	1,972
Purchase of fixed assets from BOE Group	3	**–**	67,962

Notes:

(1) The transactions were conducted based on the terms as governed by the renewed master purchase agreement and master subcontracting agreement entered into between the Company and BOE on 27 October 2016. Further details are set out in the Company's announcement dated 27 October 2016. The related party transactions constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(2) The transactions were conducted based on the terms as governed by the tenancy agreements and the related agreements entered into between Link Score Investment Limited, a wholly owned subsidiary of the Company, and Chengdu BOE Optoelectronics Technology Co., Ltd. ("Chengdu BOE"), a wholly owned subsidiary of BOE, on 13 January 2017. Further details are set out in the Company's announcement dated 13 January 2017. The related party transactions constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(3) The transaction was conducted based on the terms as governed by the acquisition agreement entered into between Chengdu BOE Vehicle Display Technology Co. Ltd., a wholly owned subsidiary of the Company, and Chengdu BOE on 20 February 2017. Further details are set out in the Company's announcement dated 20 February 2017. The related party transactions constitutes connected transaction as defined in Chapter 14A of the Listing Rules.

15. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

At 30 June 2018, included in trade and other payables were amounts due to BOE Group for the purchase cost and other expenses payable of $49,613,000 (31 December 2017: $81,560,000). Non-current deposits of $49,824,000 (31 December 2017: $38,902,000) were paid to BOE Group for the purchase of the TFT panels toolings for manufacturing TFT modules. Prepayment and rental deposits of $770,000 (31 December 2017: $714,000) due from BOE Group were included in trade and other receivables.

Other than non-current deposits and rental deposits, balances with related parties are unsecured, interest-free and are repayable within one year.

16. COMMITMENTS

Capital commitments outstanding at the end of the reporting period not provided for in the Group's financial statements were as follows:

	At 30 June 2018 $'000	At 31 December 2017 $'000
Contracted for	8,889	30,353
Authorised but not contracted for	478,810	400,509
	487,699	430,862

17. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 20 July 2018, Link Score Investment Limited ("Link Score"), a wholly owned subsidiary of the Company, and Hefei New Station High-Tech Industrial Development Zone Management Committee entered into an investment framework agreement in relation to an automotive thin film transistor module and automotive intelligent interactive research and development platform project (the "Project"). The total investment amount of the Project is RMB1,357,000,000. Further details are set out in the Company's announcement dated 20 July 2018.

18. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

Review Report

KPMG

Independent review report to the board of directors of BOE Varitronix Limited
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 7 to 27 which comprises the consolidated statement of financial position of BOE Varitronix Limited as of 30 June 2018 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road,
Central, Hong Kong

28 August 2018

Other Information

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

STAFF

As at 30 June 2018, the Group employed 5,007 staff around the world, of whom 156 were in Hong Kong, 4,801 in the People's Republic of China (the "PRC") and 50 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

The Group adopts a performance-based remuneration policy. Salary adjustments and performance bonuses are based on the evaluation of job performance. The aim is to create an atmosphere that encourages top performers and provides incentives for general employees to improve and excel.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the total equity of the Group was HK$2,801 million (31 December 2017: HK$2,802 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 4.98 as at 30 June 2018 (31 December 2017: 4.37).

At the period end, the Group held a liquid portfolio of HK$1,246 million (31 December 2017: HK$1,236 million) of which HK$1,246 million (31 December 2017: HK$1,203 million) was in cash and fixed deposits balance, HK$Nil million (31 December 2017: HK$33 million) was in other financial assets. At the period end, the Group had no bank borrowing (31 December 2017: Nil).

The Group's inventory turnover ratio (annualized cost of inventories over average inventories balance) for the six months ended 30 June 2018 was 3.5 times (31 December 2017: 3.9 times). Debtor turnover days (trade receivables over revenue times 365) for the six months ended 30 June 2018 was 84 days (31 December 2017: 93 days).

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United State dollars, Euros, Japanese Yen and Renminbi

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

CHANGE OF DIRECTOR AND BOARD COMMITTEES MEMBERS

Mr. Yao Xiangjun resigned as an Executive Director and the Chairman of the Board, and ceased to be the chairman of the nomination committee and a member of the remuneration committee of the Company with effect from 4 September 2018.

