

# BOE



## ANNUAL REPORT 2019

BOE VARITRONIX LIMITED

Stock Code 710



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# Chairman's Statement

| Highlights                          |               |              |
|-------------------------------------|---------------|--------------|
| HK\$ million                        | 2019          | 2018         |
| Revenue                             | 3,574         | 3,177        |
| EBITDA <sup>1</sup>                 | 166           | 133          |
| Profit Attributable to Shareholders | 25.0          | 17.1         |
| Cash and Fixed Deposits Balance     | 1,546         | 1,340        |
| Basic Earnings per Share            | 3.4 HK cents  | 2.3 HK cents |
| Total Dividend per Share            | 26.0 HK cents | 1.0 HK cent  |
| – Final Dividend per Share          | 1.0 HK cent   | 1.0 HK cent  |
| – Special Dividend per Share        | 25.0 HK cents | Nil          |

- 1 EBITDA means profit for the year plus the following to the extent deducted in calculating such profit for the year: finance costs, income tax, depreciation and amortisation. Depreciation in 2019 included the impact of initial adoption of HKFRS 16 as from 1 January 2019. Please refer to notes to the financial statements note 1(c) – Changes in accounting policies for details.



On behalf of BOE Varitronix Limited (the “Company”) and its subsidiaries (“BOEVx” or the “Group”), I present the results for the full year ended 31 December 2019.

During the year under review, revenue of HK\$3,574 million was recorded, an increase of 12.5% when compared with the HK\$3,177 million recorded in 2018. EBITDA<sup>1</sup> of the Group was HK\$166 million, 25% higher than the HK\$133 million recorded for the same period in the previous year. The profit attributable to shareholders of HK\$25.0 million was recorded, an increase of 46%, when compared with the HK\$17.1 million recorded in 2018.

As at 31 December 2019, the cash and fixed deposits balance of the Group was HK\$1,546 million, compared to HK\$1,340 million at the end of 2018. The Group has no bank loan as at 31 December 2019 and 2018. The cash position of the Group remains strong during the year.

**Mr. Gao Wenbao**  
Chairman

The Group has recorded a growth of 12.5% in revenue during the year under review. Despite the impact of uncertainties of the macro-economic environment, our Thin Film Transistor (“TFT”) module business and touch panel display modules continued to achieve significant growth, which was mainly contributed by the gradual commencement of mass production of new products from automotive customers of People’s Republic of China (the “PRC”), Europe and Japan. The shift of monochrome displays to TFT module displays continued and the Group’s revenue from TFT module business surpassed monochrome displays business during 2019 and accounted for over 60% of the Group’s revenue. The average selling prices of TFT modules as well as touch panel display modules are much higher than that of monochrome displays and the change of product mix has increased the overall revenue of the Group.

During the year under review, EBITDA has increased by 25% from HK\$133 million to HK\$166 million, which is mainly contributed by the decrease of staff costs and operating expenses. The Group has integrated its manufacturing of selected standardized platform TFT modules to its major shareholder, BOE Technology Group Co., Ltd (“BOE”) 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 during the year. Together with other cost-optimizing and efficiency management actions, the Group has successfully improved our operating efficiency and operating profits.

## DIVIDENDS

The Board of Directors (the “Board”) has recommended a final dividend of 1.0 HK cent (2018: 1.0 HK cent) per share. In light of the steady development of the Group’s TFT display business in recent years and the gradual improvement of operating results, the Board has also recommended a special dividend of 25.0 HK cents (2018: Nil) per share. The annual dividend payout ratio was 29% (2018: 43%), excluding the special dividend.

## BUSINESS REVIEW

### Automotive Display Business

For the year under review, the automotive display business generated revenue of HK\$2,589 million, an increase of 8% from the revenue of HK\$2,389 million recorded in 2018. This business represented approximately 72% of the Group’s overall revenue.

Notwithstanding the negative impact of market sentiment under the uncertainties of the China-US trade relationship, the Group’s revenue from the automotive display business continued to grow during the year. This was mainly contributed by the increase from sales of automotive TFT modules and touch panel products to the PRC and Europe market. The Group continues to obtain stable supply of panel as well as module production resources from BOE to support our growing automotive display business.

For the PRC automotive market, the Group has experienced a slower growth in the first half of the year due to the impact of China’s stage 6 vehicle emission standards, followed by a more rapid growth in the second half. As a whole, the revenue growth in this market is significant as many TFT modules and touch panel projects have started mass production during the year. We have also established strategic partnership with certain sizable PRC domestic Tier-1 customers as well as automobile manufacturers. This is an important milestone for the Group to obtain further market shares and future business opportunities in various automotive-related areas.

The overall revenue from Europe automotive display business remained similar as compared to the previous year. Sales of TFT modules has increased during the year, which was mainly due to mass production of several new projects. Despite market competition and weak economic condition in Europe, revenue from major European customers continued to increase gradually. The monochrome display business from Europe continued to decrease as a result of project end-of-life and change in overall market demand of monochrome display products.

Likewise for the Korea and Japan markets, the revenue from monochrome display business continued to drop. The commencement of mass production of platform TFT module displays for Japan customers has boosted the revenue during the year, which outweighed the effect of decline in revenue from monochrome market. For Korea, the revenue from TFT modules business has decreased due to strong market competition and rapid change of display type from monochrome to TFT display during the year.

## Industrial Display Business

For the year under review, the industrial display business generated revenue of HK\$985 million, an increase of 25% from the revenue of HK\$788 million recorded in 2018. This business represented approximately 28% of the Group's overall revenue.

The increase of revenue from this business during the year is mainly due to sales of TFT display modules to a newly developed PRC customer engaging in education-related application. The Group has always been expanding our industrial business scope to different application to progressively explore and develop opportunities of potential higher value-added products. We have also started mass production of TFT display modules for a world-renowned high-end home appliances brand during 2019 which contributed to the increase in revenue. Majority of the remaining industrial display business orders were from monochrome display which focuses on the Europe and United States.

The overall monochrome industrial display business has experienced a contraction during the year. Applications of our product are mainly electric meters, industrial instruments, medical instruments and consumer products. The decrease is mainly caused by decrease in demand from customers in Europe and US markets and also adjustment of product mix to higher margin products during the year.

## BUSINESS OUTLOOK

The Group foresees that our business will continue to grow in 2020 in both automotive display business as well as industrial display business, which primarily come from expected increase in revenue from mass production of new TFT and touch panel display module projects. However, the COVID-19 epidemic outbreak in January 2020 has already brought uncertainties to the worldwide macro-economic condition as well as the automotive industry. Car sales of certain major automobile manufacturers has dropped significantly in the first two months of 2020. The magnitude and duration of the impact of the COVID-19 is uncertain and the Group considered that it may negatively affect our business. Nevertheless, we have taken proactive measures to constantly monitor our supply chain and market demand to minimize the impact that may have on our production and delivery.

## Automotive Display Business

The Group's strategy in the automotive display business remained unchanged during the year, which is to continue growing our market share on major automotive markets including the PRC, Europe, Korea, Japan and the US. Through the promotion and development of medium-to-large-sized standardized platform TFT module products, the Group has started to realize economic of scales in market development as well as cost-efficiency. During the year, the Group has established strategic partnership with major automotive Tier-1 manufacturers as well as automobile manufacturers in the PRC to further our cooperation and to obtain more market share. Our promotion of new display technologies has also yielded positive results – the project award of the Group's first small size circular flexible Active-matrix Organic LED ("AMOLED") display for a well-known PRC electric car manufacturer which delivery will start in the second quarter of 2020. We will further strengthen the bonding with these valuable strategic partners to gain stronger foothold in the PRC automotive display business, and also broaden our horizon to areas other than module displays for instrument cluster display and center information display.

In Europe market, the Group continues to win new TFT module and touch panel display module projects from our major Tier-1 customers in 2019 in which the mass production will gradually start in late 2020 and early 2021 onwards. The uncertainties of the impact of COVID-19 outbreak and the United Kingdom's exit from the European Union may negatively affect the short term performance of the Europe market. The Group will work closely with our customers and response to the market challenges as well as opportunities.

For Japan and Korea markets, the Group has been awarded several platform TFT display module as well as touch panel module projects during the year which are expected to start mass production gradually in 2020 onwards. The Group has also been actively participating in the project bidding of AMOLED business with major Tier-1 customer in Korea. We expected that the revenue from these two markets will increase in the coming years.

During the year, the Group has consolidated our internal resources and established a dedicated team to focus on business development on automotive related products and technologies, and to extend our business scope from TFT/monochrome display modules to integrated display solution provider.

## Industrial Display Business

The Group will continue to put effort in expanding the market share of our industrial display business in different areas. For monochrome displays, despite the shrinking demand and change of customers' preference in display type, we will focus again in the electric meters and consumer markets following our product mix adjustment and cost-structure optimisation. We will also promote our medium-to-large sized monochrome displays to high-end display markets.

At the same time, the Group has been promoting our TFT modules display products to high-end white goods market in Europe and successfully obtained several projects which some of them have already started mass production in 2019. We have also won several projects

for home automation applications in the US market. The Group will also continue to explore different markets, like the PRC consumer market, for opportunities in TFT module display or even AMOLED business. It is expected that the revenue from industrial TFT module display business will continue to grow and compensate the decrease in monochrome display business.

## Development Strategy

The Group is determined to be the market leader in automotive display and solution provider business. The development strategy of the Group will follow the roadmap from our foundation in automotive display to intelligent automotive display system, and to intelligent automotive internet-of-thing ("AIoT") and solution business. We will improve and strengthen the research and development and manufacturing capabilities in automotive display and system integration to enable us to further increase our global market share in the automotive display industry. At the same time, we will grasp the opportunities of expanding our capability in infrastructure building in the PRC to strengthen the cooperation with eco-system partners and to gradually increase the market share in intelligent AIoT and solution business.

In view of the above strategy, encouraging results are being achieved gradually in 2019. Milestone strategic partnership with key market players has been established to deepen our cooperation, not only in the TFT module display business, but also to explore more high-value business areas like curved cockpit display and AMOLED related products. We will continue to strengthen our relationship and widen our business scope with our customers in 2020.

Enhancing driver and passenger experience has always been one of the keys to the automotive business and there is virtually no limit for the future development of automotive mobility. The concept of intelligent cockpit, intelligent AIoT, sharing economy, electric mobility, etc., has posed great development opportunities for the Group.



## Chairman's Statement

During the year, the Group has reallocated our internal resources to focus on planning, developing and implementing our strategies in the automotive business. We aim to become the market leader of automotive display and solution provider, and dedicated internal business units were established to carry out the transformation. In view of this, the Group will progressively develop and strengthen our hardware and software ability in display solution related areas, e.g. Augmented Reality Head-up Display ("AR HUD"), e-mirror and intelligent cockpit development. We will also further develop our optical bonding capabilities and explore system modules manufacturing capabilities. Continuing investment will be made in these areas to enable the Group to lay foundation for future development.

### Technology Development

In the area of high-end electric vehicles and autonomous driving, the development of automotive display system has been steered from fully digitalized integrated multi-screen cockpit compartment design to the directions of higher-end integration and smart cockpit compartment as well as immersive experiences for users and prominence of brand personality. Beside continuous development of the processing technologies regarding multi-screen products with free-form cover, the Group has also been investing in the fields of large-sized display, higher-end integrated display module, software development, cluster display system and other automotive components in order to support the demands from customers and the market.

Integrated multi-screen display with aesthetic curved surfaces has been a new trend in the market. Regarding the research and development in cold forming technology for curved cockpit display module, the development process was completed and verified in 2019. In the same year, a demo of integrated three flexible AMOLED curved displays was fabricated and exhibited in the SID (the Society for Information Display) exhibition in the US, which received high appreciation from various parties. The Group will further develop our manufacturing and technical capabilities in this area to respond to the demands for mega-sized displays in the automotive market.

With respect to development of display technologies, the development of high transmissive and highly integrated display products, the first and new model of a 1.8" Low Temperature Poly-silicon (LTPS) Head-up display (HUD) has entered verification phase, while another larger 12.3" Fully High Definition ("FHD") LTPS automotive display has completed its sample tests. As for touch screen development, we have basically completed the development of both a-Si Gate-on-array (GOA) technology bases and LTPS technology bases for Full In-cell Touch (FIT), which enabled us to win a large-sized FHD LTPS FIT project from a large Tier-1 customer in China at the end of 2019. Meanwhile, the Group began a tripartite product development project regarding automotive real time 3D display technology, collaboratively with a European technology company and an influential customer from Germany. This technology allows multiple viewpoints and adjustable depth of field, which can be applied to both clusters and Center Information Display ("CID").

In the development of High Dynamic Range technology, the Group has been proactively developing and promoting the application of novel display technology, the Black Diamond Cell (BD Cell) solely owned by BOE, to automotive displays from 2019. This remarkable technology adopts a double-panel design including a black-and-white TFT panel and a color TFT panel respectively, which through pixel partitioning technology and micro-scale super-fine light control technology, controls images in a sophisticated manner. It can therefore tremendously enhance contrast of display to reach a million levels. In the second half of 2019, some of our customers have started to review the development of customized BD Cell products.

As for the technology development of AMOLED with ultimate display performance, with the full support by BOE (one of the major suppliers of global AMOLED), the Group has achieved substantial outcomes in the development of automotive flexible AMOLED display technologies. Currently, in the aspect of organic material development, pixel driving algorithm and calibration for image consistency, distinctive solutions have been developed which can considerably enhance reliability and lifetime of products in extreme operation environments

in automobile. A critical second stage test for lifetime of the products has been passed. Moreover, the Group has developed a uniquely designed circular flexible AMOLED display for a well-known PRC electric automobile manufacturer and small-scale production of this circular AMOLED display will be started in the second quarter of 2020.

The Group will progressive invest in higher-end automotive products and this includes integrated display modules, cluster display systems, smart systems, software development and other components products. As for AR HUD, our optical structural design and AR image fusion algorithm have reached a leading position and we have completed several demo projects for leading automobile manufacturers in PRC. Currently, we have commenced the development of 3D AR HUD with incorporated near-to-eye AR and expected that a demo can be fabricated in this year.

Meanwhile, the Group launched a series of automotive visual products. As for streaming media for interior and exterior rear view mirrors, the Group undergoes joint development with several automotive manufacturers. A transparent A-pillar product based on 12.3" flexible AMOLED was launched, which was debuted jointly with a well-known automotive manufacturer in the PRC.

As regards to the development of higher-end integrated display module and software, while we were strengthening the strategic cooperation with automobile manufacturers last year, we provided the CID module (being the first to carry control software) with a single chip microcontroller unit, and connection interface with high transmission rate of image data and embedded two-way control communication data, such as FPD Link III, along with the demonstration platform of the same, to customer for evaluations. We received positive comments from a number of famous automobile manufacturers in Europe and the US for this integrated display modules. In the coming year, the Group will also boost its investment in more challenging cluster display system with real time operation system. This will prepare ourselves with necessary technology reserves to cater for the future market trend that current mainstream cluster assembly will gradually be substituted by full display cluster system.

Furthermore, in view of the diversity of market demands for automotive products and other technical solutions, the Group has started to develop the technologies and application development in automotive AMOLED lighting with technical support from BOE. The Group has reached strategic cooperation agreements with several well-known Tier-1 customer and PRC automobile manufacturers, module and software algorithm solution providers, so as to initiate relevant strategic development plans of AMOLED tail lights, interior lights, AMOLED lighted automobile logos, to facilitate commercialization of relevant smart products applied to automotive field.

## ACKNOWLEDGEMENT

During the year, the Group has consolidated our strength in our current business and starting to achieve positive results. The Group has become a major player in the automotive display market. Our revenue and EBITDA have recorded growth and important strategic partnerships have been established with major market players. We continue to secure stable supply of TFT panels and modules, production support and technological support from BOE which enable us to have a better competitive advantages to develop our business. The Group will march forward to broaden our business horizon into various high-value areas like automotive display system solution and other automotive related business. On behalf of the Board, I would like to express my sincere gratitude to our management, employees, shareholders and business partners for your continuing support.

**Gao Wenbao**  
Chairman

Hong Kong, 30 March 2020

# Management Discussion and Analysis

## REVENUE

The Group's revenue for the year ended 31 December 2019 increased by 12.5% to HK\$3,574 million as compared to the previous financial year.

## PROFIT FROM OPERATIONS

The profit from operations for the year ended 31 December 2019 was HK\$29 million, an increase of HK\$3 million or 12% as compared to the previous financial year.

During the financial year 2019, the Group spent HK\$221 million on research and development ("R&D") activities, which represented approximately 6% of the Group's revenue.

## NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31 December 2019 was HK\$25.0 million, as compared to a profit of HK\$17.1 million in 2018.

Basic earnings per share for the year ended 31 December 2019 were 3.4 HK cents as compared to basic earnings per share of 2.3 HK cents in the previous financial year. During the year, the Group did not declare an interim dividend. The Board has recommended a final dividend of 1.0 HK cent per share and a special dividend of 25.0 HK cents per share for the year ended 31 December 2019, which will aggregate to HK\$191 million. The total dividend for the year amounted to 26.0 HK cents per share.

The Board has approved and adopted a dividend policy on 1 January 2019 (the "Dividend Policy"). Under the Dividend Policy, subject to compliance with applicable laws, rules and regulations and the bye-laws of the Company, the Company intends to maintain a stable dividend policy in future with a dividend payout ratio of not less than 30%. However, the determination to pay dividends in the future will be made at the discretion of the Board and will be based on the profits, cash flows, financial condition, capital requirements and other conditions that the Board deems relevant. The payment of dividends may be limited by legal restrictions and agreements that the Company may enter into in the future.

The Dividend Policy will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

## STRUCTURE OF ASSETS

As at 31 December 2019, the total assets of the Group amounted to HK\$3,533 million (2018: HK\$3,479 million). At the year end, inventories decreased by 27% to HK\$533 million (2018: HK\$731 million) while other financial assets amounted to HK\$3 million (2018: HK\$3 million).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the total equity of the Group was HK\$2,751 million (2018: HK\$2,759 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 3.90 as at 31 December 2019 (2018: 4.09).

At the year end, the Group held a liquid portfolio of HK\$1,549 million (2018: HK\$1,343 million) of which HK\$1,546 million (2018: HK\$1,340 million) was in cash and fixed deposits balance, HK\$3 million (2018: HK\$3 million) was in other financial assets. At the year end, the Group had no borrowings (2018: HK\$Nil). The Group's gearing ratio (borrowings over net assets) was Nil% as at 31 December 2019 (2018: Nil%).

The Group's inventory turnover ratio (annualised cost of inventories over average inventories balance) for the year was 5.0 times (2018: 3.5 times). Debtor turnover days (trade receivables over revenue times 365) for the year was 82 days (2018: 80 days).

## CASH FLOWS

In the year under review, the Group's cash generated from operations amounted to HK\$271 million (2018: HK\$246 million). The decrease in inventories and increase in trade and other receivables, deposits and prepayments and other contract costs increased cash flow by HK\$188 million and decreased cash flow by HK\$104 million respectively.

Net cash used in investing activities amounted to HK\$46 million (2018 net cash generated from investing activities: HK\$150 million). There were payments for the purchase of property, plant and equipment of HK\$69 million (2018: HK\$155 million).

## CAPITAL STRUCTURE

The Group's long-term capital comprises shareholders' equity and debt. There was no change as to the capital structure of the Group during the year. The Group has no unsecured interest-bearing bank loans (2018: Nil).

## 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.

## CONTINGENT LIABILITIES

As at 31 December 2019, the Company had no contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries.

## COMMITMENTS

As at 31 December 2019, the Group had capital commitments of HK\$27 million (2018: HK\$7 million), mainly representing the acquisition cost of plant, machinery, tools and equipment not provided for in the financial statements.

## STAFF

As at 31 December 2019, the Group employed 3,755 staff around the world, of whom 125 were in Hong Kong, 3,583 in the People's Republic of China ("PRC") and 47 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.

## STAFF RETIREMENT SCHEMES

The Group principally participates in defined contribution retirement plans. In Hong Kong, the Group participates in the Mandatory Provident Fund ("MPF") Scheme operated by independent trustees. Contribution at a fixed rate of 5% of the employee's relevant income (the "Relevant Income"), subject to a cap of monthly Relevant Income of HK\$30,000 per employee, are made to the scheme and are vested immediately.

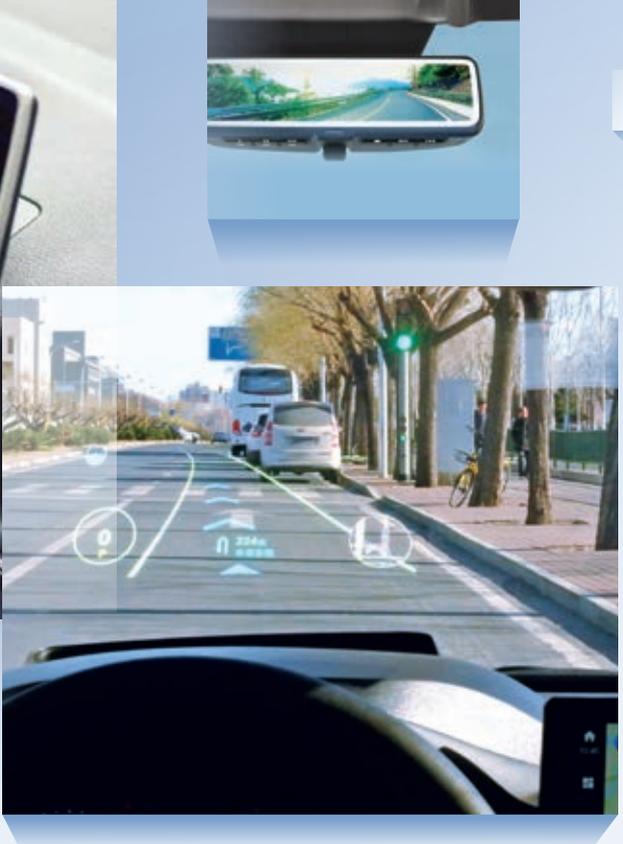
In addition, the Group also operates a Top-Up ORSO scheme, approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance, and both the employer and the employee are required to contribute 5% of the excess of the Relevant Income to the scheme. It is only eligible for employees who joined the Group on or before 30 June 2009.

With effect from 1 December 2019, the Top-Up ORSO scheme is ceased and instead, the Top-Up contributions is made to the MPF scheme.

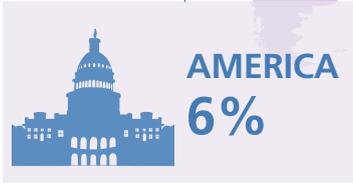
The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension schemes.

During the year, the total retirement scheme cost charged to the Consolidated Statement of Profit or Loss for the year ended 31 December 2019 was HK\$34 million (2018: HK\$43 million). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2019 was HK\$5,000 (2018: HK\$Nil) and at 31 December 2019, the balance available to reduce the level of contributions in future amounted to HK\$Nil (2018: HK\$5,000).

# Review of Operations



## REVENUE BY GEOGRAPHY



## THE PRC

The PRC generated revenue of HK\$1,600 million during the year under review, representing an increase of 37% as compared with that in 2018. This region has accounted for 45% of the Group's total revenue. Majority of the revenue was derived from automotive display business.

The significant increase in revenue during the year was mainly contributed by the increase of sales of TFT module display as well as touch panel display modules to our automotive customers as the mass production for a number of projects took place gradually during the year. The growth in the PRC automotive business is slower in the first half due to the impact of China's stage 6 vehicle emission standard, and the growth started to pick up in the market in the second half. The Group has been actively promoting our TFT and Touch panel related display products to our customers in PRC to increase our market share. During the year, we have successfully established milestone partnerships with important PRC domestic Tier-1 customers as well as top automobile manufacturers in the PRC. This enabled us to deepen our mutual cooperation and to further engage in the development of the Group's automotive display business and other high value areas.

The competition in the TFT display market is keen. The Group has carried out different measures to optimize our cost-structure and operating efficiency. The Group has integrated the manufacturing of selected standardized large-sized platform TFT module products to BOE in early 2019 in order to obtain economics of scales to put us in a better position to compete in the market. This has significantly reduced our operating costs and overheads during the year. At the same time, the Group has been investing in technological research and development in order to provide higher value-added products to our customers. Our promotion of new display technologies has also yield positive results – the project award of the Group's first small size circular flexible AMOLED display for a well-known PRC electric car manufacturer which delivery will start in the second quarter of 2020.

The Group has always been expanding our business scope for industrial application to other areas. During the year, we have started to deliver TFT display modules for education-related application in PRC. We will continue to promote our display-related products to potential industrial customers.



# Review of Operations

## EUROPE

During the year under review, revenue of HK\$1,306 million was generated from the display business in Europe, which remained at a similar level as compared to 2018. The European business contributed 37% of the total revenue for the Group in 2019.

