INTERIM REPORT 2019

BOE Varitronix Limited

Stock Code 710

Chairman's Statement

Financial Highlights

HK$ million	**Six months ended 30 June 2019**	Six months ended 30 June 2018
Revenue	**1,607**	1,568
Profit attributable to shareholders	**17**	20
Basic earnings per share	**2.35 HK cents**	2.78 HK cents

On behalf of BOE Varitronix Limited (the "Company") and its subsidiaries (collectively referred to as "BOEVx" or the "Group"), I present the Group's results for period ended 30 June 2019.

During the period under review, revenue of HK$1,607 million was recorded, an increase of 2.5% when compared with the HK$1,568 million recorded in the first half of 2018. Profit from operations of the Group was HK$21 million, representing a year-on-year decrease of 22%. The Group's profit attributable to shareholders was HK$17 million, representing a decrease of 15% as compared to the same period in 2018.

In the first half of the year, the growth of the Group's revenue was impacted by the macro-economic environment of the increasing uncertainties and the tension between the China-US trade relationships. The impact is particularly notable in the Group's business in the People's Republic of China (the "PRC") where the growth in automotive business has been slowed down. Nevertheless, the Group's Thin Film Transistor ("TFT") modules and touch panel display modules business continued to grow in the period under review following the gradual commencement of mass production of new projects won in prior years. Despite the continuing declining demand of the monochrome display business, the demand for TFT modules and touch panel display modules business remains positive in the second half of the year.

The continuing shift in the demand of monochrome display business to TFT modules business has lowered the overall gross profit margin of the Group as the average gross profit margin of TFT display is lower than that of monochrome display. Notwithstanding the intense competition in the TFT display business, the Group will continue to leverage the stable supply of TFT panels and modules from its major shareholder, BOE Technology Group Co., Ltd. ("BOE"), as well as its research and development capability, to further expand into the TFT business in order to increase its revenue and improve its profit margin.

Chairman's Statement

DIVIDENDS

The board (the "Board") of directors (the "Directors") of the Company resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

BUSINESS REVIEW

Automotive Display Business

For the six months ended 30 June 2019, the automotive display business generated revenue of HK$1,231 million, representing an increase of 5% as compared to the same period of 2018. The increase was mainly contributed by combined effect of the growth of the TFT modules business and the decline in monochrome display business. The automotive display business represented approximately 77% of the Group's overall revenue.

During the period, the sales from automotive TFT modules business increased significantly, which is mainly contributed by the growth from the PRC and Japan market. As discussed in 2018 annual report of the Company, a number of new TFT modules projects has started mass production in 2018 gradually which has attributed to the continually growth of revenue from the PRC and Japan market. For the PRC automotive market, the overall demand has been slowed down due to the impact from the uncertainties of the China-US trade relationship, which has affected the revenue growth in the first half of 2019. Nevertheless, the mass production of medium-to-large-sized platform TFT module products as well as touch panel modules with high average selling prices has boosted the Group's revenue in the sector. The demand for the monochrome display business continued to shrink in the first half of the year as the shift of monochrome display to TFT display in automobile continues.

The revenue from Europe remains relatively stable in the first half of 2019. Being affected by the global economic uncertainties in the period, the overall demand in the Europe automotive market is not strong and the Group's TFT modules business has only experienced a mild growth. As expected, revenue from the monochrome display business continued to show a declining trend. In Japan market, the commencement of mass production of our platform TFT display modules products has contributed to a significant increase in revenue as compared to the first half of 2018.

The Group's automotive display business continued to shift from monochrome display business to TFT modules display and also touch panel display modules. Although the average selling prices of TFT modules products and touch panel products are significantly higher than that of monochrome display products, which causes the increase of the Group's revenue, the gross profit margin ratio is less than that of monochrome display products. The Group will continue to maintain close partnership with our long-established automobile customers and to seize every opportunities to increase our market share. By obtaining further economies of scales, we expect there will be enhancement to the Group's profitability.

Industrial Display Business

For the six months ended 30 June 2019, the industrial display business generated revenue of HK$376 million, representing a decrease of 4% as compared to the same period of 2018. The industrial display business represented approximately 23% of the Group's overall revenue.

Europe and United States continue to be the main revenue contributor to the Group's industrial display business. Monochrome display products remained the mainstream display choice of our customers to be used in applications like electricity meters, industrial instruments and medical instruments. During the period under review, the revenue has decreased slightly as the demand for monochrome display products in Europe and United States has dropped. Since the monochrome display products are generally lower in average selling price and gross profit margin, the Group has been optimizing our product mix to higher selling price products. Fortunately, the Group has started the mass production of a TFT modules display project in the current period which contributed to the overall revenue.

