

# BOE



## INTERIM REPORT 2020

BOE VARITRONIX LIMITED

Stock Code 710

# Chairman's Statement

## Highlights

HK\$ million	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue	<b>1,898</b>	1,607
EBITDA <sup>1</sup>	<b>89.8</b>	88.3
Profit Attributable to Shareholders	<b>18.2</b>	17.3
Cash and Fixed Deposits Balance	<b>1,502</b>	1,294
Basic Earnings per Share	<b>2.5 HK cents</b>	2.4 HK cents

<sup>1</sup> EBITDA means profit for the period plus the following to the extent deducted in calculating such profit for the period: finance costs, income tax, depreciation and amortisation.

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 the period ended 30 June 2020.

During the period under review, revenue of HK\$1,898 million was recorded, an increase of 18.1% when compared with the HK\$1,607 million recorded in the first half of 2019. EBITDA of the Group was HK\$89.8 million, 1.7% higher than the HK\$88.3 million recorded for the same period in the previous year. The profit attributable to shareholders was HK\$18.2 million, an increase of 5%, when compared with the HK\$17.3 million recorded in the first half of 2019.

As at 30 June 2020, the cash and fixed deposits balance of the Group was HK\$1,502 million, compared to HK\$1,546 million at the end of 2019. The Group has no bank loan as at 30 June 2020 and 31 December 2019. The cash position of the Group remains strong during the period.

The COVID-19 pandemic emerged in the period under review has impacted the global economy and caused disruption of business across different geographic regions. The overall business and operation of the Group was inevitably affected in the first quarter of 2020 due to the lockdown in the People's Republic of China (the "PRC"), Europe and other countries. Fortunately, the situation has been improving in the PRC and the Group's production was managed to recover in an efficient manner which minimized the impact to the Group. Under the proactive measures and monitoring of the market situation and supply chain, the Group was able to react quickly to the increase in demand from our PRC customers in the second quarter of 2020. As a result, the Group has recorded a growth of 18.1% in revenue during the period under review.

The increase in revenue in the period under review was mainly contributed by the gradual commencement of mass production of Thin Film Transistor (“TFT”) modules and touch panel display modules products from automotive customers in the PRC, Korea and Japan markets. Through the implementation of the Group’s strategy of expanding the market share of TFT and touch panel display business to our customers, the Group’s TFT module business accounted for around 75% of the Group’s total revenue and become the main engine for continuous growth.

During the period under review, EBITDA has increased slightly by 1.7% from HK\$88.3 million to HK\$89.8 million, which is mainly contributed by the decrease of staff costs and operating expenses, being partly offset by the increase in costs of inventories. The Group has integrated its manufacturing of selected standardized platform TFT modules to BOE Technology Group Co., Ltd (“BOE”) and its subsidiaries (collectively referred to as “BOE Group”) in early 2019 in order to optimize the allocation of internal resources. The integration has significantly reduced our staff costs as well as other manufacturing overheads, while the costs of procurement of TFT modules from the BOE Group had increased accordingly. The integration has brought overall improvement to the Group’s operating efficiency as well as operating profits.

## **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 2020 (six months ended 30 June 2019: Nil).

## **BUSINESS REVIEW**

### **Automotive Display Business**

For the period under review, the automotive display business generated revenue of HK\$1,386 million, an increase of 13% from the revenue of HK\$1,231 million recorded in the same period of 2019. This business represented approximately 73% of the Group’s overall revenue.

Despite the impact of COVID-19 on the global economy and the tensions between the China-US trade relationship, the Group’s revenue from the automotive display business has achieved double-digit growth during the period. This was mainly contributed by the increase in sales of automotive TFT modules and touch panel modules products to the PRC, Korea and Japan markets. The proportion of sales for monochrome display continued to drop and automotive TFT and touch panel modules accounted for approximately 60% of the Group’s revenue.