### Automotive Display Business

Despite the overall weak economy condition in Europe, the Group's revenue from the TFT display business in the Europe market continued to grow slightly during the year. The monochrome display business continued to decline in the Europe market as automotive customers shifted their demand to TFT displays.



The overall market sentiment in the Europe market was negatively affected by the weak economic situation in the European countries as well as the United Kingdom's exit from the European Union. Nevertheless, a number of new TFT projects has entered mass production stage during the year which contributed to the increase in turnover. This demonstrated the Group's effort in the continuing promotion of TFT display modules to our long-established customers since 2016 to supplement the inevitable decline in demand of monochrome display product. Leveraging with the strong bonding with our European business partners, the Group has been obtaining new projects from them in the application of instrument cluster and center-information-display for medium-to-large sized displays. And this is also the future trend in automobile that larger size display or even integrated display modules will be the choice of enhancing end-user experience. Besides, the development in related display technologies such as multi-screen products, integrated display modules and even AMOLED related products are undergoing in order to meet the trend of future automobile requirements.

### Industrial Display Business

During the year, the Group's industrial display business in Europe has decreased moderately as compared with that of 2018. The main reason of the decrease was caused by the decrease in customer demand for monochrome display business and the adjustment of product mix to higher margin products during the year.

The main applications for our industrial products are electricity meters, industrial instruments and consumer products. While majority of our sales were derived from monochrome displays, which are characterized by its reliability and lower average selling price, we have been promoting TFT modules products to our customers during the year. We have successfully started the mass production for a new TFT module product for a renowned home appliances brand during the year.



## AMERICA

America generated revenue of HK\$205 million in 2019, contributing 6% to the total revenue of the Group. The revenue decreased by 22% compared to that of 2018.

Majority of revenue from America was contributed by sales of monochrome display to industrial customers for medical and metering applications. The revenue has decreased during the year mainly due to the decrease in demand in monochrome display from the medical sector. We expect that the industrial monochrome business may shrink steadily and the Group is actively promoting our TFT display products in the industrial market to fill the gap. We have been awarded a TFT display module project for home automation applications and are discussing several others with potential customers. For automotive business, the sales from monochrome display has decreased due

to products end-of-life. Our promotion of automotive TFT module business in the America market continues and we are also showcasing our new products and technologies, like high-end integrated display module and AMOLED curved displays to our customers.

## KOREA

Revenue generated from Korea was HK\$128 million in 2019, represented an increase of 2% from that of 2018. Korea accounted for 4% of the Group's revenue.

Business in Korea is mainly generated from TFT display products during the year, as the revenue from monochrome display business continued to decline. The Group has won new projects for TFT module displays platform products in automotive and is expected to start mass production gradually in 2020.

# Environmental, Social and Governance Report



The Group began incorporating its Environmental, Social and Governance (ESG) Report into its Annual Report from 2014. This ESG Report was prepared for the year ended 31 December 2019 with reference to the ESG Reporting Guide published by The Hong Kong Exchanges and Clearing Limited (the “Stock Exchange”), and based on the material aspects of the Group and stakeholders. Unless otherwise stated, this ESG Report covers operations in the PRC (including Heyuan and Chengdu) and Hong Kong, which together represent the core operations of the Group.

The Board has been closely overseeing the Group’s initiative to make continuing ongoing improvements and to formulate an effective reporting mechanism. BOEVx’s ESG risk management and reporting mechanism takes into consideration operational management and relevant stakeholders. Assessment of ESG status and progress are conducted on an ongoing basis.

## ESG Risk Management and Reporting Mechanism



The ESG Risk Management Team consists of top management from operations and finance, and communicates regularly to ensure ESG risks are properly managed.

The Board takes ESG issues seriously to ensure the top management of each function monitors its own area of responsibility, always seek improvements and is committed to rolling out development plans with stakeholders' interests a primary concern.

## ENGAGING STAKEHOLDERS

The Group communicates regularly with stakeholders through various channels in order to understand their different expectations and the possible impacts to them of its sustainable development activities.

| Stakeholders           | Communication Channels   | Content   |
|------------------------|--|---|
| Shareholders/Investors | <ul style="list-style-type: none"> <li>• General meetings and notices</li> <li>• Annual/interim reports, financial statements and announcements</li> <li>• Direct communications</li> <li>• Corporate website</li> <li>• Investor briefings</li> </ul>           | <ul style="list-style-type: none"> <li>• Business sustainability</li> <li>• Financial performance</li> <li>• Corporate transparency</li> <li>• Corporate social responsibility</li> </ul>                                     |
| Regulators             | <ul style="list-style-type: none"> <li>• Meetings</li> <li>• Compliance reporting</li> </ul>   | <ul style="list-style-type: none"> <li>• Compliance with laws and regulations</li> </ul>  |
| Customers              | <ul style="list-style-type: none"> <li>• Direct communication via frontline staff</li> <li>• Customer audits and factory visits</li> <li>• Corporate website</li> </ul>  | <ul style="list-style-type: none"> <li>• Quality products and services, and delivery arrangements</li> <li>• Technological developments</li> <li>• Product responsibility</li> <li>• Factory and labour conditions</li> </ul> |
| Suppliers              | <ul style="list-style-type: none"> <li>• Direct communication and meetings</li> <li>• Site visits and reviews</li> <li>• Vendor acceptance and management processes</li> <li>• Questionnaire</li> </ul>  | <ul style="list-style-type: none"> <li>• Sustainable procurement</li> <li>• RoHS considerations</li> <li>• Corporate reputation</li> <li>• Industry experience and expertise</li> </ul>                                       |
| Community              | <ul style="list-style-type: none"> <li>• Involvement in and meeting with various communities through social services and sports activities</li> <li>• Cooperation with local universities and NGOs</li> </ul>  | <ul style="list-style-type: none"> <li>• Improvement of community environment and culture</li> <li>• Support for public welfare activities</li> </ul>   |
| Employees              | <ul style="list-style-type: none"> <li>• Training and development</li> <li>• Regular performance appraisals</li> <li>• Newsletters</li> <li>• Work-life balance activities</li> <li>• Policy communication</li> <li>• Communication with labour union</li> </ul> | <ul style="list-style-type: none"> <li>• Health and safety</li> <li>• Remuneration and welfare</li> <li>• Career development</li> <li>• Integrity and business conduct</li> </ul>   |

## MATERIALITY ASSESSMENT

The issues that matter most to the Group's business and its stakeholders are identified and presented in the materiality matrix above. The Group places comparatively higher emphasis on ESG matters relating to the environment, employee safety and supply chain management as these are external stakeholders' top concerns, weighted against the risks and opportunities they present to the Group. Whilst higher priority is given to these areas, other ESG aspects are also monitored on an ongoing basis and are included in this ESG report to enhance corporate transparency.

## ENVIRONMENT

Over years, the Group has developed streamlined operating processes and energy-efficient hardware to lessen energy and water utilisation, improved the use of resources and investigated new means for environmental preservation.

As a manufacturing company, the Group's management is always aware of the importance of sustainable development and environmental protection. The Group's policy on emissions and waste is fully complied with the requirements of the emission standard in 《水污染物排放限值》(DB44/26-2001), 《大氣污染物排放限值》(DB44/27-2001) and other relevant requirements and standards.

# Environmental, Social and Governance Report

The Group has been accredited with ISO 14001 since 2005. Under this accreditation, the Group resolves to comply with environmental laws, regulations and other applicable requirements, and to reduce or eliminate pollution while minimising any impact on the environment.

The manufacturing facilities in Heyuan city and Chengdu city are required to undergo stringent environmental audit and continuous monitoring, in order to protect the natural resources in the region and also to comply with all relevant local environmental laws and regulations.

| Emission and Waste Performance of Heyuan Plant   |                                    |   |                      |   |                      |   |                      |   |                      |   |
|--|------------------------------------|---|----------------------|---|----------------------|---|----------------------|---|----------------------|---|
| Waste  | Total tonnes in 2019               | Tonnes/Revenue (HKD1,000 million) in 2019 | Total tonnes in 2018 | Tonnes/Revenue (HKD1,000 million) in 2018 | Total tonnes in 2017 | Tonnes/Revenue (HKD1,000 million) in 2017 | Total tonnes in 2016 | Tonnes/Revenue (HKD1,000 million) in 2016 | Total tonnes in 2015 | Tonnes/Revenue (HKD1,000 million) in 2015 |
| <b>Air</b>   |                                    |   |                      |   |                      |   |                      |   |                      |   |
| HCL  | 0.35                               | 0.098                                     | 0.31                 | 0.098                                     | 2.29                 | 0.795                                     | 3.13                 | 1.39                                      | 2.9                  | 1.17                                      |
| Particulates   | <0.0015                            | <0.0004                                   | <0.0015              | <0.0005                                   | 0.89                 | 0.309                                     | <0.065               | <0.0289                                   | <0.050               | <0.0201                                   |
| SO <sub>2</sub>  | 0.030                              | 0.008                                     | <0.0117              | <0.004                                    | 0.5                  | 0.174                                     | <0.1630              | <0.0725                                   | <0.1544              | <0.0621                                   |
| NO <sub>x</sub>  | 0.019                              | 0.005                                     | 0.041                | 0.013                                     | 2.54                 | 0.882                                     | 0.182                | 0.0809                                    | 0.175                | 0.0703                                    |
| Greenhouse Gas <sup>(1)</sup> Total (Direct CO <sub>2</sub> e emissions <sup>(2)</sup> and Indirect CO <sub>2</sub> e emissions <sup>(3)</sup> ) | 3,860.89 CO <sub>2</sub> e tonnes  | 1,080.27                                  | -                    | -   | -                    | -   | -                    | -   | -                    | -   |
| Direct CO <sub>2</sub> e emissions   | 0.0001 Mg CO <sub>2</sub> e/ piece | 0.00003                                   | -                    | -   | -                    | -   | -                    | -   | -                    | -   |
| Indirect CO <sub>2</sub> e emissions   | 56 Mg CO <sub>2</sub> e/ piece     | 15.67                                     | -                    | -   | -                    | -   | -                    | -   | -                    | -   |
| Intensity (Direct CO <sub>2</sub> e emissions and Indirect CO <sub>2</sub> e emissions) per unit of production volume                            | 0.056 Kg CO <sub>2</sub> e/ piece  | 0.02                                      | -                    | -   | -                    | -   | -                    | -   | -                    | -   |
| Oil Fumes  | 0.038                              | 0.011                                     | 0.006                | 0.002                                     | 0.02                 | 0.007                                     | 0.01                 | 0.01                                      | 0.02                 | 0.01                                      |
| <b>Water</b>   |                                    |   |                      |   |                      |   |                      |   |                      |   |
| Wastewater   | 629,953                            | 176,260                                   | 702,749              | 221,199                                   | 706,387              | 245,358                                   | 662,863              | 294,999                                   | 837,897              | 336,775                                   |
| <b>Solid</b>   |                                    |   |                      |   |                      |   |                      |   |                      |   |
| Solid Waste Hazardous  | 37.10                              | 10  | 71.54                | 23  | 88.97                | 31  | 82.87                | 37  | 70                   | 28  |
| Solid Waste Non-hazardous  | 713.89                             | 200                                       | 696.91               | 219                                       | 978.29               | 340                                       | 915                  | 407                                       | 574                  | 231                                       |

Notes:

1. No data are available as there are no emissions of methane, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
2. Direct (scope 1) – greenhouse gas (“GHG”) emissions come from sources (physical units or processes that release GHG into the atmosphere that are owned or controlled by the Group.
3. Indirect (scope 2) – GHG emissions that result from the generation of purchased or acquired electricity, heating, cooling and steam consumed by the Group.

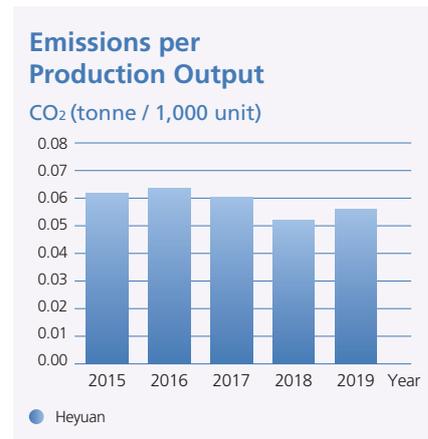
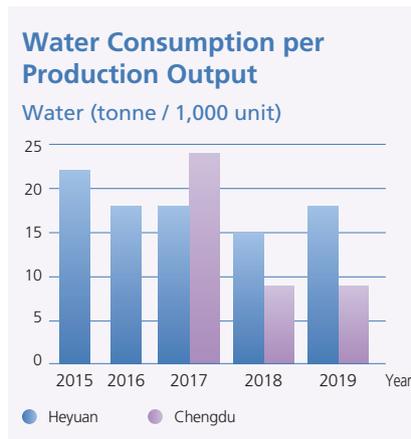
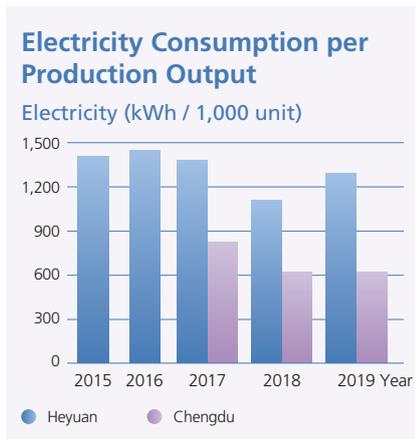
In 2019, the total tonnes and tonnes per revenue (HKD1,000 million) of solid waste non-hazardous of Chengdu plant were 37.55 and 10.51 respectively.

## Greenhouse Gas Emissions

Scope 1 emissions were mainly from burning clean oil at Heyuan factory kitchen. In general, we managed to lower the total Scope 1 emissions by reducing use of burning clean oil at factory kitchen. For Scope 2 energy

indirect emissions, the CO<sub>2</sub> equivalent emissions mainly from purchased electricity were approximately 3,860.12 tonnes. The total greenhouse gas emissions (Scope 1 and Scope 2) were approximately 3,860.89 tonnes. We do not report Scope 3 emissions because of the lack of complete and accurate data.

## ELECTRICITY AND WATER CONSUMPTION, AND EMISSIONS



## Emissions

### Air

Major emissions in the production plant are primarily collected at the exhaust vents of the production buildings and canteen kitchen of Heyuan plant. Hydrochloric acid is the main emission created by the production process. It is used at the etching stage when producing LCD panels. The volatilised hydrochloric acid is drawn to the ventilation system in the production buildings, then transmitted to the neutralising machines on the rooftop and neutralised with alkali before being released to the air. Since the recent years, due to changes in product structure, orders for monochrome displays decreased and the amount of hydrochloric acid was reduced. Orders for thin-film transistor (TFT) displays increased, but hydrochloric acid was not required for this process, so the amount of air emissions such as hydrochloric acid was reduced. The shift of monochrome displays to TFT module displays continued in 2019.

Emissions such as particulates, sulphur dioxide, nitrogen oxide and oil fumes are collected from the exhaust vent at the canteen kitchen of Heyuan plant. These substances are mainly produced during the process of fuel combustion. In December 2018, the Group purchased a new model of fume purifier for reducing emissions effectively.

The Company's product structure and sales volume is changing which caused the change in emission and waste performance during the years. The quantity of emissions of hydrochloric acid, particulates, sulphur dioxide, nitrogen oxide and oil fumes were all within the standards as stipulated by the Environmental Protection Bureau in Heyuan. Environmentally clean fuel has been used consistently since the second half of 2009, to reduce the emission of nitrogen oxide from kitchen ventilation. The air emissions in the production workshop is treated by different methods such as activated carbon, and is not emitted to the air. The Chengdu production plant is mainly engaged in TFT module assembly and thus no notable emission is generated.



# Environmental, Social and Governance Report

## Greenhouse Gas

Our greenhouse gas emissions stem from burning clean oil at factory kitchen, use of purchased electricity and etc. The use of energy is the major contributor of both direct (Scope 1) and indirect (Scope 2) emissions in the Group. Direct emissions (Scope 1) only account for 0.02% of our total carbon emissions in the manufacturing sites while the dominance of electricity (Scope 2) for carbon emission is more noticeable in our operations.

As a responsible enterprise, the Group upholds the principle of “Green Operation” and strives to improve our environmental performance by implementing various measures and practices. It includes: video conferences are held where possible to avoid any unnecessary overseas business travels and direct flights are chosen for inevitable business travel; water taps with water efficiency labels are installed and dripping taps are fixed immediately to avoid the wastage of water resource; divide the office area into different light zones using independent lighting switches and adopt energy-efficient lighting regularly to increase the energy efficiency of lighting system; regular inspection, repair and maintenance are performed to ensure the efficiency of machineries and vehicles. Besides, the Group attaches great importance to the design and consumption of packaging of our products so as to reduce the usage of packaging materials.

## Wastewater

Waste is unavoidable during the manufacturing and operation process, but the Group keeps a stringent control on the emission and ensures it is properly treated to minimise any negative impact to the environment.

Wastewater generated during the manufacturing process is treated in a large underground wastewater treatment facility with a daily maximum treatment capacity of 4,000 cubic meters. The current actual daily treatment is about 3,000 cubic meters. A computer software program recognised by the Heyuan Environmental Protection Bureau has been installed to provide the data on elements such as Chemical Oxygen Demand (COD) and the PH level at the discharge vent directly to the Bureau’s system. That means the wastewater discharge in the production plant is under continuous and timely monitoring by the Bureau. During the reporting period, there was no event or reported case of non-compliance which significantly influenced the water source.

## Solid Waste

Non-hazardous solid waste is usually produced during manufacturing and daily living. Used carton boxes, wooden packing cases and scrap glass are collected by qualified recycling contractors. Production plant staff are also encouraged to put rubbish into designated garbage containers. Such collected garbage is also collected by qualified recycling contractors.

Hazardous waste from the production area consists primarily of materials used in the manufacturing process. Chemicals used during production are collected and treated in full compliance with local environmental regulations.

In 2019, due to the shift of monochrome displays to TFT module displays, the total tonnes and tonnes per revenue (HKD1,000 million) of solid waste hazardous were 37.10 and 10 respectively.

## Measures to Reduce Emissions and Waste

Since 2016, the Group mitigated 2.8 tonnes (per annum) of hazardous waste by recycling the used non-dust cloths, classified as hazardous waste after use with alcohol, with special treatment. Wastewater was also reduced to 40mg/L of Chemical Oxygen Demand (COD) through Mixed Wastewater Treatment of domestic sewage and industrial wastewater, which is lower than the emission standard value of 90mg/L. In 2017, an investment of HK\$936,700 in the transformation of the water loop treatment system at the Heyuan plant which was used to treat the waste water and recycling. It reduced the annual discharge of 6,000 tonnes of wastewater.

The Company's TFT Production was accredited with the "2017 Company Electronic Control – Excellence Team in Energy Saving and Emission Reduction" by the Beijing Electronics Industry Trade Union. The award was recognized for the recycling of dust-free cloth, which has been used for cleaning the patch glass and TP visual inspection cleaning. After unified purification in the recycling, the dust-free cloth can be used for cleaning the glass-hydrogel reinforced process, i.e. the epoxy dispensing process (syringe tip and syringe cleaning), machines, worktop, curing racks, fixtures, ovens, etc. This contributed a saving of approximately RMB1,530,000.

## Use of Resources

As a manufacturing company, electricity and water are the resources most used during the course of operations. Management recognises the significance of energy conservation, and ongoing measures are in place to reduce the use of natural resources. The

Group regularly reviews ways for the efficient use of resources and develops improvement plans, with the aim of further reducing consumption of these resources while maintaining effective operation of the production plant. According to the change of production orders, the utilities supply is adjusted for the energy saving. Electricity consumption continues to reduce in 2019. The electricity in 2019 is reduced 8,719,000 kWh or 8.98% as compared with 2018.

For Chengdu plant, the electricity consumption per production output is lower than that of Heyuan plant as it only engages in TFT module assembly process. The water consumption per production output in 2017 is at a higher level than 2018, as it was not reaching full capacity during initial stage of mass production.

At the same time, the Group strives to minimise any impact on the environment and save material costs by continuously reviewing the design for product packaging, with the aim of reducing packaging size. Despite this, as the Group's products are glass LCD panels or modules, they must be protected with polyfoam trays during delivery and so the use of polyfoam trays is unavoidable.

In 2019, the quantities of carton boxes and polyfoam trays used for product storage and transportation in Heyuan were 775 tonnes and 899 tonnes respectively. This indicates a decrease of 21.1% and 19.4% respectively, as compared with the year 2018. In 2019, the quantities of carton boxes and polyfoam trays used for product storage and transportation in Chengdu were 14 tonnes and 22 tonnes respectively.

# Environmental, Social and Governance Report

Below is a table outlining the energy consumption, water utilisation and packaging material used by the Group during the reporting period, as compared with the data recorded in the last five financial years.

| Energy Consumption, Water Utilisation and Packaging Material Used |   |                      |   |                      |   |                      |   |                      |   |
|---|---|----------------------|---|----------------------|---|----------------------|---|----------------------|---|
| Total tonnes in 2019  | Tonnes/Revenue (HKD1,000 million) in 2019 | Total tonnes in 2018 | Tonnes/Revenue (HKD1,000 million) in 2018 | Total tonnes in 2017 | Tonnes/Revenue (HKD1,000 million) in 2017 | Total tonnes in 2016 | Tonnes/Revenue (HKD1,000 million) in 2016 | Total tonnes in 2015 | Tonnes/Revenue (HKD1,000 million) in 2015 |
| <b>Heyuan Production Plant</b>                                    |   |                      |   |                      |   |                      |   |                      |   |
| <b>Electricity (kWh)</b>  |   |                      |   |                      |   |                      |   |                      |   |
| 88,410,206  | 24,737,047                                | 97,128,769           | 30,572,480                                | 100,992,658          | 35,079,075                                | 91,205,623           | 40,589,952                                | 90,905,585           | 36,537,615                                |
| <b>Water (Tonne)</b>  |   |                      |   |                      |   |                      |   |                      |   |
| 1,279,331   | 357,955                                   | 1,334,650            | 420,098                                   | 1,362,932            | 473,405                                   | 1,145,386            | 509,740                                   | 1,414,773            | 568,639                                   |
| <b>Carton boxes (Tonne)</b>                                       |   |                      |   |                      |   |                      |   |                      |   |
| 775   | 217                                       | 982                  | 309                                       | 1,075                | 373                                       | 928                  | 413                                       | 1,118                | 449                                       |
| <b>Polyfoam trays (Tonne)</b>                                     |   |                      |   |                      |   |                      |   |                      |   |
| 899   | 252                                       | 1,115                | 351                                       | 1,148                | 399                                       | 907                  | 404                                       | 999                  | 402                                       |
| <b>Chengdu Production Plant</b>                                   |   |                      |   |                      |   |                      |   |                      |   |
| <b>Electricity (kWh)</b>  |   |                      |   |                      |   |                      |   |                      |   |
| 157,847   | 44,165                                    | 1,366,150            | 430,013                                   | 1,158,672            | 402,456                                   | –                    | –   | –                    | –   |
| <b>Water (Tonne)</b>  |   |                      |   |                      |   |                      |   |                      |   |
| 2,422   | 678                                       | 20,400               | 6,421                                     | 34,054               | 11,828                                    | –                    | –   | –                    | –   |
| <b>Carton boxes (Tonne)</b>                                       |   |                      |   |                      |   |                      |   |                      |   |
| 14  | 4   | 98                   | 31  | 39                   | 14  | –                    | –   | –                    | –   |
| <b>Polyfoam trays (Tonne)</b>                                     |   |                      |   |                      |   |                      |   |                      |   |
| 22  | 6   | 187                  | 59  | 74                   | 26  | –                    | –   | –                    | –   |
| <b>Hong Kong Office</b>   |   |                      |   |                      |   |                      |   |                      |   |
| <b>Electricity (kWh)</b>  |   |                      |   |                      |   |                      |   |                      |   |
| 178,883   | 50,051                                    | 172,171              | 54,187                                    | 168,579              | 58,555                                    | 117,330              | 52,216                                    | 153,859              | 61,840                                    |
| <b>Water (Tonne)</b>  |   |                      |   |                      |   |                      |   |                      |   |
| 107   | 30  | 106                  | 33  | 108                  | 38  | 96                   | 43  | 88                   | 35  |

## Measures to Reduce Energy Consumption and Water Utilisation

The Group invested about HK\$2,650,000 to replace old equipment with large energy consumption into new equipment with variable frequency control and low energy consumption, such as old-fashioned central vacuum pumps and old-fashioned old air-conditioning ice-water mainframes, which can reduce electricity consumption by approximately 1,100,000 kWh each year. In addition, long-term use of wastewater from the production process was collected and reused in the toilet flushing system, thus the amount of tap water is reduced. In 2017, an investment of HK\$936,700 in the

transformation of the water loop treatment system at the Heyuan plant which was used to treat the waste water and recycling. It reduced the annual discharge of 8,500 tonnes of water utilisation.