Mr. Gao Wenbao has been appointed as an Executive Director, the Chairman of the Board, the chairman of the nomination committee and a member of the remuneration committee of the Company with effect from 4 September 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and shorts positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(a)(i) Interests in shares of the Company

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Wing Yan, Samantha	Personal Interest	247,000	0.03%

(a)(ii) Interests in shares of BOE Technology Group Co., Ltd. ("BOE") (an associated corporation) (Note 1)

Name of Director	Capacity	Number of A shares in BOE held	Approximate percentage of the total issued share capital of BOE
Yao Xiangjun	Personal Interest	100,000	0.00%
Su Ning	Personal Interest	30,000	0.00%
Yang Xiaoping	Personal Interest	103,000 (Note 2)	0.00%
Dong Xue	Personal Interest	355,400	0.00%
Yuan Feng	Personal Interest	47,000	0.00%

Notes:

1. BOE subscribed 400,000,000 shares, representing 54.41% of the issued share capital of the Company.
2. Ms. Yang Xiaoping bought additional 18,200 A shares of BOE on 2 July 2018.
3. Mr. Gao Wenbao, became a director of the Company with effect from 4 September 2018, held 90,700 A shares of BOE.
4. The above interest represented long positions.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(b) Interests in share options of the Company

Name of Director	Date of grant	Number of share options at 1 January 2018	Number of share options granted during the period	Number of share options exercised during the period	Number of share options at 30 June 2018	Exercisable period	Exercise price per share option
Ko Wing Yan, Samantha	9 July 2015	2,000,000	–	–	2,000,000	(Note 1)	HK$5.72
Hou Ziqiang	9 July 2015	300,000	–	–	300,000	(Note 1)	HK$5.72

Notes:

1. Exercisable period:
   (i) the first 40% of the options shall be exercisable from 1 September 2015 to 31 August 2018;
   (ii) the second 30% of the options shall be exercisable from 1 September 2016 to 31 August 2018; and
   (iii)the remaining 30% of the options shall be exercisable from 1 September 2017 to 31 August 2018.
2. The above interests represented long positions.

Saved as disclosed above, as at 30 June 2018, none of the Directors, chief executives or any of their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 June 2018 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their spouses or children under the age of 18 to acquire benefits by the means of the acquisition of the shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", so far as is known to the Directors and chief executives of the Company, the following companies and person had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of substantial shareholder	Number of shares in the Company held	Number of underlying shares in the Company held	Total	Approximate percentage of the total issued share capital of the Company
BOE Technology Group Co., Ltd.	400,000,000 (Note 1)	–	400,000,000	54.41%
Ko Chun Shun, Johnson	56,551,000 (Note 2)	2,000,000 (Note 3)	58,551,000	7.96%
Rockstead Technology Limited	43,951,000 (Note 2)	–	43,951,000	5.98%

Notes:

1. The subscription of the 400,000,000 shares of the Company by BOE Technology Group Co., Ltd., a joint stock company established in the PRC and the issued shares of which are listed on the Shenzhen Stock Exchange with stock code 000725 for its A shares and stock code 200725 for its B shares.
2. Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson (a former Executive Director of the Company and the former Chairman of the Board), held 43,951,000 shares and 10,700,000 shares of the Company respectively.
3. This represents the interests in 2,000,000 share options held by Mr. Ko Chun Shun, Johnson.
4. The above interests represented long positions.

Saved as disclosed above, as at 30 June 2018, there were no other companies nor persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

On 6 June 1991, the Company adopted a share option scheme. This is to provide the Group with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Group's employees and business associates (the "Participants"). It was subsequently amended on 8 June 1999 and expired on 5 June 2001. A second share option scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participants. The third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2010. The maximum number of share options that could be granted by the Company was refreshed to 32,342,220 share options. This scheme expired on 11 May 2013.

A fourth share option scheme of the Company was adopted on 3 June 2013. It shall be valid and effective for a period of 10 years and as at 30 June 2018, the fourth share option has a remaining life of up to 2 June 2023. On 9 July 2015, 8,600,000 share options were granted under the fourth share option scheme and a consideration of HK$19.00 was received. During the six months ended 30 June 2018, no share option was granted under the fourth share option scheme.

The Company can grant share options to the Participants for a consideration of HK$1.00 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the fourth share option scheme and any other schemes of the Company may not exceed 10.00% of the issued share capital of the Company at the date of approval of the fourth share option scheme. The maximum entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the fourth share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1.00% of the total number of shares in issue.

Subscription price of the shares in relation to a share option shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the share option is offered to the Participants, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; and (iii) the nominal value of the shares. There shall be no minimum period for which the share options must be held before they are exercised but the Board may determine.