The recovery of the PRC automotive market is remarkable during the second quarter of 2020 and the Group has received a surge of orders from our PRC customers. Certain major PRC automobile manufacturers have recorded an increase in automobile sales in the second quarter as compared to the weaker first quarter, which reflected the gradual recovery of market demand. In addition, the gradual commencement of mass production of new won projects in prior year has also contributed to the increase in revenue in the period. Apart from growth in revenue from TFT display modules, revenue from touch panel display modules for new energy electric vehicles (“NEV”) also increased significantly. The Group has managed to cope with the short-term disruption caused by the COVID-19 lockdown and swiftly resumed the production and fulfilled customers delivery during the period.

For Europe market, due to the COVID-19 lockdown in European countries, most of the automobile manufacturers have suffered from temporary production stoppage. Coupled with the already weakened and uncertain economic situation in the European Union zone and the United Kingdom, the overall performance of sales was negatively affected in the period under review.

The revenue from Korea and Japan market has recorded a notable growth in the period which is mainly contributed by the commencement of mass production of several TFT modules projects in late 2019.

## Industrial Display Business

For the period under review, the industrial display business generated revenue of HK\$512 million, an increase of 36% from the revenue of HK\$376 million recorded in that same period in 2019. This business represented approximately 27% of the Group’s overall revenue.

The increase of revenue from this business is mainly due to increase in sales of TFT display modules for education-related application in the PRC and the mass production of TFT display modules for a world-renowned high-end home appliances brand. The monochrome display revenue continued to decrease in major markets in Europe and United States as affected by the impact of COVID-19.

## BUSINESS OUTLOOK

Although the impact of COVID-19 is expected to linger for the foreseeable future, the Group expects that our TFT and touch panel display modules business will continue to grow in second half of 2020 and onwards, based on the orders from awarded projects from different customers, in particular customers in the PRC. During the period under review, the Group has taken various actions to adapt to the ever-changing situation from the pandemic and ensured our delivery to customers. The Group will continue to remain vigilant under the COVID-19 pandemic uncertainties and take necessary proactive measures to respond to potential challenges.

### Automotive Display Business

During the period, the Group's has successfully increased our market share in the global automotive market. We have obtained over 50% orders share for certain major domestic automobile manufacturers in the PRC and we estimate our market share will further increase in the future. Through strategic partnership with major PRC automotive Tier-1 as well as domestic automobile manufacturers, we have deepened our cooperation and successfully obtained projects for medium to large-sized platform display products, including TFT display modules and higher selling price touch panel display modules. Our products are used in both domestic brand cars as well as joint venture brand cars, with increasing portion applies to NEV. The Group will collaborate with our customers and business partners to respond swiftly to the future trend of automobile development, and to develop and promote products relating to integrated smart cockpit display system, like Active-matrix Organic LED ("AMOLED") display, automotive Augmented Reality Head-up Display ("AR-HUD") and integrated display system.

For Europe market, the unprecedented impact brought by the COVID-19 pandemic will continue to affect the business outlook of the remaining period of 2020 and onwards. As a result, it is difficult to have a reliable outlook for the rest of the year or even year 2021. Some major European automobile manufacturers and Tier-1 manufacturers anticipate a fall of over 10% or even 20% of global vehicle production in 2020 versus 2019. The Group will closely communicate with our customers and monitor the market development and take appropriate actions.

For Japan and Korea markets, several projects have already started mass production in the first half of 2020 and thus the overall performance is expected to outperform that of 2019.

### Industrial Display Business

The Group will continue to promote our display products to different industrial customers as well as high-end consumer customers. Our target is to increase the sales of TFT display and touch panel modules and to promote AMOLED related products to different applications to expand our business scope, while maintaining our share of monochrome display application. Our traditional customers are mainly located in the Europe and United States which were hard-hit by the impact of the COVID-19 pandemic. We considered that it will take a relatively longer time for full recovery. Nevertheless, our team will remain resilient and monitors the changing market condition.

### Development Strategy

Through the continuous efforts in automotive market penetration, we have successfully increased our overall market share in the global automotive display market, especially in the revenue from sales of centre information display. According to an automobile display market research report, our market share in automobile monitor display in the first quarter of 2020 has reached 10%. We have established important strategic partnership with major market players in 2019 and started to yield positive results. The Group will continue to explore market opportunities to further increase our TFT and touch panel modules display market share in both PRC and overseas markets, with particular focus in the PRC to grasp the growing market demand in automobile consumption under the government stimulus policies in both conventional and NEV.