## Climate Change

As an enterprise with social responsibility, the Group also recognises that climate change could create uncertainties in our business development. We assess how climate change could affect our business operations, and minimise the potential impacts on our sustainable growth. We are dedicated to reducing our electricity and water consumption, and emissions during operations as disclosed.

Waste management is a vital aspect to the Group. To lower environmental impact caused by waste generation, the Group has abided by relevant laws and regulations, and strengthened its monitoring on the waste management where the consumption of electricity and water, recycling of wastewater and disposal of hazardous and non-hazardous solid waste can be monitored more efficiently.

Greenhouse gas (“GHG”) emissions are closely linked to climate-related crises nowadays. To reduce corporate GHG emissions as well as to lower individual carbon footprint of its employees, the Group has put efforts in the encouragement of employees to take public transport during local and cross-border business travel, while telephone conference is held whenever possible to avoid any unnecessary overseas business travel, and encourage direct flights are chosen to reduce carbon emissions caused by inevitable business travel.

### Environmental Education

The Hong Kong headquarters and Heyuan production plant continue to adhere to the concept of “green office” as the theme in 2019. In the same year, the headquarters successfully passed an audit to achieve the goal of reducing waste and carbon through energy saving and cost reduction, and the “Green Office Label” was awarded by the World Green Organisation.

Besides the “Green Office Label”, the Hong Kong office was also accredited with the “HSBC Living Business ESG Award” by the HSBC Living Business Awards 2019 for its commitment in reducing carbon emissions throughout the years.

In the Hong Kong office, the consumption level of electricity is announced on a monthly basis, in order to enhance the awareness of energy saving among colleagues.

The Heyuan plant held the “Green Cycling” activities every year to promote public awareness on the concept of low-carbon transport.

### Recognition

The Group received recognition for its efforts in environmental protection in 2019. BOEVx was accredited with the “Green Office Label” by the World Green Organisation. The Hong Kong office was also presented with “HSBC Living Business ESG Award” by the HSBC Living Business Awards Programme<sup>1</sup>, to recognise years of efforts on environmental protection.



### SOCIAL

#### Employment

The Group strictly observes the labour law in Hong Kong and the PRC. It is the policy of the Company to maintain a working environment that complies with the Race Discrimination Ordinance, Sex Discrimination Ordinance, Disability Discrimination Ordinance and the Family Status Discrimination Ordinance of the Ordinance and Code of Practice.

The Group provides remuneration, welfare and fringe benefits to employees comparable to the market standard. Remuneration, salary and bonus distribution are determined with reference to a performance-linked scale. When it comes to annual reviews, factors such as the Company’s financial performance, business prospects, individual performance, market rates and inflation rate are taken into consideration to decide the rate and scale.

Note 1: The “HSBC Living Business Award” Programme is supported by the Environment Council, The Hong Kong Council of Social Service and the Hong Kong Institute of Human Resources Management. The programme is open all SMEs’ in Hong Kong.

# Environmental, Social and Governance Report

In 2019, the turnover rates for Hong Kong, the PRC and Overseas staff were 11.5%, 36.7% and 6.3% respectively.

During the year, there was no significant reported case of non-compliance with the relevant laws and regulations in Hong Kong, the PRC and Overseas.

## Health and Safety

The Group's policy on health and safety is to comply fully with local government regulations, as stipulated in the law of prevention of occupational disease 《中華人民共和國職業病防治》 and fire prevention in the PRC 《中華人民共和國消防法》, and to maintain a healthy and safe working environment for all employees, including the plant and systems of work, and to provide such information, instruction, training and supervision as they need. The production plant in Heyuan and Chengdu has successfully renewed its OHSAS 18001 with Health and Safety accreditation. The accreditation test includes (but are not limited to) canteens and fire smoke (nitrogen oxides, sulfur dioxide, smoke and etc.), drinking water and workplace air (benzene, toluene, xylene, methylene

chloride, dust, formaldehyde, isopropanol, n-hexane and etc.) and noise.

For the past three years, including 2019, there is no work-related fatality in the Group and no injury case was reported among Hong Kong employees. The factory recorded 29 (2018: 31) injury cases with 990 (2018: 517) lost days due to work injuries. Every injury case underwent a detailed review and evaluation, with precautionary measures put in place to avoid a repeat occurrence. Extra training was conducted with the parties involved.

The Group understands that natural disasters and accidents are unavoidable, and our management aims to mitigate any damage during mishaps. An emergency and fire drill, and fire precautionary training are conducted once a year in both the Hong Kong office and the production plant. First-aid training is provided to staff and workers. Training in safe handling of chemicals is also conducted for related workers on the production floors. In the production plant, a patrolling team is responsible for carrying out audits regarding workplace efficiency, effectiveness, and safety measures.



In addition to workplace safety, a healthy lifestyle is promoted to all employees. Talks on health & wellness and a variety of activities related to sports are arranged for employees' participation. The aim of these activities is to achieve a sustainable work-life balance.

| Workforce and Turnover Rate |           |       |          |           |       |          |           |       |          |           |       |          |
|-----------------------------|-----------|-------|----------|-----------|-------|----------|-----------|-------|----------|-----------|-------|----------|
| Age                         | 2019      |       |          | 2018      |       |          | 2017      |       |          | 2016      |       |          |
|                             | Hong Kong | PRC   | Overseas |
| <b>Male</b>                 |           |       |          |           |       |          |           |       |          |           |       |          |
| 18–45                       | 63        | 721   | 16       | 68        | 1,244 | 14       | 73        | 1,200 | 13       | 77        | 954   | 14       |
| 46–65                       | 24        | 65    | 16       | 40        | 57    | 18       | 35        | 43    | 21       | 31        | 42    | 10       |
| Turnover rate               | 14.9%     | 30.8% | 9.4%     | 14.7%     | 26.7% | 6.1%     | 12.2%     | 29.5% | 0%       | 12.7%     | 27.6% | 0%       |
| <b>Female</b>               |           |       |          |           |       |          |           |       |          |           |       |          |
| 18–45                       | 19        | 2,424 | 9        | 23        | 3,405 | 9        | 27        | 3,741 | 8        | 24        | 3,488 | 10       |
| 46–65                       | 19        | 373   | 6        | 18        | 340   | 7        | 19        | 286   | 7        | 17        | 312   | 6        |
| Turnover rate               | 10.5%     | 26.4% | 0%       | 11.9%     | 24.7% | 12.9%    | 13.2%     | 29.5% | 0%       | 18.0%     | 31.8% | 11.8%    |
| <b>Employment Type</b>      |           |       |          |           |       |          |           |       |          |           |       |          |
| Staff                       | 125       | 702   | 47       | 149       | 1,034 | 48       | 154       | 948   | 49       | 149       | 770   | 40       |
| Workers                     | 0         | 2,881 | 0        | 0         | 4,012 | 0        | 0         | 4,322 | 0        | 0         | 4,026 | 0        |
| Full-time                   | 124       | 3,583 | 47       | –         | –     | –        | –         | –     | –        | –         | –     | –        |
| Part-time                   | 1         | 0     | 0        | –         | –     | –        | –         | –     | –        | –         | –     | –        |

| Development and Training |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |
|--------------------------|----------------------|--------------------|------------------|---|----------------------|--------------------|------------------|---|----------------------|--------------------|------------------|---|----------------------|--------------------|------------------|---|
|                          | 2019                 |                    |                  |   | 2018                 |                    |                  |   | 2017                 |                    |                  |   | 2016                 |                    |                  |   |
|                          | Total Training Hours | Total Participants | Total Headcounts | Average Training Hours per Staff Member | Total Training Hours | Total Participants | Total Headcounts | Average Training Hours per Staff Member | Total Training Hours | Total Participants | Total Headcounts | Average Training Hours per Staff Member | Total Training Hours | Total Participants | Total Headcounts | Average Training Hours per Staff Member |
| <b>HK Staff</b>          |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |
| Male                     | 50                   | 20                 | 20               | 2.5                                     | 532                  | 101                | 53               | 10.0                                    | 238                  | 58                 | 42               | 5.7                                     | 332                  | 207                | 149              | 2.2                                     |
| Female                   | 69                   | 24                 | 22               | 3.1                                     | 74                   | 37                 | 21               | 3.5                                     | 206                  | 70                 | 36               | 5.7                                     | –                    | –                  | –                | –                                       |
| <b>PRC Staff</b>         |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |
| Male                     | 3,236                | 1,219              | 469              | 6.9                                     | 4,166                | 1,604              | 626              | 6.7                                     | 7,008                | 1,398              | 578              | 12.1                                    | 5,274                | 2,993              | 770              | 6.8                                     |
| Female                   | 2,190                | 753                | 322              | 6.8                                     | 2,812                | 1,009              | 407              | 6.9                                     | 3,725                | 914                | 370              | 10.1                                    | –                    | –                  | –                | –                                       |
| <b>PRC Workers</b>       |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |
| Male                     | 6,510                | 2,070              | 434              | 15.0                                    | 10,120               | 2,936              | 612              | 16.5                                    | 7,616                | 1,355              | 665              | 11.5                                    | 19,312               | 6,886              | 4,026            | 4.8                                     |
| Female                   | 16,614               | 5,827              | 2,556            | 6.5                                     | 19,017               | 7,434              | 3,271            | 5.8                                     | 20,250               | 5,950              | 3,657            | 5.5                                     | –                    | –                  | –                | –                                       |
| <b>Total</b>             |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |                      |                    |                  |   |
| Male                     | 9,796                | 3,309              | 923              | 10.6                                    | 14,818               | 4,641              | 1,291            | 11.5                                    | 14,862               | 2,811              | 1,285            | 11.6                                    | 24,918               | 10,086             | 4,945            | 5.0                                     |
| Female                   | 18,873               | 6,604              | 2,900            | 6.5                                     | 21,903               | 8,480              | 3,699            | 5.9                                     | 24,181               | 6,934              | 4,063            | 6.0                                     | –                    | –                  | –                | –                                       |



## Development and Training

The Group values its employees and is committed to providing an ideal workplace in which its staff members may grow and develop. In 2019, the Group conducted a series of training sessions for staff and workers.

The Group's policy is to ensure that all employees achieve personal growth in their careers, and training is therefore encouraged. This is usually held during working hours, so that employees need not sacrifice personal time for training. A flexible work pattern may be scheduled for Hong Kong staff members working in the production plant if they need to pursue further studies.

Training covers a wide range of topics including operational skills, craftsmanship, display technology, quality standards, environmental matters, health and safety and soft management skills. Senior managerial staff members are usually invited to be technical instructors. External coaches are employed for specific trainings on soft management skills. In 2019, external coaches were employed to conduct an Outward Bound training for Heyuan production employees. The training aims at fostering personal development, teamwork, problem solving, and interpersonal skills.

## Labour Standards

The Group complies with and observes the respective Labour Laws and Regulations in its operating countries. As a responsible employer, the following principles are strictly enforced:

- No child labour
- Ensure that wages comply with or exceed the minimum legal requirements of the country where employees are based
- Overtime practice is based on a voluntary pattern, no forced labour is allowed
- Respect for the opinions of general employees and the labour union
- Formal complaint channels are established and are regularly promoted to employees
- Equal employment opportunities – employment of disadvantaged employees and diversity and inclusion are encouraged in the workplace
- Harassment and abuse – these are actively discouraged in any form, to or among all employees
- Protection of privacy and personal data at work

All potential applicants are required to complete the Company's Employment Application Form, where personal data such as, names, contact details, ID numbers, etc. will be provided by the applicants. Human Resources Department will then reference check the ID cards to ensure that they meet the minimum age standard, i.e. 18 years or above.

## People Caring

The Hong Kong Headquarters was accredited with the "HSBC Living Business ESG Award" by the HSBC Living Business Awards 2019. The Award recognises the Group's outstanding performance in aspects of staff training and development, employee communications, equal opportunity, staff welfare, work-life balance, family-friendly practices, occupational health & safety and supply chain management. The Group provided all-round attention in the above areas, and performed exceptionally well in organizing work-life balance activities for staff and showing flexible treatment for staff members who need special care or to cope with family issues.

## Supply Chain Management

The Group takes a collaborative approach to supply chain sustainability management, as it views its suppliers as part of an interdependent ecosystem.

In 2019, the Group took the initiative to evaluate its suppliers' social responsibility performance. Both material suppliers and logistics service vendors were included in an evaluation distribution list. Completed questionnaires helped the Group to understand and evaluate the performance of its suppliers and vendors in the aspects of:

- Work hours
- Child labour
- Forced labour
- Health and safety
- Environmental concerns
- Corporate social responsibility

### Table of Distribution and Response Status

|   | Number | Percentage (%) |
|---|--------|----------------|
| Total No. of major suppliers for manufacturing operations | 85     | –              |
| Total No. of major suppliers questionnaires sent          | 85     | 100            |
| Total No. of completed questionnaires returned            | 72     | 85             |

### Table of Results

| Rating           | Number | Percentage (%) |
|------------------|--------|----------------|
| Outstanding      | 50     | 69             |
| Above Average    | 18     | 25             |
| Average          | 4      | 6              |
| Need Improvement | 0      | –              |
| Below Standard   | 0      | –              |
| Total            | 72     | 100            |

## Distribution of Suppliers

Suppliers are divided into material suppliers and logistics service vendors, and machinery makers. Certain material suppliers are requested to sign a declaration declaring that their packing material and Bill of Material (BOM) contains no hazardous substance. There was no reported case of violation of the declaration by any of our suppliers in the reporting period.

### Suppliers by Geographical Region

|                           | PRC | Asia | Europe | United States |
|---------------------------|-----|------|--------|---------------|
| Material Suppliers        | 338 | 64   | 30     | 18            |
| Logistics Service Vendors | 5   | 4    | 4      | 1             |





# Environmental, Social and Governance Report

## Selection and Evaluation of Suppliers

The Group selects suppliers and purchases materials and/or services from suppliers and vendors using three methods, namely, price comparison, bidding and sentinel procurement. Audits of suppliers and vendors are performed on a regular basis. Results are compiled for review by the Supplier Quality Team and are approved by the department head of Quality.

Criteria for audit include:

- General operation and workforce condition
  - capability for semi and/or fully automation
  - financial analysis
  - nature of business
- Quality qualification
- Quality system training
- Inspection procedures for quality systems
- Handling procedures for customer complaints
- Calibration
- Material suppliers control and handling procedures
- Production process control and inspection
- Past performance record

## Service Vendors

The Logistics Department screens and selects service vendors by considering of the following factors:

- Company background – financial stability, reputation and global network
- Pricing, competitiveness and future new technology development
- Services – performance track record, efficiency and customer service
- Environmental performance – for instance, most of vendors use trucks compliant with Euro IV and V standards

## Machinery Makers

The Logistics Department screens and selects machinery makers by considering of the following factors:

- Company background – financial stability, reputation and global network
- Pricing, competitiveness and future new technology development
- Past track record
- Response time and customer servicing

## Environmental and Social Risks of Supply Chain

The Group had established and strictly observing the guidelines and procedures as accordance to Group's policy. Essentially, we adhered to high ethical standards and fair competition practises during our procurement processes. We performed annual performance evaluation for supplier to ensure they continuous delivering the quality services.

In view of the increasing environmental concerns in society, the Group is aware of the importance in managing environmental and social risks of its supply chain. The Group has embedded environmental and social consideration in the procurement process and supplier communication. Supplier's environmental, social and governance policies, including emissions, use of resources, environmental and natural resources, health and safety, staff development and training, the prevention of child labour, product responsibility and anticorruption would be measured. The Group will continue to monitor its supply chain regarding the environmental and social standards.

We have also formulated policies and procedures to ensure that the suppliers could compete in a transparent and fair way. The Group should not have differentiate or discriminate treatment on certain suppliers. The procedures include measures to prevent all kinds of business bribery and conflict of interest such as the avoidance of employees' personal interest directly or indirectly in or given by the suppliers.

For further information regarding the Group's measures in relation to environmental compliance, safety and quality control, please refer to the sections headed "Environment", "Health and Safety" and "Product Responsibility".

## Product Responsibility

The Group has no recall on products sold or shipped due to safety and health reasons in 2019. There are average 356 cases and 153 cases per month of automotive quality enquiries in 2018 and 2019.

Safety is always the core of the Group quality policy. To pursue such policy, the Group is qualified by International Standard: ISO 14001 and QC 080000. With these standards, the Group has developed an intensive system, to ensure no harmful substances (dangerous material lists from RoHS/REACH) going into BOEVx finished goods. As a result, there is no concerned recall in 2019 record.

As one of major automotive component suppliers, the Group takes responsibility for providing customers with quality and completed after-sale services. Such responsibility covers 8-discipline reporting (8D), customer complaint review meeting (CCR) and continuous improvement plan (CIP). With 8D approach, the negative impact from defects is quickly limited by containment action (which is mostly defined in 48 hours). With weekly CCR, "cause and action" will be fully consolidated across departments like Production, Process and Design. Furthermore, to achieve reject rate in PPM (parts per million) level, CIP is carried out quarterly with the involvement of the senior management.

The Group's prime objective is to provide high quality products that fully conform to their requirements and specifications. This commitment is fundamental to all work undertaken and is closely observed by all members of the Group in their daily activities. All products must strictly comply with the Group's policy of operating Quality Management System that fully meets the requirements of ISO 9001 and IATF 16949 for automotive products and customer requirements for supplementary standards. This standard stipulates all processes from product development to completion of production and to after-sale services. In addition, Hazardous Substance Process Management is in place where procedures and related processes have been assessed and confirmed to be compliant with QC 080000. The production plants in Heyuan and Chengdu are accredited with ISO 14001, ISO 9001, IATF 16949, QC 080000 and OHSAS 18001 certifications.

To ensure stringent quality management, the Group's Incoming Quality Control Team screens the incoming materials by sampling scheme. Only good quality materials that meet the requirements are accepted for the production process. Similarly, finished goods go through a stringent quality check before being passed to the finished goods warehouse. The Quality Department and sales people also provide comprehensive service ranging from failure analysis and 8D reporting to production and process improvement when handling customer enquiries.





# Environmental, Social and Governance Report

## Protection of Intellectual Property Rights

Recognizing that intellectual properties are important assets to an enterprise, the Group has always adhered to the concept of respect for intellectual property, being devoted to implementing protection for intellectual properties. The intellectual properties as possessed by the Group include but not limited to patents, trademarks, designs, copyrights and trade secrets, with protection scopes covering products, technologies, designs, processes, commercial information, video/audio/graphic materials, software and etc. These intellectual properties can be maintained and used in various legitimate ways such as application for registration, confidentiality measure, enforcement, litigation and etc. Suitable administration systems for intellectual properties are adopted both internally and externally. The Group respects intellectual property rights of third parties, particularly those of the cooperating parties of the Group, and proactively avoids unauthorized use of relevant intellectual properties. Contracts of cooperation projects will be reviewed by the involved parties before commencement, with security and confidentiality measures taken during the process. During the course of cooperation, confidentiality, licensing, acquisition and other agreements can be signed with mutual respect, for the sake of lawful acquirement and transfer of intellectual properties among the different parties, therefore achieving mutual benefits.

## Data Protection and Privacy Policies

In order to gain trust from our stakeholders, the security of their personal information is important to us. The Group acknowledges the importance in handling the personal information carefully.

The Group understands stakeholders use their personal information for different purpose. Therefore, it is important for us to handle this information with care. To protect this information from any unauthorised access, accidental loss and destruction, the Group adopts appropriate security measures in the transfer and storage of the personal data.

## Anti-Corruption

The Group places emphasis on ensuring all business is conducted in accordance with relevant local laws and regulations, with policies in place to safeguard against corruption activities. Such measures are preventive, detective and punitive in nature. Training is provided for directors and employees of the Group to discourage any form of corruption. The relevant materials are circulated to the directors and the employees for their perusal, which can be found in the Company's public domain.

To commit a high standard of corporate governance, the Group has also devised a whistleblowing policy for all employees of the Group to report serious concerns about any misconduct, malpractice or irregularities that the Company or any of its subsidiaries has been or may become involved in. Whistleblowing matters may include but are not confined to breach of legal or regulatory requirements (such as corruption or acts of fraud) or, malpractice, impropriety or fraud relating to internal controls, accounting, auditing and financial matters of the Group. An employee of the Group who has a legitimate malpractice concern should report to the audit committee of the Company.

The Group will make every effort to treat all disclosures in a confidential and sensitive manner. The identity of the individual employee of the Group making the allegation will not be divulged without the employee's consent, where appropriate. Harassment or victimization of a genuine whistle blower will be treated as gross misconduct, which if proven, may result in dismissal.

Policies include:

- Code of conduct, which covers conflict of interests and acceptance of advantages/benefits
- Whistle-blowing policy
- Entertainment policy
- Travel policy

In addition, the Staff Handbook has stipulated rules and regulations for employees. The clear layout of policies can prevent arguments and disputes from employees. To date, no established case of corrupt practices has been uncovered.

## Community Awards and Accolades

It was an honour for the BOEVx Social Service Team to be presented with “The 10th Hong Kong Outstanding Corporate Citizenship Logo – Volunteer Category” by the Hong Kong Productivity Council in 2019.

The Group will continue to encourage employees and their families to take part in the Group’s social service activities, and we anticipate the BOEVx Social Service Team will continue to promote the concept of social citizenship in different areas.

## Participation in Charity and Work-Life Balance Activities

The Group is involved in a variety of events that combine charity and sports. In 2019, the Group sponsored colleagues to participate in:

- Hong Kong Streetathon
- Standard Chartered Marathon
- Oxfam Trailwalker

In China, the Heyuan production plant participated in the “Guangdong Poverty Alleviation Day” fundraising event every year, to help the poor.

The Group encourages work-life balance, yoga classes were organised in the Hong Kong office to encourage healthy living, and attracted many colleagues to join, which enhanced the cohesion of the Group, and strengthened the physical and mental development of employees.

## Scholarship

Since 2012, the Heyuan plant established a school-enterprise cooperation with the Heyuan Polytechnic to enrol students in “Specialized BOEVx Class”. A scholarship is sponsored for outstanding students.

## Combat Against Coronavirus

The novel coronavirus (COVID-19) broke out in late 2019, and has continued to spread across the globe. Faced with the challenge of the outbreak, the Group took immediate actions to minimize the impact of the business and implemented various measures to combat the spread of the virus within the community.

The Group set up Special Committees for the epidemic in the Hong Kong office & PRC plants. Comprehensive policies, in time communication, material assistance, daily health checks and special work arrangement were just some of the measures which the Group took to protect its employees around the world to combat the virus.



# Board of Directors and Senior Management

## DIRECTOR'S BIOGRAPHICAL INFORMATION



**GAO**  
Wenbao

aged 45, was appointed as an Executive Director and the Chairman in September 2018. Mr. Gao is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. As the term of office of Mr. Gao expired on 27 April 2019, Mr. Gao was re-appointed as an Executive Director, the Chairman, the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company with effect from 28 April 2019.

Mr. Gao graduated from Jilin University with a doctor degree in microelectronics and solid-state electronics. He holds Beijing senior specialized technique qualification in electronic components and materials. From 2003 to 2011, Mr. Gao worked as a section chief of the panel research and development section, a department chief of the product technology department and a vice-general manager and a manager of the production factory of Beijing BOE Optoelectronics Technology Co., Ltd (a subsidiary of BOE Technology Group Co., Ltd ("BOE")). From 2011 to 2015, Mr. Gao worked as a general manager of Chongqing BOE Optoelectronics Technology Co., Ltd (a subsidiary of BOE). From 2015 to 2018, Mr. Gao worked as a co-chief executive officer of Display Business Group of BOE. He is currently the chief executive officer of Display and Sensor Business Group of BOE.



**KO Wing Yan,**  
Samantha

aged 40, was appointed as an Executive Director of the Company in October 2014. Ms. Ko was also appointed as the Chief Executive Officer of the Company in March 2015 and was redesignated to a Co-chief Executive Officer of the Company in April 2016. Ms. Ko was redesignated from a Co-chief executive officer of the Company to the Vice Chairlady of the Company in January 2019. Ms. Ko is a member of the Remuneration Committee of the Company and a director of various subsidiaries of the Group. Ms. Ko holds a Bachelor Degree in Economics and Mathematics from Mount Holyoke College, U.S.A., and a Master Degree in Finance from the Imperial College, London. She has over 7 years of experience in banking and has extensive experience in the securities and capital markets, and was a director of global markets — structured credit and fund solutions of HSBC until August 2009. Before joining HSBC, Ms. Ko served at Morgan Stanley (Hong Kong) and JP Morgan Securities Limited (London).



**SU Ning**

aged 39, was appointed as an Executive Director and a Co-chief Executive Officer of the Company in April 2016. Mr. Su was redesignated from a Co-chief Executive Officer of the Company to the Chief Executive Officer of the Company in January 2019. Mr. Su is a member of the Nomination Committee of the Company and a director of various subsidiaries of the Group. As the term of office of Mr. Su expired on 27 April 2019, Mr. Su was re-appointed as an Executive Director, the Chief Executive Officer and a member of the Nomination Committee with effect from 28 April 2019.