As at the date of this report, the total number of share options that can be granted was 24,411,520, representing 3.32% of the issued share capital of the Company. The total number of shares available for issue under the share option scheme as at 30 June 2018 represents 1.07% (30 June 2017: 1.08%) of the issued share capital of the Company at that date.

As at 31 August 2018, the 7,850,000 share options (granted on 9 July 2015) shown in the below table, were lapsed. The total number of share options that can be granted was 32,261,520, representing 4.39% of the issued share capital of the Company. No share available for issue under the share option schemes as at 31 August 2018.

SHARE OPTION SCHEMES (CONTINUED)

Movements in the Company's share options during the period were as follows:

Date of grant	Number of share options at 1 January 2018	Number of share options granted during the period	Number of share options cancelled/ lapsed during the period	Number of share options exercised during the period	Number of share options at 30 June 2018	Exercisable period	Exercise price per share option
Directors							
9 July 2015	2,300,000	–	–	–	2,300,000	(Note 2)	HK$5.72
Others (Note 1)							
9 July 2015	3,600,000	–	–	–	3,600,000	(Note 2)	HK$5.72
Employees							
9 July 2015	1,950,000	–	–	–	1,950,000	(Note 2)	HK$5.72
	7,850,000	–	–	–	7,850,000		

Notes:

1. Messrs. Ko Chun Shun, Johnson and Ho Te Hwai, Cecil resigned as Executive Directors of the Company on 28 April 2016. Dr. Lo Wing Yan, William and Mr. Chau Shing Yim, David retired as Independent Non-Executive Directors of the Company on 3 June 2016. The 2,000,000 share options, 1,000,000 share options, 300,000 share options and 300,000 share options held by Mr. Ko, Mr. Ho, Dr. Lo and Mr. Chau respectively were retained until the end of the expiry of the exercisable period of the share options, and reclassified from the category 'Directors' to 'Others'.
2. Exercisable period:
   (i) the first 40% of the options shall be exercisable from 1 September 2015 to 31 August 2018;
   (ii) the second 30% of the options shall be exercisable from 1 September 2016 to 31 August 2018; and
   (iii)the remaining 30% of the options shall be exercisable from 1 September 2017 to 31 August 2018.
3. The consideration for the share options granted was HK$1.00.
4. The above interests represented long positions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2018.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2018.

All other information on the Code has been disclosed in the corporate governance report contained in the 2017 annual report of the Company issued in March 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

AUDIT COMMITTEE

The Audit Committee of the Company (the "AC") comprises 3 Independent Non-executive Directors: Mr. Fung, Yuk Kan Peter (Chairman of the AC), Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. The AC is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system, risk management and internal control systems. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors. The AC has reviewed the interim results for the six months ended 30 June 2018 of the Company now reported on.

The interim financial report for the six months ended 30 June 2018 has been reviewed by the Company auditors, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company (the "RC") is responsible for setting and monitoring the remuneration policy for all Directors and senior management of the Group. The RC comprises Mr. Fung, Yuk Kan Peter (Chairman of the RC), Mr. Yao Xiangjun, Ms. Ko Wing Yan, Samantha, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. Among the 5 members of the RC, 3 members are Independent Non-executive Directors.

Mr. Yao Xiangjun ceased to be a member of the RC with effect from 4 September 2018. Mr. Gao Wenbao has been appointed as a member of the RC with effect from 4 September 2018.

NOMINATION COMMITTEE

The Nomination Committee of the Company (the "NC") comprises Mr. Yao Xiangjun (Chairman of the NC), Mr. Su Ning, Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. Among the 5 members of the NC, 3 members are Independent Non-executive Directors.

Mr. Yao Xiangjun ceased to be the chairman of the NC with effect from 4 September 2018. Mr. Gao Wenbao has been appointed as the chairman of the NC with effect from 4 September 2018.

The roles and functions of the NC include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the Independent Non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for the Directors, in particular the Chairman of the Board and the Chief Executive Officer.

DIRECTORS

As at the date of this report, the Board comprises nine Directors, of whom Mr. Yao Xiangjun, Ms. Ko Wing Yan, Samantha and Mr. Su Ning are Executive Directors, Ms. Yang Xiaoping, Mr. Dong Xue and Mr. Yuan Feng are Non-executive Directors, and Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang are Independent Non-executive Directors.

Mr. Yao Xiangjun resigned as an Executive Director and the Chairman of the Board with effect from 4 September 2018. Mr. Gao Wenbao has been appointed as an Executive Director and the Chairman of the Board with effect from 4 September 2018.