The Group has a clear roadmap in developing high-value business areas with focus in integrated smart cockpit display system. In addition to enhance and promote our TFT and AMOLED display-related technologies, the Group has been investing resources in developing various areas to enable us to transform from a display solution provider to automotive integrated display system solution provider. Our investment in AR-HUD has achieved remarkable results and obtained development orders from a famous PRC NEV manufacturer. We have also been awarded a project from another NEV manufacturer for an integrated cluster display. The Group has also invested in optical bonding manufacturing facilities together with a PRC renowned software group to further develop our roadmap for integrated smart cockpit display system.

We will proactively work together with our strategic eco-system partners to enhance automobile user experience. Regarding visual experience and quality, AMOLED and Black Diamond Cell ("BD Cell") are the preferred choices for future display solution. The Group has successfully commenced mass production for a small-sized AMOLED for a well-known NEV manufacture and will continue to promote small to medium-sized AMOLED display to our customers. Our development team has completed the development of Full In Cell Touch IBN, which is a cost effective, high quality solution. The introduction of this IBN display has been well received by our automotive and white-goods customers. We will also accelerate our development in technologies for integrated smart cockpit display system, including AR-HUD, real time 3D display, 3D gesture control, etc.

## Technology Development

In the first half of 2020, a series of timely policies have been launched in the PRC, in which new NEV is the affirmed direction for the future of automotive industry. With the new trend of intellectual connected NEV, automotive displays, being an important carrier of smart cockpit system of NEV, are upgrading and transforming to large screens, higher resolutions, multi-screen, higher degree of intelligence and user interaction as well as personalization.

By virtue of prolonged efforts in the field of automotive display, in addition to technology accumulation of large-sized displays development, and software and hardware developments in integrated display systems, the Group has ensured that it keeps pace with the latest technology trend in the field of next smart cockpit generation, and provides various products of display and technology to fulfil coming customized demands.

In terms of display technology development, the first large-sized (12.3 inch) FHD naked eye 3D cluster display has been preliminarily developed. With the use of lenticular lens 3D technology, it enables multiple viewpoints and wide view angle of up to 120°, together with instant 2D/3D conversion support which brings about excellent rendering effects, perceived depth of field and astounding alarm signals display. This technical solution has been adopted to a tier-1 customer's collaborative development task.

Concerning large-sized screen and integrated multi-screen, we have curved and integrated multi-screen products, which comply with the trends of large-sized and precision display. With the adoption of seamless black technology and cold-forming technology, it brings about a new immersive experience for both drivers and passengers, while comprehensive information is enclosed. The cold-forming technology for curved integrated multi-screen production has been verified and equipment for mass production is under installation.

With regards to demand for user-friendly and powerful human machine interface ("HMI") design with smart cockpit compartment, the Group's knob-on-display touch technology can provide drivers with fast and responsive physical interactive, precise, efficient and sophisticated operations. Moreover, it requires less visual attention from a driver which allows blind touch as well as a much safer operation. The development of the technology product is completed and on show in the annual Society for Information Display ("SID") exhibition. It is ready for mass production now. Meanwhile, we have hovering operation system technology and Infrared gesture recognition technology under development, which provides both proximity sensing, 2D and 3D gestures recognition and command control, which comply with the extension demand of HMI as well as hygienic contactless UI solution. In the area of traditional passive display, the Group have completed the development of the Full In-cell Touch ("FIT") IBN product, which is a light, slim, cost competitive and easy operation solution. The introduction of this new IBN display product has been well received by both automotive and white goods customers.

In term of High Dynamic Range ("HDR") technology development, with its unique and original BD Cell display technology, the Group has attracted good marketing responses. This remarkable technology employs highly sophisticated pixel-level backlighting control, which achieves ultra-high million-level display contrast, therefore perfectly reproduces natural and genuine images. Another new HDR technology under development is the mini-LED technology. It largely enhances display performance to a contrast level of hundreds of thousands. This technology is now under promotion.