Mr. Su graduated from the Graduate School of Chinese Academy of Sciences with a master degree in engineering. Since 2005, Mr. Su has served as a deputy division chief in the module technical department, a deputy department head in the new application business department, the division chief, a deputy general manager in the application business department of Beijing BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE). Mr. Su is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd. (a subsidiary of BOE).



**SHAO Xibin**

aged 50, was appointed as a Non-executive Director of the Company in April 2019. Mr. Shao graduated from Changchun Institute of Physics, Chinese Academy of Sciences with a doctor degree in condensed matter physics. From 1994 to 2006, Mr. Shao worked at Changchun Institute of Physics, Chinese Academy of Sciences, Tohoku University and Jilin North Color Crystal Display Co., Ltd.. Since 2006, Mr. Shao joined the BOE Group. He worked as a deputy director of strategic planning department, a director of research and development of central research institute, a director of product development of BOE Display, a director of DT development and a department head of TV development, a deputy head of IT/TV product development, head of IT/TV product development, the chief product officer, a co-chief technology officer of Display Business Group of BOE. He is currently the chief product officer of display and sensor business of BOE.



JIN Hao

aged 46, was appointed as a Non-executive Director of the Company in April 2019. Mr. Jin graduated from Northeast Forestry University with a bachelor's degree in trade economy. From 1997 to 2003, Mr. Jin worked at Beijing Gucheng Tourism Vocational School, K.E.D. Co., Ltd. and BTC Information and Communication Co., Ltd.. Since 2003, Mr. Jin joined the BOE Group. He worked as a department head of sales planning management department of BOE Optoelectronics, head of sales management centre of Display Business Group of BOE. He is currently a head of sales management centre of display and sensor business of BOE.



ZHANG Shujun

aged 53, was appointed as a Non-executive Director of the Company in April 2019. Ms. Zhang graduated from Hunan University with a bachelor's degree in industrial foreign trade. From 1989 to 2004, Ms. Zhang worked at Beijing Greatwall Optical Instrument Factory and Beijing Acorp M&E Co., Ltd. Since 2004, Ms. Zhang joined the BOE Group. She worked as a head of accounting department of BOE Optoelectronics, a vice financial controller of Hefei BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE), a financial controller of Hefei Xinsheng Optoelectronics Technology Co., Ltd. (a subsidiary of BOE), a financial controller of Fuzhou BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE), and a head of accounting and tax department of BOE. She is currently a head and a financial controller of budget management department of display and sensor business of BOE.



FUNG, Yuk Kan Peter

aged 53, was appointed as an Independent Non-executive Director of the Company in June 2016. Mr. Fung is the Chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Fung was trained and qualified in KPMG London before returning to KPMG Hong Kong in 1993. Since his return Mr. Fung has travelled regularly into China to lead different types of China projects, including Initial Public Offerings and due diligence exercises for merger and acquisitions. Mr. Fung became a partner in October 2000. Later in 2006 he moved to and started stationing in Beijing. In the past two decades, he has been in many positions within KPMG, including the partner in-charge of large accounts, regional head of audit and regional head of business development.

Mr. Fung's last position before retirement is the Global Chair of KPMG Global China Practice ("GCP"). The GCP is a community of professionals in China and across the globe with a total focus on inbound and outbound China businesses and assists Chinese businesses with their globalisation strategy and helps multinational companies enter or expand into the China market. In this role, he regularly meets with market players to discuss the continuous development of China and issues confronting executives from different businesses. He also writes publications and appears in conferences and events as presenters/panelists to share his experience and views on these matters.

Mr. Fung is a fellow member of the Institute of Chartered Accountants of England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor of science in Economics from London School of Economics and Political Science in 1988.

## Board of Directors and Senior Management



CHU, Howard  
Ho Hwa

aged 55, was appointed as an Independent Non-executive Directors of the Company in June 2016. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chu has over 15 years of business experience and over 9 years of experience in corporate governance. Mr. Chu is a partner of Go Capital Limited which is a private equity firm based in Hong Kong and Shanghai. Mr. Chu was appointed as an independent non-executive director of Guolian Securities Co., Ltd. which is listed on the Main Board of the Stock Exchange in June 2019. From 2012 and 28 February 2018, Mr. Chu was the chief executive officer of mReferral Corporation (HK) Limited which is a leading mortgage referral company and is a joint venture of Midland Holdings Limited and Cheung Kong (Holdings) Limited. From March 2012 to June 2012, he was the chief financial officer of China Smart Electric Co. Ltd. From July 2009 to October 2011, he was the chief financial officer of Trony Solar Holdings Company Limited which is a publicly listed company on the Main Board of the Stock Exchange. From September 2010 to May 2012, he was an independent non-executive director of China Kingstone Mining Holdings Limited which is a publicly listed company on the Main Board of the Stock Exchange. He has previously worked for Shanghai Century Acquisition Corporation, a company listed on the American Stock Exchange, and United Energy Group Limited, a company listed on the Stock Exchange. He was a director at ABN AMRO Asia Corporate Finance Ltd. and was also a director at the Hong Kong and Shanghai Banking Corporation Ltd. From June 2012 to June 2015, he was an independent non-executive director of Weichai Power Co. Ltd. which is a publicly listed company on the Main Board of Stock Exchange. He resigned as an independent non-executive director of Directel Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange in June 2016. He obtained a master degree of business administration from the Columbia University and a bachelor degree of science from the University of Rochester in 1990 and 1986 respectively.



HOU Ziqiang

aged 82, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr. Hou was a director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was a secretary general of the Chinese Academy of Sciences.

## SENIOR MANAGEMENT'S BIOGRAPHICAL INFORMATION

### PANG Tien Kin

aged 39, is the Group Financial Controller and Company Secretary of the Group. He holds a Bachelor of Business Administration (Accountancy) from City University of Hong Kong, and is a Member of the HKICPA and a Fellow Member of the ACCA. He joined the Group in September 2017.

### PARK Soo Bin, James

aged 49, is the Chief Marketing Officer of the Group. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in October 2006.

### LO Pak Chi, Patrick

aged 46, is the General Manager responsible for operation of the Heyuan plant of the Group. He holds a Bachelor's degree in Applied Physics from The Hong Kong Baptist University. He joined the Group in May 1998.

### CHENG Wei

aged 38, the Executive Officer of the CEO Office responsible for Systems / New Product development and internal operation of the Group. He holds a degree in Information Engineering from the Beijing Institute of Technology, China and a Master's degree in Software Engineering from the Huazhong University of Science and Technology, China. Before joining the Group, Mr. Cheng served at BOE Group and has more than 13 years of TFT module production and operational experience. He joined the Group in August 2017.

### MA Chung Man, Alex

aged 44, the Assistant General Manager – Purchasing, of the Group. He holds a degree in Industrial and Manufacturing Systems Engineering from the University of Hong Kong and a Master's degree in System Engineering and Engineering Management from the Chinese University of Hong Kong. He joined the Group in October 1998.

### NG Ah Loi, Lloyd

aged 52, is the Assistant General Manager – Head of Quality of the Group. He holds a Bachelor's degree in Applied Physics from the City University of Hong Kong. Mr. Ng has over 12 years of experience in automotive quality assurance management. He joined the Group in August 2017.

### CHOI Wing

aged 41, is the Senior Manager – Head of Business Planning of the Group. She holds a Bachelor's degree in Chemistry from the Chinese University of Hong Kong. She joined the Group in October 2000.

# Corporate Governance Report

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board (the “Board”) of Directors (the “Directors”) recognises that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

## CORPORATE GOVERNANCE PRACTICES

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has adopted and complied with the code provision set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Board has taken actions and measures to ensure that the Company is in all aspects in strict compliance.

In the opinion of the Directors, the Company has complied with the code provisions of the CG Code throughout the year ended 31 December 2019.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. 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 year under review.

## BOARD OF DIRECTORS

The Company benefits from the professional management expertise of its Directors. Brief biographies of the Directors are set out in the “Board of Directors and Senior Management” section in this Annual Report. The professional management expertise of the Directors ensures that the Board has the capabilities of sustaining the Company’s continued success.

As at 31 December 2019, the Board comprises three Executive Directors, three Non-executive Directors and three Independent Non-executive Directors.

Executive Directors: Mr. Gao Wenbao (*Chairman*)  
Ms. Ko Wing Yan, Samantha (*Vice Chairlady*)  
Mr. Su Ning (*Chief Executive Officer*)

Non-executive Directors: Mr. Shao Xibin<sup>1</sup>  
Mr. Jin Hao<sup>1</sup>  
Ms. Zhang Shujun<sup>1</sup>

Independent Non-executive Directors: Mr. Fung, Yuk Kan Peter  
Mr. Chu, Howard Ho Hwa  
Mr. Hou Ziqiang

Note:

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

All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

The Board meets at least 4 times a year with additional meetings arranged when necessary to review the financial performance, material investments and other matters of the Group that require the resolution of the Board.

During the financial year ended 31 December 2019, a total of 7 Board meetings and 2 general meetings (“2019 GM”) of which 1 is an annual general meeting, were held and the attendance of each Director is set out as follows:

| Name  | Board | 2019 GM | Number of meetings attended in 2019 |                      |                 |
|---|-------|---------|-------------------------------------|----------------------|-----------------|
|   |       |         | Remuneration Committee              | Nomination Committee | Audit Committee |
| <b>Executive Directors:</b>                 |       |         |                                     |                      |                 |
| Mr. Gao Wenbao                              | 6/7   | 2/2     | 3/3                                 | 2/2                  | N/A             |
| Ms. Ko Wing Yan, Samantha                   | 7/7   | 2/2     | 3/3                                 | N/A                  | N/A             |
| Mr. Su Ning                                 | 7/7   | 2/2     | N/A                                 | 2/2                  | N/A             |
| <b>Non-executive Directors:</b>             |       |         |                                     |                      |                 |
| Ms. Yang Xiaoping <sup>1</sup>              | 5/5   | 1/1     | N/A                                 | N/A                  | N/A             |
| Mr. Dong Xue <sup>1</sup>                   | 5/5   | 1/1     | N/A                                 | N/A                  | N/A             |
| Mr. Yuan Feng <sup>1</sup>                  | 5/5   | 1/1     | N/A                                 | N/A                  | N/A             |
| Mr. Shao Xibin <sup>2</sup>                 | 2/2   | 1/1     | N/A                                 | N/A                  | N/A             |
| Mr. Jin Hao <sup>2</sup>                    | 2/2   | 1/1     | N/A                                 | N/A                  | N/A             |
| Ms. Zhang Shujun <sup>2</sup>               | 2/2   | 1/1     | N/A                                 | N/A                  | N/A             |
| <b>Independent Non-executive Directors:</b> |       |         |                                     |                      |                 |
| Mr. Fung, Yuk Kan Peter                     | 7/7   | 0/2     | 3/3                                 | 2/2                  | 2/2             |
| Mr. Chu, Howard Ho Hwa                      | 7/7   | 2/2     | 3/3                                 | 2/2                  | 2/2             |
| Mr. Hou Ziqiang                             | 7/7   | 1/2     | 3/3                                 | 2/2                  | 2/2             |

Note:

1. 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 with effect from 27 April 2019.
2. With effect from 28 April 2019, Mr. Shao Xibin, Mr. Jin Hao and Ms. Zhang Shujun were appointed as a Non-executive Director of the Company.

The Directors have no financial, business, family or other material/relevant relationships among the members of the Board except that:

- (i) Mr. Gao Wenbao is the chief executive officer of Display and Sensor Business Group of BOE Technology Group Co., Ltd (“BOE”). Mr. Su Ning is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd., a subsidiary of BOE. Mr. Shao Xibin is the chief product officer of display and sensor business of BOE. Mr. Jin Hao is a head of sales management centre of display and sensor business of BOE. Ms. Zhang Shujun is a head and a financial controller of budget management department of display and sensor business of BOE.

In the Board’s opinion, these relationships do not affect the Directors’ independent judgment and integrity in executing their roles and responsibilities.

## Professional Development

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course and/or referring materials on the topics related to corporate governance and regulations.

## Responsibilities of the Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as interim and annual results, major transactions, director appointments or reappointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the management.

## Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary of the Company with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman of the Board, Mr. Gao Wenbao and Chief Executive Officer, Mr. Su Ning are separated, with a clear division of responsibilities. The Chairman of the Board is responsible for formulating corporate strategies and overall business development planning. Chief Executive Officer's duty is to oversee the execution of daily business activities. The division of responsibilities is to ensure a balance of power and authority.

The Vice Chairlady, Ms. Ko Wing Yan, Samantha, shall assist the Chairman of the Board in performing the latter's duties and responsibilities. In particular, the Vice Chairlady shall take the important role in monitoring the implementation of the Company's strategies. During the period when the Chairman is absent and the normal functions of the Chairman cannot be carried out, the Vice Chairlady will take the role as the acting Chairman until the Chairman resumes carrying out his normal duties or a new Chairman has been elected and appointed by the Board.

## TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

All Non-executive Directors have been appointed for a term of three years and all Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2020 or such other date as agreed by the Independent Non-executive Directors. All Directors are subject to retirement by rotation at least once every three years under the Company's Bye-laws.

## BOARD COMMITTEES

### Remuneration Committee

The remuneration committee (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. The terms of reference of the RC are available at the websites of the Company and the Stock Exchange.

The roles and functions of the RC include consulting the Chairman of the Board about their remuneration proposals for other Executive Directors, making recommendation to the Board on the Company’s remuneration policy and structure for all Directors’ and senior management of the Group. The RC has adopted the approach under B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Executive Director and senior management of the Group.

The Company’s remuneration policy is to link remuneration packages for Executive Directors with the achievement of annual and long-term performance goals. By providing competitive and performance-linked compensation, the Company seeks to attract, motivate and retain key executives, which is essential to its long-term success.

3 meetings was held in 2019. During the meeting, the RC reviewed the Company’s remuneration policy and fixed the remuneration packages for the Executive Directors and senior management of the Group. No change has been proposed to the remuneration policy and the Directors’ remuneration. The number of RC meeting held during the year and record of individual attendance of members, on a named basis, at the meeting held is set out in section headed “BOARD OF DIRECTORS” above in this report.

### Remuneration of Directors and Senior Management

The Directors’ remuneration is set out in Note 7 to the consolidated financial statements of this Annual Report.

The remuneration paid to the members of the senior management by bands in 2019 is set out below:

| Remuneration Bands             | Number of Individuals |
|--------------------------------|-----------------------|
| HK\$500,001 to HK\$1,000,000   | 4                     |
| HK\$1,000,001 to HK\$1,500,000 | 2                     |
| HK\$2,000,001 to HK\$2,500,000 | 1                     |

### Nomination Committee

The nomination committee (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 terms of reference of the NC are available at the websites of the Company and the Stock Exchange.

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. New Directors are sought mainly through referrals. In evaluating whether an appointee is suitable to act as a Director of the Company, the Board will review the independence, experience and expertise of the appointee as well as personal ethics, integrity and time commitment of the appointee.

The Board adopted the board diversity policy (the “Board Diversity Policy”) which to comply with the CG Code on board diversity. The Board Diversity Policy was adopted to ensure that diversity in its broadest sense continues to remain a feature of the Board. The NC’s assessment of the candidates includes, but is not limited to, consideration of the relevant knowledge and diversity of backgrounds, skills, experience and perspectives that would complement the existing Board.

2 meetings were held in 2019. Issues concerning the structure, size and composition of the Board were discussed and reviewed. The number of NC meeting held during the year and record of individual attendance of members, on a named basis, at the meeting held during is set out in section headed “BOARD OF DIRECTORS” above in this report.

## Audit Committee

The audit committee (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 terms of reference of the AC are available at the websites of the Company and the Stock Exchange.

The AC held 2 meetings in 2019 in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed risk management, internal controls and financial reporting matters so as to ensure that an effective control environment is maintained. The number of AC meeting held during the year and record of individual attendance of members, on a named basis, at meetings held during is set out in section headed “BOARD OF DIRECTORS” above in this report.

The AC also made its recommendation to the Board that the external auditors should be reappointed and approved the remuneration and the terms of engagements of the external auditors.

The internal and external auditors have unrestricted access to the AC, which ensures that their independence remains unimpaired.

There are no disagreement between the Board and the AC on the selection, appointment, resignation or dismissal of the external auditors.

The AC meets and holds discussions with the Executive Directors and other senior management of the Group on the interim results, preliminary results announcement and annual reports. The AC reviews and discusses the management’s report and representations with a review to ensure that the Group’s consolidated financial statements and prepared in accordance with accounting principles generally accepted in Hong Kong. It also considers reports from the Company’s external auditors, KPMG, on the scope and the outcome of their annual audit of the consolidated financial statements.

## Accountability and Audit

### Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in the Report of the Independent Auditor) for preparing the financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The reporting responsibilities of KPMG are set out in the Report of the Independent Auditor on pages 54 to 59 of this Annual Report.

## Internal Control and Risk Management

The Board has overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Group's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the AC to ensure appropriate and effective risk management and internal control systems are in place. The Company has established an Internal Audit Department and the Risk Management Committee (the "RMC"). The RMC consists of representatives from operations departments, the Finance Department and the Internal Audit Department of the Company.

The AC assists the Board in meeting its responsibility for maintaining effective systems of risk management and internal control. The AC reviews all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Group's accounting, internal audit, and financial reporting functions. It reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. The AC reviews the effectiveness of the internal audit department and its annual work plans, and considers the reports of the RMC on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the AC before it makes its recommendation to the Board for approval of the annual consolidated financial statements.

During the year, the AC has reviewed the effectiveness of the risk management and internal control systems of the Group and considered the systems are effective and adequate.

Effective risk management is fundamental to the achievement of the Group's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks in a proactive and structured manner.

The Company's management encourages a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, acquisitions, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Company has a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.



# Corporate Governance Report

The Executive Directors review operational and financial reports and key operating statistics and hold regular meetings with the management to review their reports.

Budgets are prepared annually by the management and are subject to review and approval by the Chief Executive Officers and then by the Executive Directors. Re-forecasts of operating results for the current year are prepared regularly, reviewed and approved by the Executive Directors.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control. Capital expenditure is subject to overall control within the approved budget of individual projects with more specific controls and approvals being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Regular reports of actual versus budgeted and approved expenditure are also reviewed.

The treasury function, overseeing the Group's investment and funding activities, regularly reports to the Executive Directors on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Board has reviewed and adopted a treasury policy governing the management of the financial risks of the Group (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities.

The legal and company secretarial function reports to the Chief Executive Officers, and oversees, among other things, the Group's compliance of the Listing Rules and other legal and regulatory requirements.

The internal audit department reports to the AC of the existence and effectiveness of the risk management activities and controls in the operations of the Group. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, Internal Audit prepares its yearly audit plan which is reviewed and approved by the AC. Internal Audit's reports on the Group's operations are also reviewed and considered by the AC. The scope of work on the Group performed by Internal Audit includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity and efficiency review and laws and regulations compliance review. Internal Audit follows up audit recommendations on implementation and the progress is reported to the AC.

With the assistance of Internal Audit, the Chief Executive Officers and the Executive Directors review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last semi-annual assessment in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit department and other assurance providers, the extent and frequency of communication of monitoring results to the AC which enables it to assess control of the Group and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance.

Reports from the external auditor on material non-compliance with procedures and significant internal control weakness, if any, are presented to the AC. These reports are considered and reviewed and the appropriate action is to be taken if required.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

## Auditors' Remuneration

Total auditors' remuneration in relation to audit and non-audit services provided to the Group amounted to HK\$3.6 million (2018: HK\$3.7 million), of which a sum of HK\$2.8 million (2018: HK\$2.9 million) was paid to KPMG. The external auditor's fees are set out in Note 5(c) to the consolidated financial statements of this Annual Report.

## Investment Committee

The investment committee is established in November 2019 which mission is to source, review and select appropriate investment projects to achieve the Group's advancement and transformation strategy. Mr. Gao Wenbao, Ms. Ko Wing Yan, Samantha and Mr. Su Ning are the member of the investment committee.

## Company Secretary

Mr. Pang Tien Kin was appointed as the Company Secretary of the Company in November 2018. The biographical details of Mr. Pang are set out under the section head "Board of Directors and Senior Management" in this Annual Report.

According to the Rule 3.29 of the Listing Rules, Mr. Pang has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2019.

## Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders of the Company and the Board. The Company holds an annual general meeting ("AGM") every year, and may hold a general meeting known as an extraordinary general meeting ("EGM") whenever necessary.

### – Right to convene EGM

Members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda (the "Registered Office") and its principal office at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong (the "Principal Office"), for the attention of the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the general meeting, signed by the member(s) concerned and may consist of several documents in like form, each signed by one or more of those members.

If the requisition is in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the members concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

The notice period to be given to all the registered members for consideration of the proposal raised by the member(s) concerned at an EGM varies according to the nature of the proposal, as follows:

- At least 21 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and
- At least 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

## – Right to put enquiries to the Board

Members of the Company do not generally have any right to put forward enquiries to the Board. There is no procedure set out in the Bermuda Companies Act 1981 or in the Bye-Laws of the Company available for any member to put forward an enquiry to the Board. A member of the Company may, of course, at any time write to the Board and it is up to the Board to decide whether or not to entertain any request made by a member of the Company.

Members of the Company who have enquiries about the above procedures or have enquiries to put to the Board may write to the company secretary of the Company at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

## – Right to put forward proposals at shareholders' meetings

Member(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all members having the right to vote at the shareholders' meeting; or (ii) not less than 100 members, can submit a written request stating the resolution intended to be moved at an AGM; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular shareholders' meeting.

The written request/statements must be signed by the member(s) concerned and deposited at the Registered Office and the Principal Office, for the attention of the company secretary of the Company, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in the case of any other requisition.

If the written request is in order, the company secretary of the Company will ask the Board (i) to include the resolution in the agenda for an AGM; or (ii) to circulate the statement for the shareholders' meeting, provided that the member(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the member(s) concerned in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid or the member(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the member(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM; or the statement will not be circulated for the shareholders' meeting.

The procedures for shareholders of the Company to propose a person for election as a director is posted on the Company's website.

## INVESTOR RELATIONS

The Company attaches great importance to communicate with shareholders of the Company and a number of means, including regular group meetings and plant tours, are used to promote greater understanding and dialogue with investment community. This also includes the annual general meeting, the annual and interim reports, notices, announcements and circulars. Key executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

The Group's website [www.boevx.com](http://www.boevx.com) contains an "Investor & Media Relations" section which offers timely access to the Company's press releases, financial reports and announcements.

The AGM is an important opportunity for communicating with shareholders. The Company's Chairman and Directors are available at the AGM to answer questions from shareholders of the Company.

During the year ended 31 December 2019, there had been no significant change in the Company's constitutional documents.

# Report of the Directors

The Directors have pleasure in submitting herewith their report together with the audited financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in the automotive and industrial display business and has monochrome display manufacturing capacity and TFT module assembly capacity. Since its incorporation, the Company has been combining scientific and technological research, innovative product design, flexible product specifications and efficient manufacturing for many applications, including automotive components, industrial and consumer products, also providing complete display solutions for its customers. In addition to supplying standard products, the Group also provides tailor-made LCDs (liquid crystal display) and modules for the specific needs of its customers. The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of LCDs and TFT and their related products is the only reporting segment and virtually all of the revenue and operating profits is derived from this business segment. Particulars of the Company's principal subsidiaries set out in Note 14 to the financial statements of this Annual Report. Further discussion and analysis of the Group's activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of The Laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in Chairman's Statement on pages 2 to 7, Management Discussion and Analysis on pages 8 to 9, Review of Operations on pages 10 to 13, Environmental, Social and Governance Report on pages 14 to 29, and Notes 25(e) and 26 to the financial statements of this Annual Report.

A discussion on the Group's key relationships with its stakeholders, environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Group is contained in Environmental, Social and Governance Report on pages 14 to 29 of this Annual Report. These discussions form part of this Directors' Report.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Notes 3 and 11(b) to the financial statements of this Annual Report.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2019 are set out in Note 14 to the financial statements.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 109 of this Annual Report.

## DIVIDEND

The Board has recommended declaring a final dividend of 1.0 HK cent (2018: 1.0 HK cent) per share and a special dividend of 25.0 HK cents (2018: Nil) per share, representing a total of 26.0 HK cents (2018: 1.0 HK cent) per share for the year ended 2019.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 23 June 2020 to Tuesday, 30 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM (the "2020 AGM"), all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited ("Computershare"), of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 22 June 2020.

Subject to the shareholders approving the recommended final dividend and special dividend at the 2020 AGM of the Company, such dividends will be payable on or around Monday, 20 July 2020 to shareholders whose names appear on the register of members of the Company on Friday, 10 July 2020. To determine eligibility for the final dividend and the special dividend,



# Report of the Directors

the register of members of the Company will be closed from Tuesday, 7 July 2020 to Friday, 10 July 2020 (both days inclusive), during which period no shares can be registered. In order to qualify for the aforementioned final dividend and special dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Computershare, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 6 July 2020.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 25 to the financial statements.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$34,000 (2018: HK\$159,000).