At the same time, we have exercised stringent cost control and production process control in order to maintain our overall profit margin.

PROSPECTS

Automotive Display Business

The Group has experienced significant growth in the automotive TFT modules display business during the period under review and this part of business is accounted for more than half of the Group's overall turnover. The Group's strategy of promoting medium-to-large-sized standardized TFT platform products enabled the Group to achieve economies of scales in terms of procurement and production efficiency, which will bring improvement to the gross profit margin. Nevertheless, the market competition remains intense and it causes pressure in the overall profit margin. The Group will keep enhancing its competitiveness in the market through continuing dedication to customer services and product quality, while maintaining a competitive product pricing to obtain more orders.

The Group will continue to focus on the PRC automotive market as it still has ample room for expansion. Through our dedicated PRC sales forces, we have established a strong relationship and strategic partnership with our PRC customers and automobile manufacturers that will certainly bring long-term benefits to the Group's automotive business in the PRC market. We expect that the PRC automotive market will recover gradually in the second half of 2019 which will lead to an increase in the Group's revenue in this market.

For the Europe market, our long-established strategic relationship with European-based global automotive customers enabled us to further promote our TFT display platform products as well as grasp the future trend of the automotive display business. The Group is committed to further develop our bonding with these valued customers.

We have also been investing in various new technologies through our research and development team for automotive applications. For example, in the area of Augmented Reality Head-up display (AR HUD), we have obtained demo projects from leading PRC automobile manufacturers. The Group will continue to invest in higher value areas like AR HUD, Organic Light-Emitting Diode (OLED) related applications and integrated display module solution to further expand our automotive business spectrum.

Industrial Display Business

The Group expects that the industrial display business will remain relatively stable in the near term. While monochrome display business may show a mild declining trend, the Group has been promoting our TFT modules display products to our customers. We have successfully started the mass production of a TFT module display product for high-end home appliance in the first half of 2019 and are developing several new TFT modules display projects. The Group will strive to maintain our competitiveness in the monochrome display business and to expand TFT display business in different applications with our devoted sales team.

DEVELOPMENT STRATEGY

The Group has a clear strategy to further increase our market share in the automotive display business, including TFT modules display, touch panel modules display as well as OLED related display products. We believe that through our relentless efforts in promoting our TFT and OLED related products to our existing and new customers, the Group can obtain more orders and achieve further economies of scales in the future.

We continue to improve our operation efficiency and streamline our business and production processes to optimize our internal resources. In early 2019, the Group has integrated its manufacturing of standardized platform TFT modules to BOE and its subsidiaries (collectively the "BOE Group") under one integrated manufacturing process and control, i.e. from panel production to TFT modules assembly. Through the integration, the Group has begun to realize an improvement in overall efficiency and profit margin. The Group will continue to leverage on our strategic relationship with the BOE Group in different areas, including but not limited to stable TFT panel supply, integrated manufacturing capability as well as research and development abilities in display related areas, to further enhance our own competitive advantages.

The Group has allocated dedicated resources in developing display related technologies and new applications with focus on high-end optical bonding and automotive system business. We expect that through our continuing investment in these high-value areas, our business can expand further in the future.

TECHNOLOGY DEVELOPMENT

In-vehicle display systems in electric vehicles and self-driving cars are evolving from a multi-display cockpit to a highly integrated and smarter vehicle cockpit. Besides our continuous development in manufacturing processes for multi-screen products with free-form cover, the Group is investing more in advanced integrated module, embedded Microcontroller Unit (MCU) software development, and other automotive components development.

Our research and development in cold forming technology in curved display module is at the final stages of qualification, and is expected to be completed in the mid to late of 2019. In addition, to meet the market demands of large size curved display module, we have started development of hot form bending curved optical bonding at the beginning of this year and is expected to finish by the end of this year. In parallel, curved touch panel development was started to meet the trend of curve cockpit displays.

In order to remain ahead of the competition in the automotive display industry, the Group is still aggressively investing in new display technology development. For high integration, high transmittance Low Temperature Poly-silicon (LTPS) technology development, the first new 1.8″ LTPS HUD product development has proceeded to qualification stage while the larger size Full High Definition (FHD) 12.3″ LTPS panel product development, which in response to the needs of high-end European and American customers, is now at sample testing stage.