As for technology development of AMOLED with ultimate display performance, the Group has preliminarily completed the development of automotive flexible AMOLED display technologies. In the aspect of automotive supremely high standard for lifetime, currently, with new materials released and advanced pixel driving algorithm and calibration technology, the high resolution 12.3 inch FHD flexible AMOLED development has reached the general automotive manufacturer's reliability and mass production requirements. The Group will continuously commit to materials and driving algorithm improvement in order to attain leading standards of such products.

To comply with the strategy of products upgrade and transformation, the Group is progressively investing in higher-end automotive cockpit and system products and this includes visual and smart systems products, software development (with OS, AI for image processing algorithm, etc), integrated display modules for cluster and center information display ("CID") systems.

As for HUD system products and development, we are in the top position in the field. In the first half of 2020, we were awarded a number of HUD product development projects for a well-known NEV manufacturer's new model cars. In the next generation for 3D AR-HUD development, we have achieved breakthroughs in 3D images rendering as well as depth of field effect, this allows the navigation image and the road conditions seamlessly fused for the best augmented reality display. Demo samples are now available and development is about to finished by end of the year. For another series of visual products development, the transparent A-pillar product is in good progress and has installed our flexible AMOLED display to a demo car for a famous automotive manufacturer in the PRC.

As regards to development of higher-end integrated display systems and software development, we completed the development of a CID module with controlling software running on a single chip MCU and connection interface with high transmission rate of visual data and bidirectional control communication, with which we received the first order of integrated cluster display project from an NEV manufacturer. In this year, a more challenging cluster display system platform development with dual computing chips and real-time operating systems was commenced and now in good progress. Tuned demos of this system platform are now available for promotion. These important technology reserves have built the foundation for the future mainstream of full display type integrated cluster display systems.

## ACKNOWLEDGEMENT

During the period, the Group has faced unprecedented challenges caused by the COVID-19 pandemic. Thanks to the relentless efforts of our collaborative team, we have managed to minimize the disruption and achieved satisfactory results under uncertain times. The Group is now a major market player in the automotive display market with increasing market shares. We will pursuit our ambition to become a leading integrated smart cockpit display system solution provider. On behalf of the Board, I would like to express my sincere gratitude to our management, employees, shareholders and business partners for your great support.

**Gao Wenbao**

Chairman

Hong Kong, 28 August 2020

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 \$' 000	2019 \$' 000
<b>Revenue</b>	3	<b>1,898,299</b>	1,607,173
Other operating income	4	<b>26,220</b>	22,462
Change in inventories of finished goods and work in progress		<b>(2,843)</b>	(80,147)
Raw materials and consumables used		<b>(1,541,961)</b>	(1,109,435)
Staff costs		<b>(189,928)</b>	(214,951)
Depreciation		<b>(70,432)</b>	(67,561)
Other operating expenses	5(c)	<b>(99,419)</b>	(137,004)
<b>Profit from operations</b>		<b>19,936</b>	20,537
Finance costs	5(a)	<b>(189)</b>	(298)
Share of losses of associates		<b>(963)</b>	(165)
<b>Profit before taxation</b>	5	<b>18,784</b>	20,074
Income tax	6	<b>(602)</b>	(2,824)
<b>Profit for the period attributable to the equity shareholders of the Company</b>		<b>18,182</b>	17,250
<b>Earnings per share (in HK cents)</b>	7		
Basic		<b>2.5 cents</b>	2.4 cents
Diluted		<b>2.5 cents</b>	2.4 cents

The notes on pages 13 to 22 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 2020 – unaudited  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020 \$' 000	2019 \$' 000
<b>Profit for the period</b>	<b>18,182</b>	17,250
<b>Other comprehensive income for the period (after tax and reclassification adjustments):</b>		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation adjustments: net movement in exchange reserve	<b>(21,646)</b>	(607)
<b>Total comprehensive income for the period attributable to the equity shareholders of the Company</b>	<b>(3,464)</b>	16,643

The notes on pages 13 to 22 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited  
(Expressed in Hong Kong dollars)