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in Note 12 to the financial statements.

## RESERVES

Details of movements in reserves of the Company during the year are set out in Note 25(a) to the financial statements. Details of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

## DIRECTORS

The Directors during the financial year and up to the date of this Annual Report were:

### Executive Directors:

Mr. Gao Wenbao (*Chairman*)

Ms. Ko Wing Yan, Samantha

Mr. Su Ning

### Non-executive Directors:

Ms. Yang Xiaoping (retired on 27 April 2019)

Mr. Dong Xue (retired on 27 April 2019)

Mr. Yuan Feng (retired on 27 April 2019)

Mr. Shao Xibin (appointed on 28 April 2019)

Mr. Jin Hao (appointed on 28 April 2019)

Ms. Zhang Shujun (appointed on 28 April 2019)

### Independent Non-executive Directors:

Mr. Fung, Yuk Kan Peter

Mr. Chu, Howard Ho Hwa

Mr. Hou Ziqiang

In accordance with Bye-laws of the Company, Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

As at 31 December 2019, the interests of the Directors and chief executive 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 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 maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code 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 (Note 2) | Personal Interest | 90,700                         | 0.0003%   |
| Su Ning (Note 3)    | Personal Interest | 30,000                         | 0.0001%   |
| Shao Xibin (Note 4) | 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. Mr. Gao Wenbao bought 270,000 A shares of BOE in February 2020.
3. Mr. Su Ning bought 95,000 A shares of BOE in February and March 2020.
4. Mr. Shao Xibin bought 150,000 A shares of BOE in January and February 2020.
5. All the interests disclosed above represent long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2019, none of the Directors, chief executives or any of their associates

had any interests or short positions 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.

## SHARE OPTION SCHEMES AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 can 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 31 December 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. Other than the aforesaid, during the year, no share option was granted under the fourth share option scheme.

# Report of the Directors

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% 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% 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 Annual Report, the total number of share options that can be granted was 27,761,520 (after deducting the 4,500,000 shares options granted on 24 January 2019), representing 3.78% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 31 December 2019 represents 0.61% (2018: Nil%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in Note 24 to the financial statements.

## (b) Interests in share options of the Company

Movements in the Company's share options during the year are as follows:

| Category              | Date of grant   | Number of share options at 1 January 2019 | Number of share options granted during the year | Number of share options cancelled/ lapsed during the year | Number of share options exercised during the year | Number of share options at 31 December 2019 | Exercisable period | Price per share to be paid on exercise of share options | Market value per share at date of grant of share options | Weighted average closing price of share options immediately before the dates on which the share options were exercised |
|-----------------------|-----------------|---|---|---|---|---|--------------------|---|--|--|
| <b>Directors</b>      |                 |   |   |   |   |   |                    |   |  |  |
| Gao Wenbao            | 24 January 2019 | –   | 500,000   | –   | –   | 500,000                                     | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
| Ko Wing Yan, Samantha | 24 January 2019 | –   | 500,000   | –   | –   | 500,000                                     | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
| Su Ning               | 24 January 2019 | –   | 500,000   | –   | –   | 500,000                                     | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
| Fung, Yuk Kan Peter   | 24 January 2019 | –   | 100,000   | –   | –   | 100,000                                     | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
| Chu, Howard Ho Hwa    | 24 January 2019 | –   | 100,000   | –   | –   | 100,000                                     | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
| Hou Ziqiang           | 24 January 2019 | –   | 100,000   | –   | –   | 100,000                                     | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
| <b>Employees</b>      | 24 January 2019 | –   | 2,700,000                                       | –   | –   | 2,700,000                                   | (Note 1)           | HK\$2.00  | HK\$2.00   | N/A  |
|                       |                 |   | 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) All the interests disclosed above represent long positions.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of 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 31 December 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                           | Capacity                           | 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. | Interest of controlled corporation | 400,000,000<br>(Note 1)              | –   | 400,000,000 | 54.41%  |
| Ko Chun Shun, Johnson          | Beneficial owner                   | 50,551,000<br>(Note 2)               | –   | 50,551,000  | 6.88%   |
| Rockstead Technology Limited   | Interest of controlled corporation | 37,951,000<br>(Note 2)               | –   | 37,951,000  | 5.16%   |

Notes:

- (1) The subscription (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) All the interests disclosed above represent long positions.

Saved as disclosed above, as at 31 December 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.

### DEBENTURE ISSUE

The Group has not issued any debenture during the year ended 31 December 2019.

### DIRECTORS' SERVICE CONTRACTS

Mr. Gao Wenbao, Ms. Ko Wing Yan, Samantha and Mr. Su Ning have entered into a management agreement with the Company which may be terminated by either party to the agreement at one month's notice.

Non-executive Directors are appointed for a term of three years. Independent Non-executive Directors are appointed for a period up to 31 December 2020 or such other date as agreed by the Independent Non-executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

Referring the section headed "Continuing Connected Transactions, Connected Transactions and Other Related Party Transactions" as disclosed, Mr. Gao Wenbao ("Mr. Gao") held 90,700 A shares of BOE, Mr. Su Ning ("Mr. Su") held 30,000 A shares of BOE, Mr. Shao Xibin ("Mr. Shao") held 83,600 A shares of BOE, Mr. Jin Hao ("Mr. Jin") held 69,600 A shares of BOE, and Ms. Zhang Shujun ("Ms. Zhang") held 98,900 A shares of BOE. In addition, Mr. Gao is the chief executive officer of Display and Sensor Business Group of BOE. Mr. Su is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd., a subsidiary of BOE. Mr. Shao is the chief product officer of display and sensor business of BOE. Mr. Jin is a head of sales management centre of display and sensor business of BOE. Ms. Zhang is a head and a financial controller of budget management department of display and sensor business of BOE.

Mr. Gao, Mr. Su, Mr. Shao, Mr. Jin and Ms. Zhang may be considered having interests in the above-mentioned transactions.

Except as disclosed above, there has been no transaction, arrangement or contract of significance to which the Company, or any of its subsidiaries was a party, in which a Director of the Company and the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. There is no material interest of directors in contracts involving the Company.

## CONTINUING CONNECTED TRANSACTIONS, CONNECTED TRANSACTIONS AND OTHER RELATED PARTY TRANSACTIONS

A number of connected transaction and continuing connected transactions are entered into and between the Group and members of BOE. BOE Technology (HK) Limited ("BOE(HK)"), a wholly-owned subsidiary of BOE, is the controlling shareholder of the Company holding approximately 54.41% of the issued share capital of the Company.

### (a) Continuing Connected Transactions

#### (1) Master Purchase Agreement, Master Subcontracting Agreement, Renewed Master Purchase Agreement and Renewed Master Subcontracting Agreement

On 27 October 2016, the Company and BOE entered into (i) the master subcontracting agreement (the "Master Subcontracting Agreement"), pursuant to which the Company has agreed the Group to engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products on a non-exclusive basis; and (ii) the master purchase agreement (the "Master Purchase Agreement"), pursuant to which the Group agreed to purchase TFT panels and other products including, but not limited to, raw materials for manufacturing TFT/TP modules from BOE and its subsidiaries (the "BOE Group") up to 31 December 2018.

Pursuant to the approval obtained at the special general meeting of the Company held on 29 December 2016, the annual caps under the Master Subcontracting Agreement and the Master Purchase Agreement for the three years are as follows:

|                             | For the year ended 31 December |              |              |
|-----------------------------|--------------------------------|--------------|--------------|
|                             | 2016                           | 2017         | 2018         |
|                             | HK\$ million                   | HK\$ million | HK\$ million |
| Subcontracting Transactions | 10                             | 73           | 138          |
| Purchase Transactions       | 133                            | 702          | 1,229        |

Pursuant to the Master Subcontracting Agreement and the Master Purchase Agreement, the Group has from time to time since 2016 engaged the BOE Group to provide subcontracting services for the manufacturing of TFT/TP modules and other products, and purchased from the BOE Group, TFT panels and other products including, but not limited to, raw materials for the manufacturing of its LCDs and related products, in particular TFT/TP modules.

Leveraging its competitive edges, such as panel research and automated manufacturing process, the BOE Group has supplied the Group with TFT panels with customized design and comprehensive quality support at prices considered to be fair and reasonable by the Company.

On 22 November 2018, in view of the expiration of the Master Subcontracting Agreement and the Master Purchase Agreement on 31 December 2018, the Company therefore entered into the renewed master subcontracting agreement (the "Renewed Master Subcontracting Agreement") and the renewed master purchase agreement (the "Renewed Master Purchase Agreement"), pursuant to which the Company and BOE have agreed to extend the terms of the agreements to 31 December 2021.

Pursuant to the approval obtained at the special general meeting of the Company held on 10 January 2019, the annual caps under the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement for the three years are as follows:

|                             | For the year ended | For the year ending | For the year ending |
|-----------------------------|--------------------|---------------------|---------------------|
|                             | 31 December        | 31 December         | 31 December         |
|                             | 2019               | 2020                | 2021                |
|                             | HK\$ million       | HK\$ million        | HK\$ million        |
| Subcontracting Transactions | 53                 | 67                  | 72                  |
| Purchase Transactions       | 1,621              | 2,431               | 3,362               |

The total amounts of the Subcontracting Transactions during the years 2018 and 2019 are HK\$632,000 and HK\$Nil respectively. The total amounts of the Purchase Transactions during the years 2018 and 2019 are HK\$495,735,000 and HK\$1,367,507,000 respectively.

## (2) Tenancy Agreement, Management Agreement, Utilities Agreement and Computer Integrated Manufacturing (the "CIM") System Management Agreement

On 13 January 2017, the Group entered into the tenancy agreement (the "Tenancy Agreement"), the management agreement, the utilities agreement and the CIM system management agreement (the "Related Agreements") for a term from 15 January 2017 to 31 December 2019 whereby (i) Chengdu BOE Optoelectronics Technology Co., Ltd. ("Chengdu BOE"), a wholly-owned subsidiary of BOE, has agreed to lease the premises to the Group; and (ii) Chengdu BOE has agreed to provide (a) management service, (b) utilities and (c) optional CIM system management service for the Group in connection with the lease of the premises.



# Report of the Directors

Pursuant to the Tenancy Agreement and the Related Agreements on an aggregate basis, the annual caps (including VAT) for the total estimated annual payment (comprising the rental, management fee, utilities fee and optional CIM system management fee) for the relevant periods in 2017, 2018 and 2019 are as follows:

|   | For the period from 15 January 2017 to 31 December 2017<br>(RMB) | For the year ended 31 December 2018<br>(RMB) | For the year ended 31 December 2019<br>(RMB) |
|---|--|--|--|
| Total payment under the Tenancy Agreement               | 971,494.09   | 1,009,485.48                                 | 1,009,485.48                                 |
| Total payment under the Management Agreement            | 1,333,671.95   | 2,041,383.48                                 | 2,041,383.48                                 |
| Total payment under the CIM System Management Agreement | 461,217.50   | 997,516.92                                   | 997,516.92                                   |
| Sub-total   | 2,766,383.54   | 4,048,385.88                                 | 4,048,385.88                                 |
| Estimated total payment under the Utilities Agreement   | 4,970,000.00   | 8,320,000.00                                 | 8,320,000.00                                 |
| Total (Annual Caps)                                     | 7,736,383.54   | 12,368,385.88                                | 12,368,385.88                                |

The total annual payment (comprising the rental, management fee, utilities fee and optional CIM system management fee) for the year ended 31 December 2018 and period from 1 January 2019 to 14 February 2019 are HK\$10,063,000 (equivalent to approximately RMB8,827,000) and HK\$426,000 (equivalent to approximately RMB380,000) respectively.

As a result of integration of the TFT modules manufacturing process, the Tenancy and the Related Agreements were terminated on 14 February 2019 (as set out in below).

### (3) The Termination Agreement, The New Tenancy Agreement and The Assets Lease Agreement

On 14 February 2019, Chengdu BOE Vehicle Display Technology Co. Ltd., (the "Chengdu Vx") entered into the termination agreement, new tenancy agreement (the "New Tenancy Agreement") and assets lease agreement (the "Assets Lease Agreement") with Chengdu BOE.

The TFT business is highly competitive. The Group is developing standardized platform TFT modules to promote to its customers in order to achieve further economies of scales. The Group considered that it

is to the Group's interest that the manufacturing of standardized platform TFT modules under one integrated manufacturing process and control, i.e. from panel production to TFT modules assembly, will render the Group higher competitive advantages including, but not limited to yield enhancement, quality control, supply chain management and etc. by leveraging the various competitive edges of the BOE Group.

The premises (a total construction floor area of approximately 4,210.40 square metres) has been leased to the Group since 13 January 2017 under the Tenancy Agreement and the Related Agreements for the operation of the lease assets for TFT modules assembly. As a result of aforesaid integration of the TFT modules manufacturing process for standardized platform TFT modules products to the BOE Group, the premises for TFT modules assembly will no longer be required by the Group and the office of Chengdu Vx will be relocated to the new premises (a total construction floor area of approximately 135 square metres) under the new tenancy agreement. The BOE Group will utilize the lease assets for the manufacturing of TFT modules in the premises. The Directors are of the view that the termination agreement for the premises and the new tenancy agreement for the new premises are beneficial to the Group for cost-saving purpose.

Pursuant to the New Tenancy Agreement and the Assets Lease Agreement on an aggregate basis, the annual caps (including VAT) for the total annual payment (comprising the rental, management fee and utilities fee) and total annual payment received under Assets Lease Agreement for the relevant periods in 2019, 2020 and 2021 are as follows:

|   | For the period from 15 February 2019 to 31 December 2019<br>(RMB) | For the year ending 31 December 2020<br>(RMB) | For the year ending 31 December 2021<br>(RMB) |
|---|---|---|---|
| Total Rental  | 28,067  | 32,076  | 32,076  |
| Total Management Fee                                    | 25,997  | 29,711  | 29,711  |
| Total Utilities Fee                                     | 26,796  | 30,624  | 30,624  |
| Total payment under the New Tenancy Agreement           | 80,860  | 92,411  | 92,411  |
| Total payment received under the Assets Lease Agreement | 12,292,825  | 14,048,943                                    | 14,048,943                                    |
| Total (Annual Caps)                                     | 12,373,685  | 14,141,354                                    | 14,141,354                                    |

The total annual payment (comprising the rental, management fee and utilities fee) for the period from 15 February 2019 to 31 December 2019 is HK\$90,000 (equivalent to approximately RMB80,000). The total annual payment received under Assets Lease Agreement for the period from 15 February 2019 to 31 December 2019 is HK\$13,463,000 (equivalent to approximately RMB12,020,000).

The Independent Non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the continuing connected transactions in relation to the Renewed Master Purchase Agreement and the Renewed Master Subcontracting Agreement, the Tenancy Agreement and the Related Agreements, the New Tenancy Agreement and the Assets Lease Agreement

in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing the findings and conclusions in respect of this continuing connected transaction disclosed by the Group above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided to the Company for submission to the Stock Exchange.

## (b) Other Related Party Transactions

Except as disclosed above, related party transactions entered into by the Group during the year which do not constitute connected transactions or continuing connected transactions under the Listing Rules are disclosed in Note 29 to the financial statements.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year ended 31 December 2019.

## EQUITY-LINKED AGREEMENTS

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## PERMITTED INDEMNITY PROVISION

The Company's Bye-law provides that the Directors shall be indemnified out of the assets of the Company against any actions, costs, charges, losses, damages and expenses as a result of any act or failure to act in carrying out their functions.

The Company has arranged directors' and officers' liability insurance cover in respect of legal action against the Directors during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the law of Bermuda.

## BANK LOANS

As at 31 December 2019, there were no bank loans of the Group.

## CAPITALISATION OF INTEREST

No interest was capitalised by the Group during the year.

## PROPERTIES

Particulars of the properties held by the Group are shown on page 111 of this Annual Report.

## FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 110 of this Annual Report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, for the year under review, the Company has maintained the prescribed public float under the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the five largest customers of the Group accounted for 41.4% of the Group's total revenue while the largest customer of the Group accounted for 20.0% of the Group's total revenue. In addition, for the year ended 31 December 2019, the five largest suppliers of the Group accounted for 46.1% of the Group's total purchases while the largest supplier of the Group accounted for 31.9% of the Group's total purchases. The largest supplier of the Group is the associate of BOE which is the substantial shareholder of the Company.

Saved as disclosed above, at no time during the year have the Directors or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's total issued share capital) had any interest in these major customers and suppliers.

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

The term of office of Mr. Gao Wenbao ("Mr. Gao"), Mr. Su Ning ("Mr. Su"), Ms. Yang Xiaoping ("Ms. Yang"), Mr. Dong Xue ("Mr. Dong") and Mr. Yuan Feng ("Mr. Yuan") expired on 27 April 2019. In this connection, Mr. Gao and Mr. Su were re-appointed as an Executive Director with effect from 28 April 2019. Ms. Yang, Mr. Dong and Mr. Yuan retired as a Non-executive Director with effect from 27 April 2019.

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

Mr. Gao was re-appointed as the Chairman, the chairman of the Nomination Committee and a member of the Remuneration Committee, and Mr. Su was re-appointed as the Chief Executive Officer and a member of the Nomination Committee with effect from 28 April 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 year ended 31 December 2019.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

## AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

**By order of the Board**

**Gao Wenbao**

*Chairman*

Hong Kong, 30 March 2020

# Report of the Independent Auditor



## Independent auditor's report to the shareholders of BOE Varitronix Limited

(Incorporated in Bermuda with limited liability)

### OPINION

We have audited the consolidated financial statements of BOE Varitronix Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 109, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## TIMING OF REVENUE RECOGNITION

Refer to note 3 to the consolidated financial statements and the accounting policy note 1(s).

### The Key Audit Matter

Revenue from sales of the Group's liquid crystal display ("LCD") products is recognised when the products are delivered to the customer's designated location which is considered to be the point in time when the Group transfers the control of the goods to the customer.

The Group's sales contracts with customers, which principally comprise automotive manufacturers, have a variety of trade terms relating to goods acceptance. Such terms may affect the timing of the recognition of sales to those customers. The Group evaluates the shipping terms of each sales contract in order to determine the appropriate timing for revenue recognition.

There is a risk that revenue transactions may not be recognised in the appropriate financial period due to lead times for sales made around the year end and the variety of trade terms offered to the customers.

We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and could be subject to manipulation to meet targets or expectations and because of the variety of trade terms offered to customers which increases the risk of error in the recognition of revenue.

### How the matter was addressed in our audit

Our audit procedures to assess the timing of revenue recognition included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls over revenue recognition;
- inspecting key customer contracts to identify terms and conditions relating to goods acceptance and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying sales invoices and delivery documents with the customers' acknowledgement of goods acceptance to determine whether the related revenue had been recognised in the appropriate financial period; and
- inspecting underlying documentation for manual journal entries relating to revenue which were considered to be material or met other specific risk-based criteria.

# Report of the Independent Auditor

## VALUATION OF INVENTORIES

Refer to note 17 to the consolidated financial statements and the accounting policy note 1(k).

### The Key Audit Matter

The Group held significant inventories as at 31 December 2019, which comprised raw materials, work-in-progress and finished goods in respect of LCD and related products.

Inventories are stated at the lower of cost and net realisable value.

The Group maintains its inventory levels based on customer orders and forecast demand. There is a risk that the net realisable value of inventories may fall below their cost due to changes in customer demand and the consequent overstocking of inventories at the end of the reporting period. In addition, a significant proportion of the Group's products are manufactured to meet specific customer requirements. There is a risk that if a customer experiences financial difficulty or there is a demand issue with a customer's product that includes a part manufactured by the Group that the related inventories held by the Group may not be sold or may be sold at a price below their cost.

Management assesses the level of write-downs of inventories required at each reporting date after considering inventory ageing and other relevant factors. Such assessment involves significant management judgement and estimation in determining the value of inventories which will not be recoverable at each reporting date.

We identified the valuation of inventories as a key audit matter because inventories are significant to the consolidated financial statements and because of the significant degree of management judgement involved in determining the write-down of inventories.

### How the matter was addressed in our audit

Our audit procedures to assess the valuation of inventories included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls over the inventory write-down assessment process, including the Group's monitoring controls over slow-moving inventories;
- comparing the cost of raw materials with third party supplier invoices, on a sample basis;
- obtaining an understanding of the key assumptions in management's overhead absorption policy for work-in-progress and finished goods and assessing whether the actual costs included in the calculations were determined in accordance with management's overhead absorption policy by performing re-calculations of the absorbed overhead costs, on a sample basis;
- updating our understanding of the Group's inventory write-down policy and assessing whether this policy remained appropriate with reference to the Group's current circumstances and the requirements of the prevailing accounting standards;
- assessing the classification of inventory items in the inventory ageing report by comparison with purchase invoices and other relevant underlying documentation, on a sample basis;
- selecting inventory items, on a sample basis, at the reporting date and comparing their carrying value with their subsequent selling prices as indicated in sales invoices subsequent to the reporting date; and
- assessing the historical accuracy of management's calculation of write-downs of inventories by examining the utilisation or release of write-downs and provisions recorded at the end of the previous financial year during the current financial year.



## LOSS ALLOWANCE FOR TRADE RECEIVABLES

Refer to notes 18 and 26(a) to the consolidated financial statements and the accounting policies notes 1(m) and 1(j).

| <b>The Key Audit Matter</b>   | <b>How the matter was addressed in our audit</b>  |
|---|---|
| <p>The Group held significant trade receivables as at 31 December 2019, which comprised a large number of individual balances.</p> <p>The Group has a wide range of customers with different individual characteristics which are exposed to their own risks. Therefore, there is a risk that certain of the Group's trade receivables may not be recoverable.</p> <p>Management has implemented internal controls to monitor credit control, collection of trade receivables and follow up of overdue balances.</p> <p>Management measures the loss allowance required at each reporting date at an amount equal to the life time expected credit losses based on estimated loss rates for each category of receivables. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions and customer-specific conditions. Such assessment involves significant management judgement and estimation.</p> <p>We identified the loss allowance for trade receivables as a key audit matter because of the significance of trade receivables to the consolidated financial statements and because of the significant degree of management judgement involved in determining the expected credit losses.</p> | <p>Our audit procedures to assess the loss allowance for trade receivables included the following:</p> <ul style="list-style-type: none"><li>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls over the processes of credit control, segmentation of trade receivables and estimate of expected credit losses;</li><li>• obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the Group, including the basis of the segmentation of trade receivables based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate;</li><li>• assessing the reasonableness of the Group's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information;</li><li>• assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and</li><li>• comparing, on a sample basis, cash receipts from debtors subsequent to the financial year relating to trade receivable balances at 31 December 2019 with bank-in slips.</li></ul> |

# Report of the Independent Auditor

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chui Kin Pong.

KPMG

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

30 March 2020

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2019  
(Expressed in Hong Kong dollars)

|   | Note | 2019<br>\$' 000    | 2018<br>(Note)<br>\$' 000 |
|---|------|--------------------|---------------------------|
| <b>Revenue</b>  | 3    | <b>3,573,978</b>   | 3,177,359                 |
| Other operating income  | 4    | <b>53,918</b>      | 45,787                    |
| Change in inventories of finished goods and work in progress                  |      | <b>(111,860)</b>   | 3,489                     |
| Raw materials and consumables used  |      | <b>(2,652,315)</b> | (2,212,772)               |
| Staff costs   |      | <b>(425,936)</b>   | (550,795)                 |
| Depreciation  | 12   | <b>(136,707)</b>   | (106,823)                 |
| Other operating expenses  |      | <b>(271,638)</b>   | (330,083)                 |
| <b>Profit from operations</b>   |      | <b>29,440</b>      | 26,162                    |
| Finance costs   | 5(a) | <b>(538)</b>       | –                         |
| Share of losses of associates   |      | <b>(552)</b>       | (606)                     |
| <b>Profit before taxation</b>   | 5    | <b>28,350</b>      | 25,556                    |
| Income tax  | 6(a) | <b>(3,330)</b>     | (8,423)                   |
| <b>Profit for the year attributable to equity shareholders of the Company</b> |      | <b>25,020</b>      | 17,133                    |
| <b>Earnings per share (in HK cents)</b>                                       | 10   |                    |                           |
| Basic   |      | <b>3.4 cents</b>   | 2.3 cents                 |
| Diluted   |      | <b>3.4 cents</b>   | 2.3 cents                 |

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

The notes on pages 65 to 109 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019  
(Expressed in Hong Kong dollars)

|   | Note | 2019<br>\$' 000 | 2018<br>(Note)<br>\$' 000 |
|---|------|-----------------|---------------------------|
| <b>Profit for the year</b>  |      | <b>25,020</b>   | 17,133                    |
| <b>Other comprehensive income for the year<br/>(after tax and reclassification adjustments):</b>                              | 9    |                 |                           |
| <b>Item that will not be reclassified to profit or loss:</b>  |      |                 |                           |
| – Equity investments at fair value through other comprehensive income<br>– net movement in fair value reserve (non-recycling) |      | –               | 64                        |
| <b>Items that may be reclassified subsequently to profit or loss:</b>   |      |                 |                           |
| – Foreign currency translation adjustments: net movement in exchange reserve  |      | <b>(26,814)</b> | (49,366)                  |
| – Debt securities: net movement in fair value reserve (recycling)   |      | –               | (3,496)                   |
| <b>Other comprehensive income for the year</b>  |      | <b>(26,814)</b> | (52,798)                  |
| <b>Total comprehensive income for the year attributable to equity<br/>shareholders of the Company</b>                         |      | <b>(1,794)</b>  | (35,665)                  |

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

The notes on pages 65 to 109 form part of these financial statements.