In the development of High Dynamic Range technology, in addition to the new backlight technologies development on Local Dimming and Mini-LED that we are working, the Group is now evaluating of the adoption of the Black Diamond Cell (BD Cell) Technology which is the BOE Group's unique innovation technology. Through the use of black and white and color double-layer cell design, as well as pixel partitioning technology and micro-scale super-fine light control technology, BD Cell display contrast reaches a million levels, dark color performance and image details are much more profound. In June 2019, we have fabricated the first 10.25″ FHD BD cell sample and showed to high-end European and American customers and received great appreciation on the outstanding performance.

With the full support of BOE (one of the major suppliers of global OLED), the Group has promising achievements in the development of flexible OLED display technology for automotive. We have developed advanced organic materials, unique pixel driving and calibration algorithm which will drastically improve the product lifetime and reliability. The technology development is expected to complete in the coming half-year.

As for touch displays, the development work is mainly on Full In-cell Touch (FIT) technology for automotive. The advantages of this solution lie in narrower border and lower surface reflection. At present, the Group is simultaneously developing two high-tech FIT solutions of 12.3″ FHD resolution, with amorphous silicon (a-Si) Gate On Array (GOA) Dual Gate technology as a highly integrated and cost competitive solution for mid-end customers, and additionally with LTPS FIT technology solution for customers with higher requirements on integration, transmittance and quality. The former a-Si FIT development has passed the second verification test and completed the preliminary release phrase while the latter LTPS FIT is now at the first sample evaluation phrase.

The Group continued to increase investment in higher level automotive products which include integrated display modules, intelligent system, software development and components products. For the development of AR for HUD system, we achieved leading level on both optical structure design and AR algorithm, and obtained demo projects from leading PRC automotive customers for our AR HUD products.

In addition, we have further strengthened the strategic cooperation with a few famous automobile manufacturers for higher-end integrated display module solution. We have launched the research and development of a Center Information Display (CID) module with a single chip microcontroller unit, newly developed control software, and connection interface with high transmission rate of visual data and embedded two-way control communication data, such as FPD Link III. The first demo was sent to the customer for evaluation. Positive feedback was received from customer and it marks a promising step to the higher technology products and high-valued products and success.

In view of the automotive market trend for the demand of diversified products and technology solutions, the Group started the new automotive OLED lighting product and transparent window technology development at the beginning of this year. The first OLED lighting sample was built and showed to different international and China customers. In respect of transparent window, we are going to work with certain strategic customers to co-develop for customized product solution in the second half of the year.

ACKNOWLEDGEMENT

We believe the future is bright for the automotive industry and great opportunities lie ahead despite the short-term ups and downs in the market. The Group will further consolidate our strength in our core automotive display business and to explore areas of high potentials. On behalf of the Board, I would like to sincerely thank our management, employees, shareholders and business partners for your continuing support. With your great support, we are confident we can achieve our goals together.

Gao Wenbao
Chairman
Hong Kong, 26 August 2019

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018 (Note)
	Note	**$'000**	$'000
Revenue	3	**1,607,173**	1,568,096
Other operating income	4	**22,462**	25,218
Change in inventories of finished goods and work in progress		**(80,147)**	(96,943)
Raw materials and consumables used		**(1,109,435)**	(996,803)
Staff costs		**(214,951)**	(262,590)
Depreciation		**(67,561)**	(50,946)
Other operating expenses		**(137,004)**	(158,784)
Profit from operations		**20,537**	27,248
Finance costs	5(a)	**(298)**	–
Share of losses of an associate		**(165)**	–
Profit before taxation	5	**20,074**	27,248
Income tax	6	**(2,824)**	(6,778)
Profit for the period attributable to the equity shareholders of the Company		**17,250**	20,470
Earnings per share (in HK cents)	7		
Basic		**2.35 cents**	2.78 cents
Diluted		**2.35 cents**	2.78 cents

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

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 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018 (Note)
	$'000	$'000
Profit for the period	**17,250**	20,470
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item 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	**(607)**	(10,376)
– Debt securities: net movement in fair value reserve (recycling)	**–**	(3,496)
Other comprehensive income for the period	**(607)**	(13,808)
Total comprehensive income for the period attributable to the equity shareholders of the Company	**16,643**	6,662