		At 30 June 2020 \$'000	At 31 December 2019 \$'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	8	467,486	504,215
Interest in associates		9,339	10,447
Intangible assets		4,917	5,269
Non-current deposits		27,441	29,339
Deferred tax assets		10,277	10,277
		<b>519,460</b>	559,547
<b>Current assets</b>			
Inventories	9	515,273	533,204
Trade and other receivables, deposits and prepayments and other contract costs	10	906,769	883,367
Other financial assets		3,102	3,118
Current tax recoverable		9,787	7,825
Fixed deposits with more than three months to maturity when placed	11	7,826	7,780
Cash and cash equivalents	11	1,493,954	1,538,328
		<b>2,936,711</b>	2,973,622

		At 30 June 2020 \$'000	At 31 December 2019 \$'000
	Note		
<b>Current liabilities</b>			
Trade and other payables	12	680,348	748,674
Lease liabilities		5,849	6,740
Current tax payable		475	524
Deferred income		4,761	5,564
Dividends payable	13	191,146	–
		<b>882,579</b>	761,502
<b>Net current assets</b>		<b>2,054,132</b>	2,212,120
<b>Total assets less current liabilities</b>		<b>2,573,592</b>	2,771,667
<b>Non-current liabilities</b>			
Lease liabilities		1,463	3,143
Deferred tax liabilities		8,176	8,182
Deferred income		6,707	8,907
		<b>16,346</b>	20,232
<b>NET ASSETS</b>		<b>2,557,246</b>	2,751,435
<b>CAPITAL AND RESERVES</b>			
Share capital	13	183,794	183,794
Reserves		2,373,452	2,567,641
<b>TOTAL EQUITY</b>		<b>2,557,246</b>	2,751,435

The notes on pages 13 to 22 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited  
(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Exchange reserve \$'000	Capital reserve \$'000	Other reserves \$'000	Contributed surplus \$'000	Retained profits \$'000	Total equity \$'000
<b>Balance at 1 January 2019</b>	183,794	1,307,585	(18,475)	–	21,549	720,191	544,380	2,759,024
<b>Changes in equity for 2019:</b>								
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)
<b>Balance at 30 June 2019</b>	183,794	1,307,585	(19,082)	719	21,549	720,191	554,278	2,769,034

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2020 – unaudited  
(Expressed in Hong Kong dollars)

	Share capital	Share premium	Exchange reserve	Capital reserve	Other reserves	Contributed surplus	Retained profits	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2020	183,794	1,307,585	(45,289)	1,557	21,549	720,191	562,048	2,751,435
<b>Changes in equity for 2020:</b>								
Profit for the period	-	-	-	-	-	-	18,182	18,182
Other comprehensive income	-	-	(21,646)	-	-	-	-	(21,646)
Total comprehensive income	-	-	(21,646)	-	-	-	18,182	(3,464)
Equity settled share-based transactions	-	-	-	421	-	-	-	421
Final dividend approved in respect of the previous year	-	-	-	-	-	-	(7,352)	(7,352)
Special dividend approved in respect of the previous year	-	-	-	-	-	-	(183,794)	(183,794)
Balance at 30 June 2020	183,794	1,307,585	(66,935)	1,978	21,549	720,191	389,084	2,557,246

The notes on pages 13 to 22 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
<b>Operating activities</b>		
Cash used in operations	(3,900)	(22,613)
Tax paid		
– People's Republic of China ("PRC") income taxes paid	(2,282)	(4,470)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC	(331)	(1,476)
<b>Net cash used in operating activities</b>	<b>(6,513)</b>	<b>(28,559)</b>
<b>Investing activities</b>		
Payment for purchase of property, plant and equipment	(36,059)	(26,302)
Proceeds from disposal of property, plant and equipment	–	2,987
Payment for the enterprise reporting system implementation and other license fees	(752)	(1,044)
Increase in fixed deposits with more than three months to maturity when placed	(46)	(39,160)
Interest received	13,766	12,211
<b>Net cash used in investing activities</b>	<b>(23,091)</b>	<b>(51,308)</b>

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
<b>Financing activities</b>		
Capital element of lease rental paid	(3,526)	(3,948)
Interest element of lease rental paid	(189)	(298)
<b>Net cash used in financing activities</b>	<b>(3,715)</b>	<b>(4,246)</b>
Net decrease in cash and cash equivalents	(33,319)	(84,113)
Cash and cash equivalents at 1 January	1,538,328	1,340,107
Effect of foreign exchange rates changes	(11,055)	(557)
Cash and cash equivalents at 30 June	1,493,954	1,255,437

The notes on pages 13 to 22 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 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 23.