# Consolidated Statement of Financial Position

At 31 December 2019  
(Expressed in Hong Kong dollars)

|  | Note  | 2019<br>\$' 000  | 2018<br>(Note)<br>\$' 000 |
|--|-------|------------------|---------------------------|
| <b>Non-current assets</b>  |       |                  |                           |
| Property, plant and equipment  | 12    | 504,215          | 539,198                   |
| Interest in associates   | 15    | 10,447           | 3,636                     |
| Intangible assets  | 13    | 5,269            | 5,899                     |
| Other financial assets   | 16    | –                | 3,132                     |
| Non-current deposits   | 18    | 29,339           | 53,065                    |
| Deferred tax assets  | 22(b) | 10,277           | 10,348                    |
|  |       | <b>559,547</b>   | 615,278                   |
| <b>Current assets</b>  |       |                  |                           |
| Inventories  | 17    | 533,204          | 730,571                   |
| Trade and other receivables, deposits and prepayments and other contract costs | 18    | 883,367          | 786,951                   |
| Other financial assets   | 16    | 3,118            | –                         |
| Current tax recoverable  | 22(a) | 7,825            | 6,266                     |
| Fixed deposits with more than three months to maturity when placed             | 19    | 7,780            | –                         |
| Cash and cash equivalents  | 19    | 1,538,328        | 1,340,107                 |
|  |       | <b>2,973,622</b> | 2,863,895                 |
| <b>Current liabilities</b>   |       |                  |                           |
| Trade and other payables   | 20    | 748,674          | 694,534                   |
| Lease liabilities  | 21    | 6,740            | –                         |
| Current tax payable  | 22(a) | 524              | 1,083                     |
| Deferred income  | 23    | 5,564            | 5,331                     |
|  |       | <b>761,502</b>   | 700,948                   |

|  | Note  | 2019<br>\$' 000  | 2018<br>(Note)<br>\$' 000 |
|--|-------|------------------|---------------------------|
| <b>Net current assets</b>                    |       |                  |                           |
|  |       | <b>2,212,120</b> | 2,162,947                 |
| <b>Total assets less current liabilities</b> |       |                  |                           |
|  |       | <b>2,771,667</b> | 2,778,225                 |
| <b>Non-current liabilities</b>               |       |                  |                           |
| Lease liabilities                            | 21    | 3,143            | –                         |
| Deferred tax liabilities                     | 22(b) | 8,182            | 8,195                     |
| Deferred income                              | 23    | 8,907            | 11,006                    |
|  |       | <b>20,232</b>    | 19,201                    |
| <b>NET ASSETS</b>                            |       |                  |                           |
|  |       | <b>2,751,435</b> | 2,759,024                 |
| <b>CAPITAL AND RESERVES</b>                  |       |                  |                           |
| Share capital                                | 25(c) | 183,794          | 183,794                   |
| Reserves                                     |       | 2,567,641        | 2,575,230                 |
| <b>TOTAL EQUITY</b>                          |       |                  |                           |
|  |       | <b>2,751,435</b> | 2,759,024                 |

Approved and authorised for issue by the board of directors on 30 March 2020.

**Gao Wenbao**  
Director

**Ko Wing Yan, Samantha**  
Director

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

The notes on pages 65 to 109 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019  
(Expressed in Hong Kong dollars)

|  | Attributable to shareholders of the Company |                 |                   |                                |                                    |                  |                   |                     |                  |              |           |
|--|---|-----------------|-------------------|--------------------------------|------------------------------------|------------------|-------------------|---------------------|------------------|--------------|-----------|
|  | Share capital                               | Share premium   | Exchange reserve  | Fair value reserve (recycling) | Fair value reserve (non-recycling) | Capital reserve  | Other reserves    | Contributed surplus | Retained profits | Total equity |           |
|  | (note 25(c))                                | (note 25(d)(i)) | (note 25(d)(iii)) | (note 25(d)(iv))               | (note 25(d)(v))                    | (note 25(d)(vi)) | (note 25(d)(vii)) | (note 25(d)(viii))  | (note)           |              |           |
| Note   | \$'000                                      | \$'000          | \$'000            | \$'000                         | \$'000                             | \$'000           | \$'000            | \$'000              | \$'000           | \$'000       |           |
| <b>Balance at 1 January 2018</b>   |   | 183,794         | 1,307,585         | 30,891                         | 3,496                              | (1,760)          | 18,466            | 21,549              | 720,191          | 517,829      | 2,802,041 |
| <b>Changes in equity for 2018:</b>   |   |                 |                   |                                |                                    |                  |                   |                     |                  |              |           |
| Profit for the year  |   | -               | -                 | -                              | -                                  | -                | -                 | -                   | -                | 17,133       | 17,133    |
| Other comprehensive income   | 9   | -               | -                 | (49,366)                       | (3,496)                            | 64               | -                 | -                   | -                | -            | (52,798)  |
| <b>Total comprehensive income</b>  |   | -               | -                 | (49,366)                       | (3,496)                            | 64               | -                 | -                   | -                | 17,133       | (35,665)  |
| Dividends approved in respect of the previous year                             | 25(b)(ii)                                   | -               | -                 | -                              | -                                  | -                | -                 | -                   | -                | (7,352)      | (7,352)   |
| Disposal of equity securities at fair value through other comprehensive income |   | -               | -                 | -                              | -                                  | 1,696            | -                 | -                   | -                | (1,696)      | -         |
| Release upon lapse of share options  | 24(b)                                       | -               | -                 | -                              | -                                  | -                | (18,466)          | -                   | -                | 18,466       | -         |
|  |   | -               | -                 | -                              | -                                  | 1,696            | (18,466)          | -                   | -                | 9,418        | (7,352)   |
| <b>Balance at 31 December 2018</b>   |   | 183,794         | 1,307,585         | (18,475)                       | -                                  | -                | -                 | 21,549              | 720,191          | 544,380      | 2,759,024 |

|  | Attributable to shareholders of the Company |                 |                   |                                |                                    |                  |                   |                     |                  |              |           |
|--|---|-----------------|-------------------|--------------------------------|------------------------------------|------------------|-------------------|---------------------|------------------|--------------|-----------|
|  | Share capital                               | Share premium   | Exchange reserve  | Fair value reserve (recycling) | Fair value reserve (non-recycling) | Capital reserve  | Other reserves    | Contributed surplus | Retained profits | Total equity |           |
|  | (note 25(c))                                | (note 25(d)(i)) | (note 25(d)(iii)) | (note 25(d)(iv))               | (note 25(d)(v))                    | (note 25(d)(vi)) | (note 25(d)(vii)) | (note 25(d)(viii))  | (note)           |              |           |
| Note   | \$'000                                      | \$'000          | \$'000            | \$'000                         | \$'000                             | \$'000           | \$'000            | \$'000              | \$'000           | \$'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 year                                |   | -               | -                 | -                              | -                                  | -                | -                 | -                   | -                | 25,020       | 25,020    |
| Other comprehensive income                         | 9   | -               | -                 | (26,814)                       | -                                  | -                | -                 | -                   | -                | -            | (26,814)  |
| <b>Total comprehensive income</b>                  |   | -               | -                 | (26,814)                       | -                                  | -                | -                 | -                   | -                | 25,020       | (1,794)   |
| Dividends approved in respect of the previous year | 25(b)(ii)                                   | -               | -                 | -                              | -                                  | -                | -                 | -                   | -                | (7,352)      | (7,352)   |
| Equity settled share-based transactions            | 5(c)  | -               | -                 | -                              | -                                  | -                | 1,557             | -                   | -                | -            | 1,557     |
|  |   | -               | -                 | -                              | -                                  | -                | 1,557             | -                   | -                | (7,352)      | (5,795)   |
| <b>Balance at 31 December 2019</b>                 |   | 183,794         | 1,307,585         | (45,289)                       | -                                  | -                | 1,557             | 21,549              | 720,191          | 562,048      | 2,751,435 |

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

The notes on pages 65 to 109 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2019  
(Expressed in Hong Kong dollars)

|   | Note  | 2019<br>\$' 000 | 2018<br>(Note)<br>\$' 000 |
|---|-------|-----------------|---------------------------|
| <b>Operating activities</b>   |       |                 |                           |
| Cash generated from operations  | 19(b) | 270,717         | 245,513                   |
| Tax paid  |       |                 |                           |
| – People's Republic of China ("PRC") income taxes paid                                    |       | (2,198)         | (5,673)                   |
| – Tax paid in respect of jurisdictions outside Hong Kong and the PRC                      |       | (3,179)         | (6,921)                   |
| <b>Net cash generated from operating activities</b>                                       |       | <b>265,340</b>  | 232,919                   |
| <b>Investing activities</b>   |       |                 |                           |
| Proceeds from disposal of property, plant and equipment                                   |       | 2,981           | 143                       |
| Payment for the purchase of property, plant and equipment                                 |       | (68,671)        | (154,770)                 |
| Investment in an associate  |       | (5,555)         | –                         |
| Government grants received relating to acquisition of property, plant and equipment       |       | 5,173           | 24,847                    |
| Payment for the enterprise reporting system implementation                                |       | (1,935)         | (8,510)                   |
| Payment for the purchase of certificates of deposits                                      |       | –               | (14,907)                  |
| Proceeds from redemption of certificates of deposits                                      |       | –               | 32,900                    |
| (Increase)/decrease in fixed deposits with more than three months to maturity when placed |       | (7,780)         | 221,689                   |

|   | Note  | 2019<br>\$' 000 | 2018<br>(Note)<br>\$' 000 |
|---|-------|-----------------|---------------------------|
| Proceeds from disposal of non-listed available-for-sale equity securities and associated loans receivable |       | –               | 15,500                    |
| Proceeds from disposal of available-for-sale debt securities  |       | –               | 12,042                    |
| Proceeds from disposal of equity securities   |       | –               | 359                       |
| Interest received   |       | 29,984          | 20,521                    |
| <b>Net cash (used in)/ generated from investing activities</b>  |       | <b>(45,803)</b> | 149,814                   |
| <b>Financing activities</b>   |       |                 |                           |
| Capital element of lease rentals paid   | 19(c) | (7,674)         | –                         |
| Interest element of lease rentals paid  | 19(c) | (538)           | –                         |
| Dividends paid  |       | (7,352)         | (7,352)                   |
| <b>Net cash used in financing activities</b>  |       | <b>(15,564)</b> | (7,352)                   |
| Net increase in cash and cash equivalents   |       | 203,973         | 375,381                   |
| Cash and cash equivalents at 1 January  |       | 1,340,107       | 980,402                   |
| Effect of foreign exchange rates changes  |       | (5,752)         | (15,676)                  |
| Cash and cash equivalents at 31 December  | 19(a) | 1,538,328       | 1,340,107                 |

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

The notes on pages 65 to 109 form part of these financial statements.

# Notes to The Financial Statements



(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries and the Group’s interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as investments in debt and equity securities are stated at their fair value (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

### (c) 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. 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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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 at 1 January 2019. 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. Comparative information has not been restated and continues to be reported under HKAS 17.

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (c) Changes in accounting policies

(continued)

#### HKFRS 16, Leases (continued)

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

##### (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. 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 and transitional impact*

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 12(b). For an explanation of how the Group applies lessee accounting, see note 1(i)(i).

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 following 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 27(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

|  | 1 January<br>2019<br>\$'000 |
|--|-----------------------------|
| Operating lease commitments at<br>31 December 2018   | 18,787                      |
| Less: total future interest expenses   | (889)                       |
| Present value of remaining lease payments,<br>discounted using the incremental borrowing<br>rate 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.



## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Changes in accounting policies (continued)

#### HKFRS 16, Leases (continued)

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

##### (iii) 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 (see note 19(c)). 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 change in presentation of cash flows within the cash flow statement (see note 19(d)).

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Changes in accounting policies (continued)

#### HKFRS 16, Leases (continued)

##### (iii) Impact on the financial result and cash flows of the Group (continued)

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated 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 in 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<br>(A)<br>\$'000 | Add back: HKFRS 16 depreciation and interest expense<br>(B)<br>\$'000 | Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1)<br>(C)<br>\$'000 | Hypothetical amounts for 2019 as if under HKAS 17<br>(D=A+B-C)<br>\$'000 | Compared to amounts reported for 2018 under HKAS 17<br>\$'000 |
| <b>Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:</b> |  |   |   |  |   |
| Profit from operations  | 29,440   | 7,856   | (8,212)   | 29,084   | 26,162  |
| Finance costs   | (538)  | 538   | -   | -  | -   |
| Profit before taxation  | 28,350   | 8,394   | (8,212)   | 28,532   | 25,556  |
| Profit for the year   | 25,020   | 8,394   | (8,212)   | 25,202   | 17,133  |

|   | 2019   |  |  | 2018  |  |
|---|--|--|--|---|--|
|   | Amounts reported under HKFRS 16<br>(A)<br>\$'000 | Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2)<br>(B)<br>\$'000 | Hypothetical amounts for 2019 as if under HKAS 17<br>(C=A+B)<br>\$'000 | Compared to amounts reported for 2018 under HKAS 17<br>\$'000 |  |
| <b>Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:</b> |  |  |  |   |  |
| Cash generated from operations  | 270,717  | (8,212)  | 262,505  | 245,513   |  |
| Net cash generated from operating activities  | 265,340  | (8,212)  | 257,128  | 232,919   |  |
| Capital element of lease rentals paid   | (7,674)  | 7,674  | -  | -   |  |
| Interest element of lease rentals paid  | (538)  | 538  | -  | -   |  |
| Net cash used in financing activities   | (15,564)   | 8,212  | (7,352)  | (7,352)   |  |

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.

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (c) Changes in accounting policies

(continued)

#### HKFRS 16, Leases (continued)

##### (iv) Lessor accounting

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

### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

### (e) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identified net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's

share of the associate's net assets and any impairment loss relating to the investment (see note 1(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of associates and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of associates' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate (after applying the ECL model to such other long-term interests where applicable (see note 1(j)(i))).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss.

### (f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (f) Other investments in debt and equity securities (continued)

#### Investments other than equity investments

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(s)(iii)).
- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

#### Equity investments

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

the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(s)(ii).

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(j)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

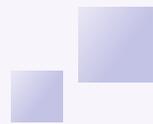
- Right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest are depreciated over the unexpired term of lease
- Interests in land and buildings 40 years
- Plant and machinery 2 to 8 years
- Tools and equipment 2 to 5 years
- Others 2 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (h) Intangible assets (other than goodwill)

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both the period and method of amortisation are reviewed annually.



## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

#### (i) As a lessee

##### (A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for leases of low-value assets which, for the Group are primarily office equipment. 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. 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 (see notes 1(g) and 1(j)(iii)).

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.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

##### (B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (i) Leased assets (continued)

#### (ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(s)(v).

### (j) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, other financial assets and amounts due from associates, which are held for the collection of contractual cash flows which represent solely payments of principal and interest); and
- debt securities measured at FVOCI (recycling);

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

#### Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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



## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (j) Credit losses and impairment of assets

(continued)

#### (i) Credit losses from financial instruments

(continued)

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 12 months past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

##### *Basis of calculation of interest income*

Interest income recognised in accordance with note 1(s) (iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

##### *Write-off policy*

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

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

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (j) Credit losses and impairment of assets

(continued)

#### (ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(j) (i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

#### (iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets (other than property carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets; and
- investments in subsidiaries in the Company's statement of financial position and interest in associates.

If any such indication exists, the asset's recoverable amount is estimated.

#### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).



## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (j) Credit losses and impairment of assets

(continued)

#### (iii) Impairment of other non-current assets

(continued)

##### – Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

##### – Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i), (ii) and (iii)).

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (l) Contract assets, contract liabilities and other contract costs

#### (i) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 1(j)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(m)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(s)).

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (l) Contract assets, contract liabilities and other contract costs (continued)

#### (ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 1(k)), property, plant and equipment (see note 1(g)) or intangible assets (see note 1(h)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the performance obligations relate to the contract are satisfied. The accounting policy for revenue recognition is set out in note 1(s).

### (m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(j)(i)).

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(j)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(j)(i).

### (p) Employee benefits

#### (i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial Option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).



## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (p) Employee benefits (continued)

#### (iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

#### (q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods. Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

#### (i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

#### (ii) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### (iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(j)(i)).

#### (iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income which is recognised in profit or loss on a systematic basis over the useful life of the asset.

#### (v) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

#### (t) Research and development

Research and development expenditure is recognised as an expense in the period in which it is incurred.

#### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.



## 1. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

### (u) Translation of foreign currencies

(continued)

The results of operations with functional currency other than Hong Kong dollars are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Hong Kong dollars, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

### (v) Related parties

#### (1) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

#### (2) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 2. ACCOUNTING JUDGEMENT AND ESTIMATES

Note 24 contains information about assumptions and their risk factors relating to fair value of share options granted. Other key sources of estimation uncertainty are as follows:

### (a) Impairment of assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

### (b) Write-down of inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 1(k). Management estimates net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversal of write-down made in prior years and affect the Group's net asset value and profit or loss.

## 3. REVENUE

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.

Revenue represents the invoiced value of goods supplied to customer by the Group less returns and discounts within the scope of HKFRS 15.

The Group's customer base is diversified and includes one customer with whom transactions have exceeded 10% of the Group's revenues in 2019 (2018: one). In 2019 revenues from sales to the one customer in terms of sales amount, including sales to entities which are known to the Group to be under common control with that customer, amounted to approximately \$713,713,000 (2018: \$704,248,000). Details of concentrations of credit risk are set out in note 26(a).

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for goods such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an original expected duration of one year or less.

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 11.



#### 4. OTHER OPERATING INCOME

|  | 2019          | 2018          |
|--|---------------|---------------|
|  | \$'000        | \$'000        |
| Interest income from listed debt securities                    | –             | 337           |
| Interest income on financial assets measured at amortised cost | 30,626        | 21,370        |
| Net (loss)/gain on disposal of property, plant and equipment   | (321)         | 31            |
| Gain on disposal of debt securities                            | –             | 2,718         |
| Net exchange loss  | (2,540)       | (938)         |
| Government grants (note)                                       | 12,880        | 19,581        |
| Rental receivable from operating leases                        | 11,985        | –             |
| Other income   | 1,288         | 2,688         |
|  | <b>53,918</b> | <b>45,787</b> |

Note: 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 \$5,901,000 (2018: \$7,994,000) and amortisation of government grant received from the PRC authorities in relation to acquiring machineries of \$6,979,000 (2018: \$11,587,000). There are no unfulfilled conditions attaching to these government grants.

#### 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/ (crediting):

|  | 2019      | 2018             |
|--|-----------|------------------|
|  | \$'000    | (Note)<br>\$'000 |
| <b>(a) Finance costs</b>   |           |                  |
| Interest on lease liabilities (note 19(c))   | 538       | –                |
| <b>(b) Allowance recognised/(reversed)</b>   |           |                  |
| Trade and other receivables in respect of:   |           |                  |
| – expected credit loss allowance   | (227)     | 393              |
| – allowance for sales returns  | 7,517     | (166)            |
| <b>(c) Other items</b>   |           |                  |
| Cost of inventories (note 17(b))   | 3,162,280 | 2,662,427        |
| Amortisation of intangible assets  | 702       | 385              |
| Auditors' remuneration   | 3,635     | 3,684            |
| Research and development costs   | 220,560   | 224,816          |
| Total minimum lease payments previously classified as operating leases under HKAS 17 | –         | 12,281           |
| Contributions to defined contribution retirement plans                               | 33,585    | 43,047           |
| Equity settled share-based payment expenses  | 1,557     | –                |

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

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss represents:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| <b>Current tax – the PRC income taxes</b>                        |                |                |
| Under-provision in respect of prior years                        | 3              | 1,707          |
| <b>Current tax – Jurisdictions outside Hong Kong and the PRC</b> |                |                |
| Provision for the year   | 3,193          | 5,304          |
| Under-provision in respect of prior years                        | 63             | 1,381          |
|  | <b>3,256</b>   | <b>6,685</b>   |
| <b>Deferred tax</b>  |                |                |
| Origination and reversal of temporary differences (note 22(b))   | 71             | 31             |
|  | <b>3,330</b>   | <b>8,423</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 years ended 31 December 2019 and 2018.

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%.

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

Taxation for subsidiaries of the Group with operations outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Profit before taxation   | 28,350         | 25,556         |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 4,578          | 2,669          |
| Tax effect of non-deductible expenses  | 8,606          | 9,187          |
| Tax effect of non-taxable income   | (1,918)        | (1,220)        |
| Effect of research and development bonus deduction   | (9,558)        | (8,690)        |
| Tax effect of unused tax losses not recognised   | 1,825          | 2,746          |
| Under-provisions in respect of prior years   | 66             | 3,088          |
| Others   | (269)          | 643            |
| Actual tax expense   | <b>3,330</b>   | <b>8,423</b>   |



## 7. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

### Year ended 31 December 2019

|  | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Sub-total    | Share-based payments | Total        |
|--|-----------------|---|-----------------------|---------------------------------|--------------|----------------------|--------------|
|  | \$'000          | \$'000                                    | \$'000                | \$'000                          | \$'000       | \$'000               | \$'000       |
| <b>Executive Directors</b>                 |                 |   |                       |                                 |              |                      |              |
| Gao Wenbao                                 | -               | -   | -                     | -                               | -            | 173                  | 173          |
| Ko Wing Yan, Samantha                      | -               | 2,240                                     | 200                   | 18                              | 2,458        | 173                  | 2,631        |
| Su Ning                                    | -               | 1,358                                     | 283                   | 170                             | 1,811        | 173                  | 1,984        |
| <b>Non-executive Directors</b>             |                 |   |                       |                                 |              |                      |              |
| Yang Xiaoping                              | 64              | -   | -                     | -                               | 64           | -                    | 64           |
| Dong Xue                                   | 64              | -   | -                     | -                               | 64           | -                    | 64           |
| Yuan Feng                                  | 64              | -   | -                     | -                               | 64           | -                    | 64           |
| Shao Xibin                                 | 136             | -   | -                     | -                               | 136          | -                    | 136          |
| Jin Hao                                    | 136             | -   | -                     | -                               | 136          | -                    | 136          |
| Zhang Shujun                               | 136             | -   | -                     | -                               | 136          | -                    | 136          |
| <b>Independent non-executive Directors</b> |                 |   |                       |                                 |              |                      |              |
| Hou Ziqiang                                | 200             | -   | -                     | -                               | 200          | 35                   | 235          |
| Fung, Yuk Kan Peter                        | 200             | -   | -                     | -                               | 200          | 35                   | 235          |
| Chu, Howard Ho Hwa                         | 200             | -   | -                     | -                               | 200          | 35                   | 235          |
| <b>Total</b>                               | <b>1,200</b>    | <b>3,598</b>                              | <b>483</b>            | <b>188</b>                      | <b>5,469</b> | <b>624</b>           | <b>6,093</b> |

### Year ended 31 December 2018

|  | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Sub-total    | Share-based payments | Total        |
|--|-----------------|---|-----------------------|---------------------------------|--------------|----------------------|--------------|
|  | \$'000          | \$'000                                    | \$'000                | \$'000                          | \$'000       | \$'000               | \$'000       |
| <b>Executive Directors</b>                 |                 |   |                       |                                 |              |                      |              |
| Gao Wenbao                                 | -               | -   | -                     | -                               | -            | -                    | -            |
| Ko Wing Yan, Samantha                      | -               | 2,400                                     | -                     | 18                              | 2,418        | -                    | 2,418        |
| Yao Xiangjun                               | -               | 976                                       | -                     | 120                             | 1,096        | -                    | 1,096        |
| Su Ning                                    | -               | 600                                       | 440                   | 180                             | 1,220        | -                    | 1,220        |
| <b>Non-executive Directors</b>             |                 |   |                       |                                 |              |                      |              |
| Yang Xiaoping                              | 200             | -   | -                     | -                               | 200          | -                    | 200          |
| Dong Xue                                   | 200             | -   | -                     | -                               | 200          | -                    | 200          |
| Yuan Feng                                  | 200             | -   | -                     | -                               | 200          | -                    | 200          |
| <b>Independent non-executive Directors</b> |                 |   |                       |                                 |              |                      |              |
| Hou Ziqiang                                | 200             | -   | -                     | -                               | 200          | -                    | 200          |
| Fung, Yuk Kan Peter                        | 200             | -   | -                     | -                               | 200          | -                    | 200          |
| Chu, Howard Ho Hwa                         | 200             | -   | -                     | -                               | 200          | -                    | 200          |
| <b>Total</b>                               | <b>1,200</b>    | <b>3,976</b>                              | <b>440</b>            | <b>318</b>                      | <b>5,934</b> | <b>-</b>             | <b>5,934</b> |

## Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

### 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are Directors, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

|                                 | 2019<br>\$' 000 | 2018<br>\$' 000 |
|---------------------------------|-----------------|-----------------|
| Salaries and allowances         | 5,420           | 5,483           |
| Share-based payments            | 69              | –               |
| Retirement scheme contributions | 226             | 222             |
|                                 | 5,715           | 5,705           |

The emoluments of the three (2018: three) individuals with the highest emoluments are within the following band:

|                           | 2019<br>Number of<br>individual | 2018<br>Number of<br>individual |
|---------------------------|---------------------------------|---------------------------------|
| \$500,001 – \$1,500,000   | 1                               | 1                               |
| \$1,500,001 – \$2,500,000 | 1                               | 1                               |
| \$2,500,001 – \$3,000,000 | 1                               | 1                               |

### 9. OTHER COMPREHENSIVE INCOME

There are no tax effects in respect of the components of other comprehensive income.