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2019 $'000	At 31 December 2018 (Note) $'000
Non-current assets			
Property, plant and equipment	8	**511,742**	539,198
Interest in an associate		**3,358**	3,636
Intangible assets		**5,585**	5,899
Other financial assets		**–**	3,132
Non-current deposits		**53,638**	53,065
Deferred tax assets		**9,792**	10,348
		584,115	615,278
Current assets			
Inventories	9	**568,185**	730,571
Trade and other receivables, deposits and prepayments and other contract costs	10	**830,970**	786,951
Other financial assets		**3,124**	–
Current tax recoverable		**11,099**	6,266
Fixed deposits with more than three months to maturity when placed	11	**39,050**	–
Cash and cash equivalents	11	**1,255,437**	1,340,107
		2,707,865	2,863,895
Current liabilities			
Trade and other payables	12	**478,365**	694,534
Lease liabilities		**6,958**	–
Current tax payable		**2,238**	1,083
Deferred income		**4,885**	5,331
Dividends payable	13	**7,352**	–
		499,798	700,948
Net current assets		**2,208,067**	2,162,947
Total assets less current liabilities		**2,792,182**	2,778,225
Non-current liabilities			
Lease liabilities		**6,187**	–
Deferred tax liabilities		**8,192**	8,195
Deferred income		**8,769**	11,006
		23,148	19,201
NET ASSETS		**2,769,034**	2,759,024
CAPITAL AND RESERVES	13		
Share capital		**183,794**	183,794
Reserves		**2,585,240**	2,575,230
TOTAL EQUITY		**2,769,034**	2,759,024

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

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 2019 – 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	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 (Note)	183,794	1,307,585	20,515	–	–	18,466	21,549	720,191	529,251	2,801,351

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2019 – 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 2019	183,794	1,307,585	(18,475)	–	–	–	21,549	720,191	544,380	2,759,024
Changes in equity for 2019:										
Profit for the period	–	–	–	–	–	–	–	–	17,250	17,250
Other comprehensive income	–	–	(607)	–	–	–	–	–	–	(607)
Total comprehensive income	–	–	(607)	–	–	–	–	–	17,250	16,643
Equity settled share-based transactions	–	–	–	–	–	719	–	–	–	719
Final dividend approved in respect of the previous year	–	–	–	–	–	–	–	–	(7,352)	(7,352)
Balance at 30 June 2019	183,794	1,307,585	(19,082)	–	–	719	21,549	720,191	554,278	2,769,034

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 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018 (Note)
	$'000	$'000
Cash (used in)/generated from operations	**(22,613)**	68,369
Tax paid		
– People's Republic of China ("PRC") income taxes paid	**(4,470)**	(5,670)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC	**(1,476)**	(1,583)
Net cash (used in)/generated from operating activities	**(28,559)**	61,116
Payment for purchase of property, plant and equipment	**(26,302)**	(83,845)
Proceeds from disposal of property, plant and equipment	**2,987**	144
Government grants received relating to acquisition of property, plant and equipment	**–**	19,638
Payment for the enterprise reporting system implementation	**(1,044)**	(6,764)
Payment for purchase of certificate of deposits	**–**	(11,775)
Proceeds from redemption of certificates of deposits	**–**	32,900
(Increase)/decrease in fixed deposits with more than three months to maturity when placed	**(39,160)**	221,958
Proceeds from disposal of equity securities	**–**	360
Proceeds from disposal of debt securities	**–**	12,042
Proceeds from consideration received from disposal of non-listed equity securities and associated loans receivable	**–**	15,500
Interest received	**12,211**	7,909
Net cash (used in)/generated from investing activities	**(51,308)**	208,067
Capital element of lease rental paid	**(3,948)**	–
Interest element of lease rental paid	**(298)**	–
Net cash used in financing activities	**(4,246)**	–
Net (decrease)/increase in cash and cash equivalents	**(84,113)**	269,183
Cash and cash equivalents at 1 January	**1,340,107**	980,402
Effect of foreign exchange rates changes	**(557)**	(3,862)
Cash and cash equivalents at 30 June	**1,255,437**	1,245,723

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

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 26 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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 2018 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Changes in the accounting policies (Continued)

(i) New definition of a lease (Continued)

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 16(b).

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically office equipment. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Changes in the accounting policies (Continued)

(iii) Lessor accounting

The Group leases out a number of items of plant, machinery, tools and equipment as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.49%.