The financial information relating to the financial year ended 31 December 2019 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.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars otherwise indicated)

## 2. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

Other than the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, the Group has not applied any new standard or interpretation that is not yet effective for current accounting period. None of the developments have had a material effect on how the Group's result and financial position for the current or prior periods have prepared or presented in this interim report.

## 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 ("LCDs") and related products.

### (a) Operating segment results

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of LCDs 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 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.

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. The Group's 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 associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

### 3. REVENUE AND SEGMENT REPORTING (CONTINUED)

#### (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 associates ("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 associates.

#### (i) Group's revenue from external customers

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
The PRC (place of domicile)	1,003,751	591,037
Europe	545,956	685,365
America	78,227	113,136
Korea	106,985	63,146
Others	163,380	154,489
	894,548	1,016,136
Consolidated revenue	1,898,299	1,607,173

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

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Germany	171,572	172,438
Czech Republic	114,027	140,502
Italy	34,085	33,018
France	33,330	51,670
Portugal	31,125	60,513
United Kingdom	16,522	32,065
Other European countries	145,295	195,159
	545,956	685,365

#### (ii) Group's specified non-current assets

	At	At
	30 June	31 December
	2020	2019
	\$'000	\$'000
The PRC (place of domicile)	473,757	510,826
Korea	2,634	3,055
Others	5,351	6,050
	481,742	519,931

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars otherwise indicated)

### 4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Interest income on financial assets measured at amortised cost	12,761	14,816
Government grants (note (i))	2,845	6,919
Net exchange gain/(loss)	2,773	(5,849)
Net loss on disposal of property, plant and equipment	–	(321)
Rental receivable from operating leases	6,681	5,256
Other income	1,160	1,641
	<b>26,220</b>	<b>22,462</b>

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 and other subsidies of \$87,000 (2019: \$4,178,000) and amortisation of government grants received from the PRC authorities in relation to acquiring machineries of \$2,758,000 (2019: \$2,741,000). 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	
	2020	2019
	\$'000	\$'000
<b>(a) Finance costs</b>		
Interest on lease liabilities	189	298
<b>(b) Other items</b>		
Expected credit loss allowance recognised on trade receivables	114	57
Cost of inventories	1,715,956	1,394,343

## 5. PROFIT BEFORE TAXATION (CONTINUED)

	Six months ended 30 June	
	2020	2019
	\$' 000	\$' 000
<b>(c) Other operating expenses</b>		
Amortisation of intangible assets	352	349
Auditors' remuneration	1,818	1,975
Bank charges	613	794
Building management fees	1,672	2,777
Factory consumables, cleaning and security service expenses	7,825	4,844
Freight charges	15,615	23,098
Insurance and quality assurance expenses	1,829	2,817
Legal and professional fees	2,193	4,383
Office expenses	2,349	2,558
Other taxes, surcharge & duties	5,844	7,474
Repair and maintenance	5,859	7,304
Sales, marketing and commission expenses	10,277	8,089
Subcontracting fees	15,663	36,073
Travelling and entertainment expenses	4,498	6,632
Utilities expenses	21,391	24,060
Miscellaneous expenses	1,621	3,777
	<b>99,419</b>	<b>137,004</b>

## 6. INCOME TAX

	Six months ended 30 June	
	2020	2019
	\$' 000	\$' 000
Current tax –		
Jurisdictions outside Hong Kong and the PRC	602	2,268
Deferred taxation	–	556
	<b>602</b>	<b>2,824</b>

### (i) Hong Kong Profits Tax

The Group's operations in Hong Kong are subject to Hong Kong Profits Tax at a rate of 16.5%.