Components of other comprehensive income are as follows:

|   | 2019<br>\$' 000 | 2018<br>\$' 000 |
|---|-----------------|-----------------|
| <b>Foreign currency translation adjustments:</b>  |                 |                 |
| Exchange differences on translation of financial statements of operations outside Hong Kong | (26,814)        | (49,366)        |
| <b>Debt securities:</b>   |                 |                 |
| Changes in fair value recognised during the year  | –               | (3,496)         |
| <b>Equity securities:</b>   |                 |                 |
| Changes in fair value recognised during the year  | –               | 64              |

### 10. 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 \$25,020,000 (2018: \$17,133,000) and the weighted average of 735,175,204 ordinary shares (2018: 735,175,204 shares) in issue during the year, calculated as follows:

#### Weighted average number of ordinary shares

|                                       | 2019        | 2018        |
|---------------------------------------|-------------|-------------|
| Issued ordinary shares at 31 December | 735,175,204 | 735,175,204 |

#### (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 \$25,020,000 (2018: \$17,133,000) and the weighted average of 735,315,591 ordinary shares (2018: 735,175,204 shares), calculated as follows:

#### Weighted average number of ordinary shares (diluted)

|   | 2019        | 2018        |
|---|-------------|-------------|
| Weighted average number of ordinary shares at 31 December                                 | 735,175,204 | 735,175,204 |
| Effect of deemed issue of share under Company's share option scheme for nil consideration | 140,387     | –           |
| Weighted average number of ordinary shares (diluted) at 31 December                       | 735,315,591 | 735,175,204 |

## 11. SEGMENT REPORTING

### (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 consolidated financial statements are 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 consolidated financial statements. Other information, being the total assets excluding deferred tax assets, other financial assets, current tax recoverable and the 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.

### (b) Geographic information

The following tables set 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 revenues from external customers

|                             | 2019<br>\$' 000 | 2018<br>\$' 000 |
|-----------------------------|-----------------|-----------------|
| The PRC (place of domicile) | 1,600,216       | 1,170,083       |
| Europe                      | 1,306,273       | 1,316,099       |
| America                     | 204,561         | 262,909         |
| Korea                       | 127,850         | 125,618         |
| Others                      | 335,078         | 302,650         |
|                             | 1,973,762       | 2,007,276       |
| Consolidated revenue        | 3,573,978       | 3,177,359       |

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

|                          | 2019<br>\$' 000 | 2018<br>\$' 000 |
|--------------------------|-----------------|-----------------|
| Germany                  | 316,077         | 365,146         |
| Czech Republic           | 302,282         | 256,357         |
| Portugal                 | 109,222         | 97,323          |
| France                   | 97,678          | 123,199         |
| Italy                    | 64,475          | 69,382          |
| United Kingdom           | 60,410          | 86,089          |
| Other European countries | 356,129         | 318,603         |
|                          | 1,306,273       | 1,316,099       |

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

|                             | 2019<br>\$' 000 | 2018<br>\$' 000 |
|-----------------------------|-----------------|-----------------|
| The PRC (place of domicile) | 510,826         | 541,682         |
| Korea                       | 3,055           | 3,636           |
| Others                      | 6,050           | 3,415           |
|                             | 519,931         | 548,733         |

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 12. PROPERTY, PLANT AND EQUIPMENT

|   | Ownership interests in land and buildings held for own use | Other properties leased for own use carried at cost | Plant, machinery, tools and equipment | Others   | Construction in-progress | Sub-total | Interest in leasehold land held for own use | Total     |
|---|--|---|---------------------------------------|----------|--------------------------|-----------|---|-----------|
|   | \$'000   | \$'000  | \$'000                                | \$'000   | \$'000                   | \$'000    | \$'000                                      | \$'000    |
| <b>Cost</b>                                       |  |   |                                       |          |                          |           |   |           |
| At 1 January 2018                                 | 205,665  | –   | 1,360,394                             | 174,549  | 39,351                   | 1,779,959 | 16,560                                      | 1,796,519 |
| Exchange adjustments                              | (9,599)  | –   | (45,523)                              | (14,299) | (3,173)                  | (72,594)  | (828)                                       | (73,422)  |
| Additions   | 7,780  | –   | 153,610                               | 10,461   | –                        | 171,851   | –   | 171,851   |
| Disposals   | –  | –   | (4,168)                               | (914)    | –                        | (5,082)   | –   | (5,082)   |
| Transfer  | –  | –   | 36,178                                | –        | (36,178)                 | –         | –   | –         |
| At 31 December 2018                               | 203,846  | –   | 1,500,491                             | 169,797  | –                        | 1,874,134 | 15,732                                      | 1,889,866 |
| Impact on initial application of HKFRS 16 (note)  | –  | 17,366  | –                                     | 532      | –                        | 17,898    | –   | 17,898    |
| At 1 January 2019                                 | 203,846  | 17,366  | 1,500,491                             | 170,329  | –                        | 1,892,032 | 15,732                                      | 1,907,764 |
| Exchange adjustments                              | (3,220)  | (307)   | (17,359)                              | (1,670)  | –                        | (22,556)  | (276)                                       | (22,832)  |
| Additions   | –  | 598   | 83,577                                | 9,434    | –                        | 93,609    | –   | 93,609    |
| Disposals   | –  | –   | (38,391)                              | (2,375)  | –                        | (40,766)  | –   | (40,766)  |
| Termination of leases                             | –  | (1,173)   | –                                     | –        | –                        | (1,173)   | –   | (1,173)   |
| At 31 December 2019                               | 200,626  | 16,484  | 1,528,318                             | 175,718  | –                        | 1,921,146 | 15,456                                      | 1,936,602 |
| <b>Accumulated amortisation and depreciation:</b> |  |   |                                       |          |                          |           |   |           |
| At 1 January 2018                                 | 62,659   | –   | 1,089,009                             | 137,122  | –                        | 1,288,790 | 6,882                                       | 1,295,672 |
| Exchange adjustments                              | (3,139)  | –   | (38,214)                              | (5,130)  | –                        | (46,483)  | (374)                                       | (46,857)  |
| Charge for the year                               | 9,243  | –   | 86,502                                | 10,374   | –                        | 106,119   | 704   | 106,823   |
| Written back on disposals                         | –  | –   | (4,168)                               | (802)    | –                        | (4,970)   | –   | (4,970)   |
| At 31 December 2018                               | 68,763   | –   | 1,133,129                             | 141,564  | –                        | 1,343,456 | 7,212                                       | 1,350,668 |
| At 1 January 2019                                 | 68,763   | –   | 1,133,129                             | 141,564  | –                        | 1,343,456 | 7,212                                       | 1,350,668 |
| Exchange adjustments                              | (1,126)  | (20)  | (13,970)                              | (1,751)  | –                        | (16,867)  | (137)                                       | (17,004)  |
| Charge for the year                               | 8,880  | 7,459   | 108,637                               | 11,058   | –                        | 136,034   | 673   | 136,707   |
| Written back on disposals                         | –  | –   | (36,060)                              | (1,404)  | –                        | (37,464)  | –   | (37,464)  |
| Written back on termination of leases             | –  | (520)   | –                                     | –        | –                        | (520)     | –   | (520)     |
| At 31 December 2019                               | 76,517   | 6,919   | 1,191,736                             | 149,467  | –                        | 1,424,639 | 7,748                                       | 1,432,387 |
| <b>Net book value:</b>                            |  |   |                                       |          |                          |           |   |           |
| At 31 December 2019                               | 124,109  | 9,565   | 336,582                               | 26,251   | –                        | 496,507   | 7,708                                       | 504,215   |
| At 31 December 2018                               | 135,083  | –   | 367,362                               | 28,233   | –                        | 530,678   | 8,520                                       | 539,198   |

Note: 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. See note 1(c).

## 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Other property, plant and equipment comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.

### (b) Right-of-use assets:

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

|  |       | 31 December<br>2019 | 1 January<br>2019 |
|--|-------|---------------------|-------------------|
|  | Note  | \$'000              | \$'000            |
| Ownership interests in leasehold land and buildings held for own use | (i)   |                     |                   |
| – in Hong Kong   |       | 213                 | 225               |
| – outside Hong Kong  |       | 118,358             | 129,019           |
|  |       | 118,571             | 129,244           |
| Interest in leasehold land held for own use outside Hong Kong        | (i)   | 7,708               | 8,520             |
| Other properties leased for own use, carried at depreciated cost     | (ii)  | 9,565               | 17,366            |
| Motor vehicles carried at depreciated cost                           | (iii) | 136                 | 532               |
|  |       | 135,980             | 155,662           |

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

|   | 2019   | 2018<br>(Note) |
|---|--------|----------------|
|   | \$'000 | \$'000         |
| Depreciation charge of right-of-use assets by class of underlying asset:                        |        |                |
| Ownership interests in leasehold land and buildings held for own use                            | 8,579  | 8,942          |
| Interest in leasehold land held for own use   | 673    | 704            |
| Other properties leased for own use   | 7,459  | –              |
| Motor vehicles  | 397    | –              |
|   | 17,108 | 9,646          |
| Interest on lease liabilities (note 5(a))   | 538    | –              |
| Expense relating to leases of low-value assets  | 221    | –              |
| Total minimum lease payments for leases previously classified as operating leases under HKAS 17 | –      | 12,281         |

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach 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. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

During the year, additions to right-of-use assets were \$598,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(d) and 21, respectively.

### (i) Ownership interests in leasehold land and buildings held for own use

The Group holds several buildings for its LCDs business and property as staff quarter. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

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## 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### (b) Right-of-use assets: (continued)

#### (ii) Other properties leased for own use

The Group has obtained the right to use other properties as its offices through tenancy agreements. The leases typically run for an initial period of 1 to 3 years.

One of the leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

|                    | Lease liabilities recognised (discounted) | Potential future lease payments under extension options not included in lease liabilities (undiscounted) |
|--------------------|---|--|
|                    | \$'000                                    | \$'000   |
| Office – Hong Kong | –   | 14,731   |

#### (iii) Other leases

The Group leases motor vehicles under leases expiring within two years. None of the leases includes variable lease payments.

### (c) Machinery and equipment leased out under operating leases

|  | \$'000  |
|--|---------|
| <b>Cost:</b>   |         |
| At 1 January 2018, 31 December 2018 and 1 January 2019 | –       |
| Transfer from assets held for own use                  | 114,938 |
| Exchange adjustments                                   | (4,912) |
| At 31 December 2019                                    | 110,026 |
| <b>Accumulated depreciation:</b>                       |         |
| At 1 January 2018, 31 December 2018 and 1 January 2019 | –       |
| Transfer from assets held for own use                  | 21,248  |
| Charge for the year                                    | 14,265  |
| Exchange adjustments                                   | (1,109) |
| At 31 December 2019                                    | 34,404  |
| <b>Net book value:</b>                                 |         |
| At 31 December 2019                                    | 75,622  |
| At 31 December 2018                                    | –       |

During the year, the Group leases out a number of items of machinery under operating leases. The leases typically run for an initial period of 2.9 years. None of the leases includes variable lease payments. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods are \$13,564,000 per annum in the next two years (2018: \$Nil).

## 13. INTANGIBLE ASSETS

|  | Computer software |
|--|-------------------|
|  | \$'000            |
| <b>Cost:</b>                           |                   |
| At 1 January 2018                      | –                 |
| Additions                              | 6,284             |
| At 31 December 2018 and 1 January 2019 | 6,284             |
| Additions                              | 72                |
| At 31 December 2019                    | 6,356             |
| <b>Accumulated amortisation:</b>       |                   |
| At 1 January 2018                      | –                 |
| Charge for the year                    | 385               |
| At 31 December 2018 and 1 January 2019 | 385               |
| Charge for the year                    | 702               |
| At 31 December 2019                    | 1,087             |
| <b>Net book value:</b>                 |                   |
| At 31 December 2019                    | 5,269             |
| At 31 December 2018                    | 5,899             |

The amortisation charge for the year is included in "other operating expenses" in the consolidated statement of profit or loss.

## 14. SUBSIDIARIES

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company                                    | Place of incorporation/operation      | Particulars of issued share capital/registered capital      | Proportion of ownership interest |                     |                      | Principal activities  |
|--|---------------------------------------|---|----------------------------------|---------------------|----------------------|---|
|  |                                       |   | Group's effective interest       | Held by the Company | Held by a subsidiary |   |
| Chengdu BOE Vehicle Display Technology Co., Ltd. # | The People's Republic of China        | Paid-up registered capital of RMB305,145,455                | 100%                             | –                   | 100%                 | Manufacture and sales of LCDs and related products                |
| Hefei BOE Vehicle Display Technology Co., Ltd. #   | The People's Republic of China        | Paid-up registered capital of RMB102,714,246                | 100%                             | –                   | 100%                 | Sales of LCDs and related products                                |
| Link Score Investment Limited                      | Hong Kong                             | 100 ordinary shares   | 100%                             | –                   | 100%                 | Investment holding  |
| Polysources Properties Limited                     | Hong Kong                             | 2 ordinary shares 154 non-voting deferred ordinary shares   | 100%                             | –                   | 100%                 | Property holding  |
| Starel Trading Limited                             | Republic of Cyprus/<br>United Kingdom | 1,000 shares of €1.71 each                                  | 100%                             | –                   | 100%                 | Property holding  |
| Varitronix Limited                                 | Hong Kong                             | 2 ordinary shares 1,848 non-voting deferred ordinary shares | 100%                             | –                   | 100%                 | Design and sale of LCDs and related products                      |
| Varitronix (B.V.I.) Limited                        | British Virgin Islands/<br>Hong Kong  | 18,480 ordinary shares of US\$1 each                        | 100%                             | 100%                | –                    | Investment holding  |
| Varitronix Finance Limited                         | British Virgin Islands/<br>Hong Kong  | 100 ordinary shares of US\$1 each                           | 100%                             | –                   | 100%                 | Provision of financial co-ordination services for group companies |
| Varitronix France SAS                              | France                                | 2,500 ordinary shares of €15.25 each                        | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |
| Varitronix GmbH                                    | Germany                               | 100,000 shares of €0.51 each                                | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |
| Varitronix (Heyuan) Display Technology Limited #   | The People's Republic of China        | Paid-up registered capital RMB809,337,825                   | 100%                             | –                   | 100%                 | Manufacture and sales of LCDs and related products                |
| Varitronix Investment Limited                      | British Virgin Islands/<br>Hong Kong  | 5,000 ordinary shares of US\$1 each                         | 100%                             | –                   | 100%                 | Investment holding  |
| Varitronix Italy s.r.l.                            | Italy                                 | 12,000 ordinary shares of €1 each                           | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |
| Varitronix (Switzerland) GmbH                      | Switzerland                           | Registered capital CHF30,000                                | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |
| Varitronix (U.K.) Limited                          | United Kingdom                        | 100 ordinary shares of GBP10 each                           | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |
| VL Electronics, Inc.                               | United States                         | 5,000 common stock of US\$10 each                           | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |
| Varitronix (Japan) Limited                         | Japan                                 | 1,000 ordinary stock of JPY10,000 each                      | 100%                             | –                   | 100%                 | Marketing and sales consultants                                   |

#  
*Name of company*  
 Varitronix (Heyuan) Display Technology Limited  
 Chengdu BOE Vehicle Display Technology Co., Ltd  
 Hefei BOE Vehicle Display Technology Co., Ltd

*Type of legal entity*  
 Wholly owned foreign enterprise  
 Wholly owned foreign enterprise  
 Wholly owned foreign enterprise

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## 15. INTEREST IN ASSOCIATES

|                             | 2019    | 2018    |
|-----------------------------|---------|---------|
|                             | \$' 000 | \$' 000 |
| Share of net assets         | 9,255   | 2,397   |
| Amounts due from associates | 1,192   | 1,239   |
|                             | 10,447  | 3,636   |

The amounts due from associates are unsecured, interest free and have no fixed repayment terms but the Group will not demand repayment within 12 months from the end of the reporting period.

### Particulars of the associates

Set out below are the particulars of the associates of the Group:

| Name of associate                        | Place of incorporation and operation | Particulars of issued share capital/registered capital | Attributable indirect equity interest % held | Principal activity   |
|--|--------------------------------------|--|--|--|
| New On Technology Company Limited        | Korea                                | 40,000 ordinary shares of KRW5,000 each                | 50%  | Trading of electronic components                           |
| Shenzhen Jiangcheng Technology Co., Ltd. | The PRC                              | Registered capital of RMB2,633,311                     | 22.5%  | Design, manufacture and sales of LCDs and related products |

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Aggregate information of associates that are not individually material:

|  | 2019    | 2018    |
|--|---------|---------|
|  | \$' 000 | \$' 000 |
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 9,255   | 2,397   |
| Aggregate amounts of the Group's share of those associates'  |         |         |
| Losses from continuing operations  | (552)   | (606)   |
| Post-tax profit or loss from discontinued operations   | –       | –       |
| Other comprehensive income   | –       | –       |
| Total comprehensive income   | (552)   | (606)   |

## 16. OTHER FINANCIAL ASSETS

|  | 2019    | 2018    |
|--|---------|---------|
|  | \$' 000 | \$' 000 |
| <b>Non-current portion</b>                           |         |         |
| Financial assets measured at amortised cost          |         |         |
| – Issued by financial institutions outside Hong Kong | –       | 3,132   |
| <b>Current portion</b>                               |         |         |
| Financial assets measured at amortised cost          |         |         |
| – Issued by financial institutions outside Hong Kong | 3,118   | –       |

## 17. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

|                  | 2019<br>\$' 000 | 2018<br>\$' 000 |
|------------------|-----------------|-----------------|
| Raw materials    | 186,015         | 271,522         |
| Work in progress | 95,876          | 149,271         |
| Finished goods   | 251,313         | 309,778         |
|                  | <b>533,204</b>  | 730,571         |

(b) The analysis of the amount of inventories recognised as an expense is as follows:

|                                       | 2019<br>\$' 000  | 2018<br>\$' 000 |
|---------------------------------------|------------------|-----------------|
| Carrying amount of inventories sold   | 3,138,811        | 2,652,055       |
| Write-down of inventories             | 32,751           | 17,409          |
| Reversal of write-down of inventories | (9,282)          | (7,037)         |
|                                       | <b>3,162,280</b> | 2,662,427       |

The reversal of write-down of inventories made in prior years arose due to subsequent utilisation of certain inventories as a result of a change in customers' specifications on the products.

## 18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS AND OTHER CONTRACT COSTS

|   | 2019<br>\$' 000 | 2018<br>\$' 000 |
|---|-----------------|-----------------|
| Trade debtors and bills receivable, net of loss allowance | 821,165         | 707,296         |
| Less: Allowance for sales returns                         | (15,019)        | (7,502)         |
|   | <b>806,146</b>  | 699,794         |
| Other receivables   | 12,709          | 37,747          |
| Deposits and prepayments                                  | 56,723          | 67,163          |
| Other contract costs                                      | 37,128          | 35,312          |
|   | <b>912,706</b>  | 840,016         |
| Non-current deposits                                      | (29,339)        | (53,065)        |
|   | <b>883,367</b>  | 786,951         |

Non-current deposits were paid for the TFT panels toolings for manufacturing TFT modules, plant and equipment and the cost of enterprise reporting system implementation. Except for the rental deposit of \$1,116,000 (2018: \$1,116,000), all of the current portion of trade and other receivables are expected to be recovered or recognised as expense within 12 months from the end of the reporting period.

### (a) Ageing analysis

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 the invoice date and net of loss allowance and allowance for sales return, is as follows:

|   | 2019<br>\$' 000 | 2018<br>\$' 000 |
|---|-----------------|-----------------|
| Within 60 days of the invoice issue date                                | 582,263         | 524,581         |
| 61 to 90 days after the invoice issue date                              | 137,038         | 101,495         |
| 91 to 120 days after the invoice issue date                             | 56,407          | 38,586          |
| More than 120 days but less than 12 months after the invoice issue date | 30,438          | 35,132          |
|   | <b>806,146</b>  | 699,794         |

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## 18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS AND OTHER CONTRACT COSTS

(CONTINUED)

### (a) Ageing analysis (continued)

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 26(a).

The movement in the allowance for sales returns during the year, including both specific and collective estimation of sales returns, is as follows:

|   | 2019   | 2018   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| At 1 January                                      | 7,502  | 7,668  |
| Allowance for sales returns recognised/(reversed) | 7,517  | (166)  |
| At 31 December                                    | 15,019 | 7,502  |

### (b) Contract costs

Contract costs capitalised as at 31 December 2019 relate to the incremental costs of obtaining contracts relating to the sale of goods. Contract costs are recognised in the statement of profit or loss in the period in which revenue from the related sales is recognised. The amount of capitalised costs recognised in profit or loss during the year was \$393,000 (2018: \$Nil). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year (2018: \$Nil).

The Group applies the practical expedient in HKFRS 15 and recognises the incremental costs of obtaining contracts relating to the sale of goods as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is within the same reporting period as the date of entering into the contract.

The amount of capitalised contract costs that is expected to be recovered after more than one year is \$35,122,000 (2018: \$32,608,000).

## 19. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

### (a) Cash and cash equivalents and fixed deposits with banks comprise:

|   | 2019      | 2018      |
|---|-----------|-----------|
|   | \$'000    | \$'000    |
| Fixed deposits with banks with more than three months to maturity when placed | 7,780     | –         |
| Fixed deposits with banks with three months or less to maturity when placed   | 252,520   | 317,139   |
| Cash at banks and on hand   | 1,285,808 | 1,022,968 |
| Cash and cash equivalents   | 1,538,328 | 1,340,107 |

## 19. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

(CONTINUED)

### (b) Reconciliation of profit before taxation to cash generated from operations:

|   |      | 2019      | 2018             |
|---|------|-----------|------------------|
|   | Note | \$'000    | (Note)<br>\$'000 |
| Profit before taxation  |      | 28,350    | 25,556           |
| Adjustments for:  |      |           |                  |
| Depreciation  | 12   | 136,707   | 106,823          |
| Amortisation  | 13   | 702       | 385              |
| Finance costs   | 5(a) | 538       | -                |
| Interest income   |      | (30,626)  | (21,370)         |
| Share of losses of associates   |      | 552       | 606              |
| Net loss/(gain) on disposal of property, plant and equipment  | 4    | 321       | (31)             |
| Gain on disposal of debt equity securities  | 4    | -         | (2,718)          |
| Equity settled share-based payment expenses   | 5(c) | 1,557     | -                |
| Amortisation of government grants   |      | (6,979)   | (11,587)         |
| Foreign exchange loss/(gain)  |      | 6,503     | (9,072)          |
|   |      | 137,625   | 88,592           |
| Changes in working capital:   |      |           |                  |
| Decrease in inventories   |      | 187,592   | 70,889           |
| (Increase)/decrease in trade and other receivables, deposits and prepayments and other contract costs |      | (103,781) | 46,152           |
| Increase in trade and other payables  |      | 49,281    | 39,880           |
| Cash generated from operations  |      | 270,717   | 245,513          |

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of \$12,281,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for payments for leases of low value assets not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 19(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

### (c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

|   | Lease liabilities<br>\$'000 |
|---|-----------------------------|
| <b>At 1 January 2018, 31 December 2018</b>                                    | -                           |
| Impact on initial application of HKFRS 16 (note)                              | 17,898                      |
| <b>At 1 January 2019</b>  | 17,898                      |
| Changes from financing cash flows:  |                             |
| Capital element of lease rentals paid   | (7,674)                     |
| Interest element of lease rentals paid  | (538)                       |
| Total changes from financing cash flows                                       | (8,212)                     |
| Exchange adjustments:   | (267)                       |
| <b>Other changes:</b>   |                             |
| Increase in lease liabilities from entering into new leases during the period | 598                         |
| Finance costs (note 5(a))   | 538                         |
| Adjustment relating to termination of leases                                  | (672)                       |
| Total other changes   | 464                         |
| <b>At 31 December 2019</b>  | 9,883                       |

Note: The Group has initially applied HKFRS 16 using the modified retrospective method 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. See notes 1(c) and 19(b).