To ease the transition to HKFRS 16, the Group applied the recognition exemption and practical expedients at the date of initial application of HKFRS 16 when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in note 16(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 $'000
Operating lease commitments at 31 December 2018	**18,787**
Less: total future interest expenses	**(889)**
Total lease liabilities recognised at 1 January 2019	**17,898**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 $'000	Capitalisation of operating lease contracts $'000	**Carrying amount at 1 January 2019 $'000**
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	539,198	17,898	**557,096**
Total non-current assets	615,278	17,898	**633,176**
Lease liabilities (current)	–	8,325	**8,325**
Current liabilities	700,948	8,325	**709,273**
Net current assets	2,162,947	(8,325)	**2,154,622**
Total assets less current liabilities	2,778,225	9,573	**2,787,798**
Lease liabilities (non-current)	–	9,573	**9,573**
Total non-current liabilities	19,201	9,573	**28,774**
Net assets	2,759,024	–	**2,759,024**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 $'000	At 1 January 2019 $'000
Included in "Property, plant and equipment":		
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost	**133,128**	**137,764**
Other properties leased for own use, carried at depreciated cost	**12,697**	**17,366**
Motor vehicles, carried at depreciated cost	**325**	**532**
	146,150	**155,662**

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	6,958	7,355	8,325	8,874
After 1 year but within 2 years	5,439	5,601	6,566	6,841
After 2 years but within 5 years	748	761	3,007	3,072
	6,187	6,362	9,573	9,913
	13,145	13,717	17,898	18,787
Less: total future interest expenses		(572)		(889)
Present value of lease liabilities		13,145		17,898

(d) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) Impact on the financial result and cash flows of the Group (Continued)

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16	Add back: HKFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1)	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported for 2018 under HKAS 17
	(A)	(B)	(C)	(D=A+B-C)	
	$'000	$'000	$'000	$'000	$'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	20,537	4,071	(4,246)	20,362	27,248
Finance costs	(298)	298	-	-	-
Profit before taxation	20,074	4,369	(4,246)	20,197	27,248
Profit for the period	17,250	4,369	(4,246)	17,373	20,470

	2019			2018
	Amounts reported under HKFRS 16	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2)	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported for 2018 under HKAS 17
	(A)	(B)	(C=A+B)	
	$'000	$'000	$'000	$'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash (used in)/generated from operations	(22,613)	(4,246)	(26,859)	68,369
Net cash (used in)/generated from operating activities	(28,559)	(4,246)	(32,805)	61,116
Capital element of lease rentals paid	(3,948)	3,948	-	-
Interest element of lease rentals paid	(298)	298	-	-
Net cash used in financing activities	(4,246)	4,246	-	-

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

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 are derived from this business segment. The interim financial report is 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.

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 property, plant and equipment, 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 revenues from external customers

	Six months ended 30 June	
	2019	2018
	$'000	$'000
The PRC (place of domicile)	**591,037**	537,869
Europe	**685,365**	679,429
America	**113,136**	144,502
Korea	**63,146**	67,080
Others	**154,489**	139,216
	1,016,136	1,030,227
Consolidated revenue	**1,607,173**	1,568,096

(Expressed in Hong Kong dollars otherwise indicated)

3. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Geographic information (Continued)

(i) Group's revenues from external customers (Continued)

Revenues from external customers located in Europe are analysed as follows:

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Germany	**172,438**	185,611
Czech Republic	**140,502**	134,303
France	**51,670**	62,343
United Kingdom	**32,065**	46,094
Italy	**33,018**	42,629
Other European countries	**255,672**	208,449
	685,365	679,429

(ii) Group's specified non-current assets

	At 30 June 2019	At 31 December 2018 (Note)
	$'000	$'000
The PRC (place of domicile)	**509,754**	541,682
Korea	**3,358**	3,636
Others	**7,573**	3,415
	520,685	548,733

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Interest income from listed debt securities	**–**	390
Interest income on financial assets measured at amortised cost	**14,816**	7,637
Gain on disposal of debt securities	**–**	2,718
Government grants (note (i))	**6,919**	10,906
Net exchange (loss)/gain	**(5,849)**	3,203
Net (loss)/gain on disposal of property, plant and equipment	**(321)**	37
Rental receivable from operating leases	**5,256**	–
Other income	**1,641**	327
	22,462	25,218

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 $4,178,000 (2018: $4,550,000) and amortisation of government grants received from the PRC authorities in relation to acquiring machineries of $2,741,000 (2018: $6,356,000). There are 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	
	2019	2018 (Note)
	$'000	$'000
(a) Finance costs		
Interest on lease liabilities	**298**	–
(b) Other items		
Expected credit loss allowance recognised on trade receivables	**57**	–
Cost of inventories	**1,394,343**	1,315,590

Note:
The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

6. INCOME TAX

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Current tax – The PRC income taxes	**–**	1,207
Current tax – Jurisdictions outside Hong Kong and the PRC	**2,268**	1,909
Deferred taxation	**556**	3,662
	2,824	6,778

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019.