### (ii) PRC income taxes

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 2020 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%.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars otherwise indicated)

## 6. INCOME TAX (CONTINUED)

### (iii) Jurisdictions outside Hong Kong and the PRC

Taxation for subsidiaries of the Group operating outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant tax 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 \$18,182,000 (six months ended 30 June 2019: \$17,250,000) and the weighted average of 735,175,204 ordinary shares (2019: 735,175,204 shares) in issue during the interim period.

### (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 \$18,182,000 (six months ended 30 June 2019: \$17,250,000) and the weighted average number of ordinary shares of 735,420,108 (2019: 735,175,204 shares).

## 8. PROPERTY, PLANT AND EQUIPMENT

### (a) Right-of-use assets

During the six months ended 30 June 2020, the Group entered into a new agreement for use of office, and therefore recognised the addition to right-of-use assets of \$972,000.

### (b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of \$38,723,000 (six months ended 30 June 2019: \$25,673,000). None of property, plant and equipment were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: \$3,308,000), resulting in \$Nil charge of loss on disposal (six months ended 30 June 2019: \$321,000).

## 9. INVENTORIES

During the six months ended 30 June 2020, the Group recognised inventory write-down of \$24,769,000 (2019: \$10,134,000) in profit or loss and reversal of write-down of inventories of \$14,069,000 (2019: \$9,806,000) 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 \$2,100,000 (31 December 2019: \$4,478,000) is as follows:

	At 30 June 2020 \$' 000	At 31 December 2019 \$' 000
Within 60 days of the invoice issue date	514,284	582,263
61 to 90 days after the invoice issue date	118,940	137,038
91 to 120 days after the invoice issue date	75,964	56,407
More than 120 days but less than 12 months after the invoice issue date	54,963	30,438
	<b>764,151</b>	<b>806,146</b>

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 2020 \$' 000	At 31 December 2019 \$' 000
Fixed deposits with banks with more than three months to maturity when placed	7,826	7,780
Fixed deposits with banks with three months or less maturity when placed	263,494	252,520
Cash at banks and on hand	1,230,460	1,285,808
Cash and cash equivalents	<b>1,493,954</b>	<b>1,538,328</b>

## 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 2020 \$' 000	At 31 December 2019 \$' 000
Within 60 days of supplier invoice date	468,885	509,384
61 to 120 days after supplier invoice date	26,473	52,667
More than 120 days but within 12 months after supplier invoice date	7,940	19,476
More than 12 months after supplier invoice date	2,904	3,684
	<b>506,202</b>	<b>585,211</b>

## Notes to the Unaudited Interim Financial Report

(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 of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved during the following interim period, of 1.0 HK cent (2019: 1.0 HK cent) per share	7,352	7,352
Special dividend in respect of the previous financial year, approved during the following interim period, of 25.0 HK cents (2019: Nil) per share	183,794	–
	<b>191,146</b>	7,352

The final dividend and special dividend have been recognised as dividends payable in the consolidated statement of financial position as at 30 June 2020.

##### (b) Equity settled share-based transactions

During the six months ended 30 June 2020, no options were exercised to subscribe for ordinary shares in the Company (2019: Nil).

There were no options forfeited during the period ended 30 June 2020 (2019: Nil).

### 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 2020 and 31 December 2019.

### 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:

## 15. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Transactions with related parties (Continued)

	Note	Six months ended 30 June	
		2020 \$' 000	2019 \$' 000
Purchase of goods from BOE Group	1	979,604	472,068
Lease of property, plant and equipment to BOE Group	2	6,681	5,256
Rental, management fee, utilities fees and computer integrated manufacturing system management fee charged by BOE Group	3		
– Tenancy Agreement and the Related Agreements		–	397
– New Tenancy Agreement		46	36

#### 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.

The above transactions are presented net of value added tax.