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 2019. Other subsidiaries of the Group 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 of the Group 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 consolidated profit attributable to ordinary equity shareholders of the Company of $17,250,000 (six months ended 30 June 2018: $20,470,000) and the weighted average of 735,175,204 ordinary shares (2018: 735,175,204 shares) in issue during the interim period.

7. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of $17,250,000 (six months ended 30 June 2018: $20,470,000) and the weighted average number of ordinary shares of 735,175,204 (2018: 735,175,204 shares).

8. PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the Group entered into a new agreement for use of office, and therefore recognised the addition to right-of-use assets of $90,000.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of $25,673,000 (six months ended 30 June 2018: $79,503,000). Items of property, plant and equipment with a net book value of $3,308,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: $107,000), resulting in a loss on disposal of $321,000 (six months ended 30 June 2018: gain on disposal of $37,000).

9. INVENTORIES

During the six months ended 30 June 2019, the Group recognised inventory write-down of $10,134,000 (2018: $9,635,000) in profit or loss and reversal of write-down of inventories of $9,806,000 (2018: $8,405,000) as a reduction in the amount of inventories recognised as an expense in profit or loss.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS AND OTHER CONTRACT COSTS

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables, deposits and prepayments and other contract costs), based on invoice date and net of loss allowance of $4,762,000 (31 December 2018: $4,705,000) is as follows:

	At 30 June 2019 $'000	At 31 December 2018 $'000
Within 60 days of the invoice issue date	**482,891**	524,581
61 to 90 days after the invoice issue date	**118,974**	101,495
91 to 120 days after the invoice issue date	**65,676**	38,586
More than 120 days but less than 12 months after the invoice issue date	**52,965**	35,132
	720,506	699,794

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS AND OTHER CONTRACT COSTS (CONTINUED)

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 2019 $'000	At 31 December 2018 $'000
Fixed deposits with banks with more than three months to maturity when placed	**39,050**	–
Fixed deposits with banks with three months or less maturity when placed	**111,230**	317,139
Cash at banks and on hand	**1,144,207**	1,022,968
Cash and cash equivalents	**1,255,437**	1,340,107

12. TRADE AND OTHER PAYABLES

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

	At 30 June 2019 $'000	At 31 December 2018 $'000
Within 60 days of supplier invoice date	**322,734**	475,836
61 to 120 days after supplier invoice date	**39,899**	72,250
More than 120 days but within 12 months after supplier invoice date	**16,685**	7,275
More than 12 months after supplier invoice date	**488**	1,070
	379,806	556,431

13. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

13. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Dividends (Continued)

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

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Final dividend in respect of the previous financial year, approved during the following interim period, of 1.0 HK cent (2018: 1.0 HK cent) per share	**7,352**	7,352

The final dividend has been recognised as dividend payable in the consolidated statement of financial position as at 30 June 2019.

(b) Equity settled share-based transactions

On 24 January 2019, the Company has granted a total of 4,500,000 share options (the "Options") to the eligible persons including its directors and employees, to subscribe for a total of 4,500,000 ordinary shares of $0.25 each of the Company at an exercise price of $2 per share. Among the 4,500,000 Options, the first 40% of the options shall be exercisable from 1 February 2020 to 31 January 2023, the second 30% of the options exercisable from 1 February 2021 to 31 January 2023, and the remaining 30% of the options exercisable from 1 February 2022 to 31 January 2023. Further details are set out in the Company's announcement dated 24 January 2019.

There were no options forfeited during the period ended 30 June 2019 (2018: Nil).

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes trade and other payables, dividends payable and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the Group's total debt.

13. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Capital management (Continued)

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	Note	30 June 2019 $'000	1 January 2019 (Note) $'000	31 December 2018 (Note) $'000
Current liabilities:				
Trade and other payables		**478,365**	**694,534**	694,534
Lease liabilities		**6,958**	**8,325**	-
Dividends payable		**7,352**	**-**	-
		492,675	**702,859**	694,534
Non-current liabilities:				
Lease liabilities		**6,187**	**9,573**	-
Total debt		**498,862**	**712,432**	694,534
Add: Proposed dividends	13(a)	**-**	**7,352**	7,352
Less: Fixed deposits with banks with more than three months to maturity when placed		**(39,050)**	**-**	-
Cash and cash equivalents	11	**(1,255,437)**	**(1,340,107)**	(1,340,107)
Net cash		**(795,625)**	**(620,323)**	(638,221)
Total equity		**2,769,034**	**2,759,024**	2,759,024
Less: Proposed dividends	13(a)	**-**	**(7,352)**	(7,352)
Adjusted capital		**2,769,034**	**2,751,672**	2,751,672
Adjusted net debt-to-capital ratio		**N/A**	**N/A**	N/A

Note:
The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2.

14. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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 2019 and 31 December 2018.

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 (collectively "BOE Group"), except for disclosed elsewhere in these unaudited condensed consolidated interim financial report:

	Note	Six months ended 30 June 2019 $'000	2018 $'000
Purchase of goods from BOE Group	1	**472,068**	193,270
Subcontracting fee charged by BOE Group	1	**–**	632
Lease of property, plant and equipment to BOE Group	2	**5,256**	–
Rental, management fee, utilities fees and computer integrated manufacturing system management fee charged by BOE Group	3	**473**	5,406

15. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (Continued)

Notes:

(1) The transactions were conducted based on the terms as governed by the renewed master purchase agreement and renewed master subcontracting agreement entered into between the Company and BOE on 22 November 2018. Further details are set out in the Company's announcement dated 22 November 2018. The related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(2) The transactions were conducted based on the terms as governed by the assets lease agreement entered into between Chengdu BOE Vehicle Display Technology Co., Ltd. ("Chengdu Vx"), a wholly owned subsidiary of the Company, and Chengdu BOE Optoelectronics Technology Co., Ltd. ("Chengdu BOE"), a wholly owned subsidiary of BOE on 14 February 2019. Further details are set out in the Company's announcement dated 14 February 2019. The related party transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

(3) The transactions were conducted based on the terms as governed by the tenancy agreement and the related agreements ("Tenancy Agreement and the Related Agreements") entered into between Link Score Investment Limited, a wholly owned subsidiary of the Company, and Chengdu 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 transactions as defined in Chapter 14A of the Listing Rules.

On 14 February 2019, Chengdu Vx and Chengdu BOE entered into a termination agreement ("Termination Agreement"), pursuant to which the Tenancy Agreement and the Related Agreements dated 13 January 2017 had been terminated with effect from 15 February 2019. Meanwhile, the two contractual parties also formed a new tenancy agreement ("New Tenancy Agreement") for a term commencing from 15 February 2019 to 31 December 2021. The transaction contemplated under the Termination Agreement constitutes a connected transaction as defined in Chapter 14A of the Listing Rules. The transactions as contemplated under the New Tenancy Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of $90,000.

(b) Balances with related parties

At 30 June 2019, included in trade and other payables were amounts due to BOE Group for the purchase cost and other expenses payable of $135,926,000 (31 December 2018: $61,252,000). Non-current deposits of $38,605,000 (31 December 2018: $36,785,000) were paid to BOE Group for the purchase of the TFT panels toolings for manufacturing TFT modules. Prepayment of $40,600,000 (31 December 2018: $5,283,000) due from BOE Group were included in trade and other receivables, deposits and prepayments and other contract costs in the consolidated statement of financial position.

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

16. COMMITMENTS

(a) 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 2019 $'000	At 31 December 2018 $'000
Contracted for	**7,130**	6,672

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	$'000
Within 1 year	8,874
After 1 year but within 5 years	9,913
	18,787

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2.

17. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

Review Report

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 2019 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 2019 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

26 August 2019

Other Information

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

STAFF

As at 30 June 2019, the Group employed 4,097 staff around the world, of whom 124 were in Hong Kong, 3,927 in the People's Republic of China (the "PRC") and 46 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 2019, the total equity of the Group was HK$2,769 million (31 December 2018: HK$2,759 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 5.42 as at 30 June 2019 (31 December 2018: 4.09).

At the period end, the Group held a liquid portfolio of HK$1,298 million (31 December 2018: HK$1,343 million) of which HK$1,295 million (31 December 2018: HK$1,340 million) was in cash and fixed deposits balance, HK$3 million (31 December 2018: HK$3 million) was in other financial assets. At the period end, the Group had no borrowings (31 December 2018: HK$Nil). The Group's gearing ratio (borrowings over net assets) was Nil% as at 30 June 2019 (31 December 2018: Nil%).

The Group's inventory turnover ratio (annualized cost of inventories over average inventories balance) for the six months ended 30 June 2019 was 4.3 times (2018: 3.5 times). Debtor turnover days (trade receivables over annualized revenue times 365) for the six months ended 30 June 2019 was 81 days (2018: 80 days).