### (b) Balances with related parties

At 30 June 2020, included in trade and other payables were amounts due to BOE Group for the purchase cost and other expenses payable of \$244,391,000 (31 December 2019: \$220,324,000). Non-current deposits of \$12,743,000 (31 December 2019: \$17,816,000) were paid to BOE Group for the purchase of the TFT panels toolings for manufacturing TFT modules. Prepayment of \$66,941,000 (31 December 2019: \$9,341,000) 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/recoverable within one year.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars otherwise indicated)

### 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 2020 \$' 000	At 31 December 2019 \$' 000
Contracted for	10,788	27,003

### 17. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 17 July 2020, Ample Bonus Limited ("Ample Bonus"), a wholly owned subsidiary of the Company, entered into an investment agreement with various independent third parties. Pursuant to the investment agreement, Ample Bonus has agreed to make an investment of RMB50,100,000 to a newly incorporated entity, namely 睿合科技有限公司("睿合"), in PRC which will be principally engaged in manufacture and sales of LCDs and related products. Upon the completion of incorporation, the Group will hold 50.1% equity interest in 睿合 which will be accounted for as a subsidiary of the Group. 睿合 was subsequently incorporated on 20 July 2020.

### 18. IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business. As far as the Group's businesses are concerned, there is no significant impact of the COVID-19 pandemic on the Group's financial position and financial performance.

# 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 8 to 22 which comprises the consolidated statement of financial position of BOE Varitronix Limited as of 30 June 2020 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 2020 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 2020

# Other Information

## INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

## STAFF

As at 30 June 2020, the Group employed 3,543 staff around the world, of whom 127 were in Hong Kong, 3,367 in the People's Republic of China (the "PRC") and 49 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 a share award plan, 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 2020, the total equity of the Group was HK\$2,557 million (31 December 2019: HK\$2,751 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 3.3 as at 30 June 2020 (31 December 2019: 3.9).

At the period end, the Group held a liquid portfolio of HK\$1,505 million (31 December 2019: HK\$1,549 million) of which HK\$1,502 million (31 December 2019: HK\$1,546 million) was in cash and fixed deposits balance, HK\$3 million (31 December 2019: HK\$3 million) was in other financial assets. At the period end, the Group had no borrowings (31 December 2019: HK\$Nil). The Group's gearing ratio (borrowings over net assets) was Nil% as at 30 June 2020 (31 December 2019: Nil%).

The Group's inventory turnover ratio (annualised cost of inventories over average inventories balance) for the six months ended 30 June 2020 was 6.6 times (31 December 2019: 5.0 times). Debtor turnover days (trade receivables over annualised revenue times 366) for the six months ended 30 June 2020 was 73 days (31 December 2019: 82 days).

## FOREIGN CURRENCY EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group is also exposed to currency risk through other financial assets acquired which are denominated in a foreign currency. The currencies giving rise to these risks are primarily United States 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 2020, 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	360,700	0.0010%
Su Ning	Personal Interest	130,000	0.0004%
Shao Xibin	Personal Interest	233,600	0.0007%
Jin Hao	Personal Interest	123,400 (Note 2)	0.0004%
Zhang Shujun	Personal Interest	153,700	0.0004%

#### Notes:

- BOE subscribed 400,000,000 shares, representing 54.41% of the issued share capital of the Company.
- Mr. Jin Hao sold 9,700 A shares of BOE in July 2020.
- 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 2020	Number of share options granted during the period	Number of share options exercised during the period	Number of share options at 30 June 2020	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 2020, 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 2020 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 2020, 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	50,551,000 (Note 2)	–	50,551,000	6.88%
Rockstead Technology Limited	37,951,000 (Note 2)	–	37,951,000	5.16%

### 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 37,951,000 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 2020, 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 2020, 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 2020, 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 2020 represents 0.61% (30 June 2019: 0.61%) 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 2020	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 2020	Exercisable period	Exercise price per share option
<b>Directors</b>							
24 January 2019	1,800,000	–	–	–	1,800,000	(Note 1)	HK\$2.00
<b>Employees</b>							
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.

## SHARE AWARD PLAN

On 28 August 2020, the Company adopted a share award plan (the "Plan"). The purposes of the Plan are to recognize and reward the contribution of eligible participants, to give incentives to the eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

## 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 2020.

## 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 2020.

All other information on the Code has been disclosed in the corporate governance report contained in the 2019 annual report of the Company issued in March 2020.

## 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 2020 of the Company now reported on.

The interim financial report for the six months ended 30 June 2020 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.