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales and purchases 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.

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

As at 30 June 2019, 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
Gao Wenbao	Personal Interest	90,700	0.0003%
Su Ning	Personal Interest	30,000	0.0001%
Shao Xibin	Personal Interest	83,600	0.0002%
Jin Hao	Personal Interest	69,600	0.0002%
Zhang Shujun	Personal Interest	98,900	0.0003%

Notes:
1. BOE subscribed 400,000,000 shares, representing 54.41% of the issued share capital of the Company.
2. 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 2019	Number of share options granted during the period	Number of share options exercised during the period	Number of share options at 30 June 2019	Exercisable period	Exercise price per share option
Gao Wenbao	24 January 2019	–	500,000	–	500,000	(Note 1)	HK$2.00
Ko Wing Yan, Samantha	24 January 2019	–	500,000	–	500,000	(Note 1)	HK$2.00
Su Ning	24 January 2019	–	500,000	–	500,000	(Note 1)	HK$2.00
Fung, Yuk Kan Peter	24 January 2019	–	100,000	–	100,000	(Note 1)	HK$2.00
Chu, Howard Ho Hwa	24 January 2019	–	100,000	–	100,000	(Note 1)	HK$2.00
Hou Ziqiang	24 January 2019	–	100,000	–	100,000	(Note 1)	HK$2.00

Notes:

1. Exercisable period:
   (i) the first 40% of the options shall be exercisable from 1 February 2020 to 31 January 2023;
   (ii) the second 30% of the options shall be exercisable from 1 February 2021 to 31 January 2023; and
   (iii)the remaining 30% of the options shall be exercisable from 1 February 2022 to 31 January 2023.
2. The above interests represented long positions.

Saved as disclosed above, as at 30 June 2019, 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 2019 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 2019, 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)	–	56,551,000	7.69%
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. The above interests represented long positions.

Saved as disclosed above, as at 30 June 2019, 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 2019, the fourth share option has a remaining life of up to 2 June 2023. On 24 January 2019, 4,500,000 share options were granted under the fourth share option scheme and a consideration of HK$41.00 was received. Save as disclosed above, during the six months ended 30 June 2019, 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 27,761,520, representing 3.78% 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 2019 represents 0.61% (30 June 2018: 1.07%) of the issued share capital of the Company at that date.

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 2019	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 2019	Exercisable period	Exercise price per share option
Directors							
24 January 2019	–	1,800,000	–	–	1,800,000	(Note 1)	HK$2.00
Employees							
24 January 2019	–	2,700,000	–	–	2,700,000	(Note 1)	HK$2.00
	–	4,500,000	–	–	4,500,000		

Notes:

1. Exercisable period:
   (i) the first 40% of the options shall be exercisable from 1 February 2020 to 31 January 2023;
   (ii) the second 30% of the options shall be exercisable from 1 February 2021 to 31 January 2023; and
   (iii)the remaining 30% of the options shall be exercisable from 1 February 2022 to 31 January 2023.
2. The consideration for the share options granted was HK$1.00.
3. The above interests represented long positions.

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The term of office of Ms. Yang Xiaoping ("Ms. Yang"), Mr. Dong Xue ("Mr. Dong") and Mr. Yuan Feng ("Mr. Yuan") expired on 27 April 2019. In this connection, Ms. Yang, Mr. Dong and Mr. Yuan retired as a Non-executive Director of the Company, all with effect from 27 April 2019.

Mr. Shao Xibin, Mr. Jin Hao and Ms. Zhang Shujun were appointed as a Non-executive Director of the Company, all with effect from 28 April 2019.

Mr. Chu, Howard Ho Hwa, the independent non-executive Director, was appointed as an independent non-executive director of Guolian Securities Co., Ltd. (Stock code: 1456), which is listed on the Main Board of the Stock Exchange, with effect from 27 June 2019.

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 2019.

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 2019.

All other information on the Code has been disclosed in the corporate governance report contained in the 2018 annual report of the Company issued in March 2019.

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 2019 of the Company now reported on.

The interim financial report for the six months ended 30 June 2019 has been reviewed by the Company's 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. Gao Wenbao, 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.

NOMINATION COMMITTEE

The Nomination Committee of the Company (the "NC") comprises Mr. Gao Wenbao (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.

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. Gao Wenbao, Ms. Ko Wing Yan, Samantha and Mr. Su Ning are executive Directors, Mr. Shao Xibin, Mr. Jin Hao and Ms. Zhang Shujun are non-executive Directors, and Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang are independent non-executive Directors.