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 19. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

(CONTINUED)

### (d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

|                             | 2019<br>\$'000 | 2018<br>(Note)<br>\$'000 |
|-----------------------------|----------------|--------------------------|
| Within operating cash flows | 221            | 12,281                   |
| Within financing cash flows | 8,212          | –                        |
|                             | <b>8,433</b>   | 12,281                   |

Note: As explained in the note 19(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

|                    | 2019<br>\$'000 | 2018<br>\$'000 |
|--------------------|----------------|----------------|
| Lease rentals paid | 8,433          | 12,281         |

## 20. TRADE AND OTHER PAYABLES

|                                    | 2019<br>\$'000 | 2018<br>\$'000 |
|------------------------------------|----------------|----------------|
| Trade creditors                    | 585,211        | 556,431        |
| Accrued charges and other payables | 134,151        | 119,673        |
| Contract liabilities               | 29,312         | 18,430         |
|                                    | <b>748,674</b> | 694,534        |

All creditors and accrued charges are expected to be settled or recognised as income within one year or are repayable on demand.

### (a) Ageing analysis:

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

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| Within 60 days of supplier invoice date                             | 509,384        | 475,836        |
| 61 to 120 days after supplier invoice date                          | 52,667         | 72,250         |
| More than 120 days but within 12 months after supplier invoice date | 19,476         | 7,275          |
| More than 12 months after supplier invoice date                     | 3,684          | 1,070          |
|   | <b>585,211</b> | 556,431        |

### (b) Movements in contract liabilities

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Balance at 1 January   | 18,430         | 16,222         |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period | (18,430)       | (16,222)       |
| Increase in contract liabilities as a result of receiving advances from customers during the year  | 29,312         | 18,430         |
| Balance at 31 December   | <b>29,312</b>  | 18,430         |

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit. The amount of deposit is negotiated on a case by case basis with customers.

All contract liabilities are expected to be recognised as income within one year.



## 21. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

|                                      | 31 December 2019                            |                              | 1 January 2019 (Note)                       |                              | 31 December 2018 (Note)                     |                              |
|--------------------------------------|---|------------------------------|---|------------------------------|---|------------------------------|
|                                      | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
|                                      | \$'000                                      | \$'000                       | \$'000                                      | \$'000                       | \$'000                                      | \$'000                       |
| Within 1 year                        | 6,740                                       | 7,025                        | 8,325                                       | 8,874                        | –   | –                            |
| After 1 year but within 2 years      | 3,143                                       | 3,220                        | 6,566                                       | 6,841                        | –   | –                            |
| After 2 years but within 5 years     | –   | –                            | 3,007                                       | 3,072                        | –   | –                            |
|                                      | 3,143                                       | 3,220                        | 9,573                                       | 9,913                        | –   | –                            |
|                                      | 9,883                                       | 10,245                       | 17,898                                      | 18,787                       | –   | –                            |
| Less: total future interest expenses |   | (362)                        |   | (889)                        |   | –                            |
| Present value of lease liabilities   |   | 9,883                        |   | 17,898                       |   | –                            |

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. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

## 22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

|  | 2019    | 2018    |
|--|---------|---------|
|  | \$'000  | \$'000  |
| Taxation in respect of PRC income taxes                            | (7,167) | (4,975) |
| Taxation in respect of jurisdictions outside Hong Kong and the PRC | (134)   | (208)   |
|  | (7,301) | (5,183) |
| Representing:  |         |         |
| Current tax recoverable  | (7,825) | (6,266) |
| Current tax payable  | 524     | 1,083   |
|  | (7,301) | (5,183) |

## Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

### 22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(CONTINUED)

#### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

|                                       | Depreciation allowances in excess of the related depreciation | Provisions   | Unremitted earnings | Future benefits of tax losses | Total          |
|---------------------------------------|---|--------------|---------------------|-------------------------------|----------------|
|                                       | \$' 000   | \$' 000      | \$' 000             | \$' 000                       | \$' 000        |
| <b>Deferred tax arising from:</b>     |   |              |                     |                               |                |
| At 1 January 2018                     | 657   | (220)        | 7,000               | (9,623)                       | (2,186)        |
| Charged to profit or loss (note 6(a)) | 31  | –            | –                   | –                             | 31             |
| Exchange difference                   | 2   | –            | –                   | –                             | 2              |
| At 31 December 2018                   | 690   | (220)        | 7,000               | (9,623)                       | (2,153)        |
| At 1 January 2019                     | <b>690</b>  | <b>(220)</b> | <b>7,000</b>        | <b>(9,623)</b>                | <b>(2,153)</b> |
| Charged to profit or loss (note 6(a)) | <b>71</b>   | –            | –                   | –                             | <b>71</b>      |
| Exchange difference                   | <b>(13)</b>   | –            | –                   | –                             | <b>(13)</b>    |
| At 31 December 2019                   | <b>748</b>  | <b>(220)</b> | <b>7,000</b>        | <b>(9,623)</b>                | <b>(2,095)</b> |

The reconciliation to the consolidated statement of financial position is as follows:

|   | 2019            | 2018     |
|---|-----------------|----------|
|   | \$' 000         | \$' 000  |
| Net deferred tax assets recognised in the consolidated statement of financial position      | <b>(10,277)</b> | (10,348) |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | <b>8,182</b>    | 8,195    |
|   | <b>(2,095)</b>  | (2,153)  |

#### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of \$69,779,000 (2018: \$61,888,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities for the foreseeable future. None of the tax losses expire under the current tax legislation.



## 23. DEFERRED INCOME

|                     | 2019          | 2018   |
|---------------------|---------------|--------|
|                     | \$'000        | \$'000 |
| Current portion     | 5,564         | 5,331  |
| Non-current portion | 8,907         | 11,006 |
|                     | <b>14,471</b> | 16,337 |

During the year ended 31 December 2019, the Group received government grants of \$5,173,000 (2018: \$24,847,000) from the PRC authorities as incentives for acquiring machineries. The amount received is to be amortised and released to profit or loss over the useful lives of the relevant assets. During the year ended 31 December 2019, \$6,979,000 (2018: \$11,587,000) of the grants were released to profit or loss.

## 24. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The share option scheme of the Company was adopted on 3 June 2013 (the "Scheme") as an incentive for the Group's employees and business associates. The Directors are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors or business associate of any company in the Group (the "Participants") to take up options to subscribe for shares in the Company at a price determined by the Board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange of Hong Kong (the "Stock Exchange") on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the share option scheme and any other share option schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the share option scheme. The options under the share option schemes are exercisable for a period of ten years from the date of grant.

On 9 July 2015, the Company granted 8,600,000 share options to the Participants under the Scheme. Each share option entitles the holder to subscribe for one share of \$0.25 of the Company at an exercise price of \$5.72. The contractual life of these share options is the period from the date on which an option certificate is issued after acceptance by the grantees and expiring on 31 August 2018. Among the 8,600,000 share options granted, 5,900,000 share options were granted to the Directors. Further details are set out in the Company's announcement dated 9 July 2015.

On 24 January 2019, the Company granted 4,500,000 share options to the Participants under the Scheme. Each share option entitles the holder to subscribe for one share of \$0.25 of the Company at an exercise price of \$2.00. The contractual life of these share options is the period from the date on which an option certificate is issued after acceptance by the grantees and expiring on 31 January 2023. Among the 4,500,000 share options granted, 1,800,000 share options were granted to the Directors. Further details are set out in the Company's announcement dated 24 January 2019.

## Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

### 24. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

|                                      | Number of options | Vesting conditions  | Contractual life of options                        |
|--------------------------------------|-------------------|---|--|
| <b>Options granted to directors:</b> |                   |   |  |
| – 9 July 2015                        | 5,900,000         | Exercisable in three tranches immediately from 1 September of each year from 2015 to 2017 | Expire at the close of business on 31 August 2018  |
| – 24 January 2019                    | 1,800,000         | Exercisable in three tranches immediately from 1 February of each year from 2020 to 2023  | Expire at the close of business on 31 January 2023 |
| <b>Options granted to employees:</b> |                   |   |  |
| – 9 July 2015                        | 2,700,000         | Exercisable in three tranches immediately from 1 September of each year from 2015 to 2017 | Expire at the close of business on 31 August 2018  |
| – 24 January 2019                    | 2,700,000         | Exercisable in three tranches immediately from 1 February of each year from 2020 to 2023  | Expire at the close of business on 31 January 2023 |

(b) The number and weighted average exercise prices of share options are as follows:

|  | 2019                            |                   | 2018                            |                   |
|--|---------------------------------|-------------------|---------------------------------|-------------------|
|  | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| Outstanding at the beginning of the year | N/A                             | –                 | \$5.72                          | 7,850,000         |
| Granted during the year                  | \$2.00                          | 4,500,000         | N/A                             | –                 |
| Lapsed during the year                   | N/A                             | –                 | \$5.72                          | (7,850,000)       |
| Outstanding at the end of the year       | \$2.00                          | 4,500,000         | N/A                             | –                 |
| Exercisable at the end of the year       |                                 | –                 |                                 | –                 |

The options outstanding at 31 December 2019 had an exercise price of \$2.00 and a weighted average remaining contractual life of 3.09 years.

During the year ended 31 December 2018, 7,850,000 share options had lapsed. The value of vested options which lapsed during the current year was amounting to \$18,466,000 and was released directly to retained profits.



## 24. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on the Binomial Option pricing model. The contractual life of the share option and expectations of early exercise were incorporated into the Binomial Option pricing model.

|  | Granted on<br>24 January<br>2019 | Granted on<br>9 July<br>2015 |
|--|----------------------------------|------------------------------|
| <b>Fair value of and assumptions for share options</b> |                                  |                              |
| Fair value at measurement date                         | \$0.59                           | \$0.91                       |
| Share price  | \$2.00                           | \$5.65                       |
| Exercise price   | \$2.00                           | \$5.72                       |
| Weighted average volatility                            | 38.81%                           | 35.71%                       |
| Weighted average share option life                     | 4.02 years                       | 3.14 years                   |
| Expected dividends                                     | 0.50%                            | 7.17%                        |
| Risk-free interest rate (based on Exchange Fund Notes) | 1.83%                            | 0.65%                        |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition had not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 25. CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity of the Company

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

|  | Note      | Share capital<br>\$'000 | Share premium<br>(note 25(d)(i))<br>\$'000 | Contributed surplus<br>(note 25(d)(ii))<br>\$'000 | Capital reserve<br>(note 25(d)(vi))<br>\$'000 | Retained profits<br>\$'000 | Total<br>\$'000 |
|--|-----------|-------------------------|--|---|---|----------------------------|-----------------|
| <b>Balance at 1 January 2018</b>                         |           | 183,794                 | 1,307,585                                  | 771,827   | 18,466  | 239,326                    | 2,520,998       |
| <b>Changes in equity for 2018:</b>                       |           |                         |  |   |   |                            |                 |
| Final dividends approved in respect of the previous year | 25(b)(ii) | -                       | -  | -   | -   | (7,352)                    | (7,352)         |
| Profit and total comprehensive income for the year       |           | -                       | -  | -   | -   | 92                         | 92              |
| Release upon lapse of share options                      | 24(b)     | -                       | -  | -   | (18,466)                                      | 18,466                     | -               |
| <b>Balance at 31 December 2018</b>                       |           | 183,794                 | 1,307,585                                  | 771,827   | -   | 250,532                    | 2,513,738       |
| <b>Balance at 1 January 2019</b>                         |           | 183,794                 | 1,307,585                                  | 771,827   | -   | 250,532                    | 2,513,738       |
| <b>Changes in equity for 2019:</b>                       |           |                         |  |   |   |                            |                 |
| Final dividends approved in respect of the previous year | 25(b)(ii) | -                       | -  | -   | -   | (7,352)                    | (7,352)         |
| Loss and total comprehensive income for the year         |           | -                       | -  | -   | -   | (3,515)                    | (3,515)         |
| Equity settled share-based transaction                   |           | -                       | -  | -   | 1,557   | -                          | 1,557           |
| <b>Balance at 31 December 2019</b>                       |           | 183,794                 | 1,307,585                                  | 771,827   | 1,557   | 239,665                    | 2,504,428       |

### (b) Dividends

#### (i) Dividends payable to equity shareholders of the Company attributable to the year

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Final dividend proposed after the end of reporting period of 1.0 HK cent (2018: 1.0 HK cent) per share | 7,352          | 7,352          |
| Special dividend proposed after the end of reporting period of 25.0 HK cents (2018: Nil) per share     | 183,794        | -              |
|  | 191,146        | 7,352          |

The final dividend and the special dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

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

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 1.0 HK cent (2018: 1.0 HK cent) per share | 7,352          | 7,352          |



## 25. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (c) Share capital

#### (i) Authorised and issued share capital

|  | 2019          |         | 2018          |         |
|--|---------------|---------|---------------|---------|
|  | No. of shares | Amount  | No. of shares | Amount  |
|  | '000          | \$'000  | '000          | \$'000  |
| <b>Authorised:</b>                             |               |         |               |         |
| Ordinary shares of \$0.25 each                 | 800,000       | 200,000 | 800,000       | 200,000 |
| <b>Ordinary shares, issued and fully paid:</b> |               |         |               |         |
| At 1 January and 31 December                   | 735,175       | 183,794 | 735,175       | 183,794 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### (d) Nature and purpose of reserves

#### (i) Share premium

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.

#### (ii) Contributed surplus

Contributed surplus comprises the capital reduction transferred from the share premium account and the excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the Directors have no current intention to distribute this surplus.

#### (iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

#### (iv) Fair value reserve (recycling)

The amount comprises the cumulative net change in the fair value of debt securities designated at FVOCI. The amount related to equity securities designated at FVOCI has been reclassified to fair value reserve (non-recycling) upon the initial adoption of HKFRS 9 at 1 January 2018.

#### (v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity securities designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(f)).

#### (vi) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

#### (vii) Other reserves

Other reserves comprise statutory reserves required in respect of a subsidiary in accordance with the relevant rules and regulations in the PRC and the premium paid for the acquisition of non-controlling interests.

#### (viii) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to shareholders of the Company was \$1,011,492,000 (2018: \$1,022,359,000).

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 25. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (e) 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 higher levels of 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 a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes lease liabilities and trade and other payables) plus unaccrued proposed dividends, less fixed deposits with banks and 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 when compared to its position as at 31 December 2018.

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:

|  |      | 31 December<br>2019 | 1 January<br>2019<br>(Note) | 31 December<br>2018<br>(Note) |
|--|------|---------------------|-----------------------------|-------------------------------|
|  | Note | \$'000              | \$'000                      | \$'000                        |
| <b>Current liabilities</b>   |      |                     |                             |                               |
| Trade and other payables   | 20   | 748,674             | 694,534                     | 694,534                       |
| Lease liabilities  |      | 6,740               | 8,325                       | –                             |
|  |      | 755,414             | 702,859                     | 694,534                       |
| <b>Non-current liabilities</b>   |      |                     |                             |                               |
| Lease liabilities  |      | 3,143               | 9,573                       | –                             |
| Total debt   |      | 758,557             | 712,432                     | 694,534                       |
| Add: Proposed dividends  |      | 191,146             | 7,352                       | 7,352                         |
| Fixed deposits with banks and other financial institutions with more than three months to maturity when placed | 19   | (7,780)             | –                           | –                             |
| Cash and cash equivalents  | 19   | (1,538,328)         | (1,340,107)                 | (1,340,107)                   |
| <b>Net cash</b>  |      | <b>(596,405)</b>    | <b>(620,323)</b>            | <b>(638,221)</b>              |
| Total equity   |      | 2,751,435           | 2,759,024                   | 2,759,024                     |
| Less: Proposed dividends   |      | (191,146)           | (7,352)                     | (7,352)                       |
| <b>Adjusted capital</b>  |      | <b>2,560,289</b>    | <b>2,751,672</b>            | <b>2,751,672</b>              |
| <b>Adjusted net debt-to-capital ratio</b>  |      | <b>N/A</b>          | <b>N/A</b>                  | <b>N/A</b>                    |

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 1(c).

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.



## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions for which the Group consider to have low credit risk.

Except for the financial guarantees given by the Group as set out in note 28, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 28.

### Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 26% (2018: 24%) and 44% (2018: 29%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates different loss patterns based on individual characteristics of customers, the loss allowance based on past due status is further distinguished between the Group's individual credit evaluations of customers.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

|                              | 2019               |                       |                |
|------------------------------|--------------------|-----------------------|----------------|
|                              | Expected loss rate | Gross carrying amount | Loss allowance |
|                              | %                  | \$'000                | \$'000         |
| Current (not past due)       | 0.1%               | 632,212               | 554            |
| Less than 1 month past due   | 0.7%               | 96,326                | 636            |
| 1 to 12 months past due      | 0.8%               | 94,615                | 798            |
| More than 12 months past due | 100%               | 2,490                 | 2,490          |
|                              |                    | <b>825,643</b>        | <b>4,478</b>   |

|                              | 2018               |                       |                |
|------------------------------|--------------------|-----------------------|----------------|
|                              | Expected loss rate | Gross carrying amount | Loss allowance |
|                              | %                  | \$'000                | \$'000         |
| Current (not past due)       | 0.3%               | 534,319               | 1,363          |
| Less than 1 month past due   | 0.7%               | 100,638               | 689            |
| 1 to 12 months past due      | 0.2%               | 74,554                | 163            |
| More than 12 months past due | 100%               | 2,490                 | 2,490          |
|                              |                    | <b>712,001</b>        | <b>4,705</b>   |

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

|  | 2019         | 2018   |
|--|--------------|--------|
|  | \$'000       | \$'000 |
| Balance at 1 January                                     | 4,705        | 5,172  |
| Amounts written off during the year                      | –            | (860)  |
| Impairment losses (reversed)/ recognised during the year | (227)        | 393    |
| Balance at 31 December                                   | <b>4,478</b> | 4,705  |

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates currently applicable at the end of reporting period) and the earliest date that the Group can be required to pay:

|   | 2019                                  |  |                |                                | 2018                                  |  |                |                                |
|---|---------------------------------------|--|----------------|--------------------------------|---------------------------------------|--|----------------|--------------------------------|
|   | Contractual undiscounted cash outflow |  |                | Carrying amount at 31 December | Contractual undiscounted cash outflow |  |                | Carrying amount at 31 December |
|   | Within 1 year or on demand            | More than 1 year but less than 2 years | Total          |                                | Within 1 year or on demand            | More than 1 year but less than 2 years | Total          |                                |
| \$'000  | \$'000                                | \$'000                                 | \$'000         | \$'000                         | \$'000                                | \$'000                                 | \$'000         |                                |
| Trade creditors, accrued charges and other payables | 719,362                               | –                                      | 719,362        | 719,362                        | 676,104                               | –                                      | 676,104        | 676,104                        |
| Lease liabilities (note)                            | 7,025                                 | 3,220                                  | 10,245         | 9,883                          | –                                     | –                                      | –              | –                              |
|   | <b>726,387</b>                        | <b>3,220</b>                           | <b>729,607</b> | <b>729,245</b>                 | <b>676,104</b>                        | <b>–</b>                               | <b>676,104</b> | <b>676,104</b>                 |

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 1(c).

### (c) Currency risk

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.

There is currently no hedging policy adopted by the Group with respect to its foreign exchange exposure. Most of the sales and purchases are made in the respective functional currency of each group entity, except for group entities whose functional currency is Hong Kong dollars, certain transactions are denominated in United States dollars and Japanese Yen. Given the Hong Kong dollar is pegged to the United States dollar, the Group does not expect that there will be any significant currency risk associated with such United States dollars denominated transactions. In respect of balances denominated in other currencies, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.



## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (c) Currency risk (continued)

#### (i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

|   | 2019<br>Exposure to foreign currencies<br>(expressed in Hong Kong dollars) |              |                 |               | 2018<br>Exposure to foreign currencies<br>(expressed in Hong Kong dollars) |              |                 |               |
|---|--|--------------|-----------------|---------------|--|--------------|-----------------|---------------|
|   | United States<br>Dollars   | Euros        | Japanese<br>Yen | Renminbi      | United States<br>Dollars   | Euros        | Japanese<br>Yen | Renminbi      |
|   | \$'000   | \$'000       | \$'000          | \$'000        | \$'000   | \$'000       | \$'000          | \$'000        |
| Trade and other receivables   | 438,376  | 3,065        | –               | –             | 412,221  | 1,366        | –               | –             |
| Cash and cash equivalents   | 991,866  | 8,861        | 10              | 12,181        | 892,433  | 815          | 10              | 12,051        |
| Fixed deposits with more than three<br>months to maturity when placed | –  | –            | –               | –             | –  | –            | –               | –             |
| Trade and other payables  | (92,780)   | (2,853)      | (25,278)        | –             | (113,299)  | (842)        | (28,665)        | –             |
|   | <b>1,337,462</b>   | <b>9,073</b> | <b>(25,268)</b> | <b>12,181</b> | <b>1,191,355</b>   | <b>1,339</b> | <b>(28,655)</b> | <b>12,051</b> |

In addition, the Group exposed to currency risk arising from inter-company receivables and payables denominated in currency other than the functional currency of either the lender or the borrower. The net inter-company receivables amounted to United States dollars 1,700,000 and Renminbi 621,004,000 (2018: United States dollars 5,637,000 and Renminbi 243,896,000).

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (c) Currency risk (continued)

#### (ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies for group entities whose functional currency is Hong Kong dollars.

|                       | 2019   |   | 2018   |   |
|-----------------------|--|---|--|---|
|                       | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Increase/<br>(decrease) in<br>profit after<br>taxation and<br>retained profits<br>\$' 000 | Increase/<br>(decrease)<br>in foreign<br>exchange<br>rates | Increase/<br>(decrease) in<br>profit after<br>taxation and<br>retained profits<br>\$' 000 |
| United States dollars | 10%  | 11,699  | 10%  | 28,857  |
|                       | (10)%  | (11,699)  | (10)%  | (28,857)  |
| Euros                 | 10%  | 904   | 10%  | 125   |
|                       | (10)%  | (904)   | (10)%  | (125)   |
| Japanese Yen          | 10%  | (2,110)   | 10%  | (2,393)   |
|                       | (10)%  | 2,110   | (10)%  | 2,393   |
| Renminbi              | 10%  | 1,218   | 10%  | 1,205   |
|                       | (10)%  | (1,218)   | (10)%  | (1,205)   |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2018.

### (d) Fair values

#### (i) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.



## 27. COMMITMENTS

- (a) Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

|                | 2019<br>\$'000 | 2018<br>\$'000 |
|----------------|----------------|----------------|
| Contracted for | 27,003         | 6,672          |

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

|                                 | 2018<br>\$'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 and motor vehicles 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 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(i), and the details regarding the Group's future lease payments are disclosed in note 21.

## 28. CONTINGENT LIABILITIES

### Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. No liability of the Company at the end of the reporting period under the guarantees issued and the facilities was drawn down by the subsidiaries (2018: \$Nil).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to the Group's statement of financial position ratios which are commonly found in lending arrangements with financial institutions. In the event that the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Such banking facilities amounted to \$413,590,000 (2018: \$478,250,000) as at 31 December 2019. No facilities were utilised as at 31 December 2019 and 2018. Further details of the Group's management of liquidity risk are set out in note 26(b). As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities has been breached.

## 29. MATERIAL RELATED PARTY TRANSACTIONS

- (a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Directors is disclosed in note 7 and certain of the highest paid employees is disclosed in note 8.

- (b) Recurring transactions

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 the annual financial report.

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| <i>BOE Group:</i>  |                |                |
| Purchase of goods from BOE Group (note 1)  | 1,367,507      | 495,735        |
| Subcontracting fee charged by BOE Group (note 1)   | –              | 632            |
| Lease of property, plant and equipment to BOE Group (note 2)   | 11,985         | –              |
| Rental, management fee, utilities fees and computer integrated manufacturing system management fee charged by BOE Group (note 3) |                |                |
| – Tenancy Agreement and the Related Agreements   | 397            | 8,899          |
| – New Tenancy Agreement  | 82             | –              |

# Notes to The Financial Statements

(expressed in Hong Kong dollars unless otherwise indicated)

## 29. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Recurring transactions (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 transaction as defined in Chapter 14A of 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.

### (c) Balance with related parties

At 31 December 2019, included in trade and other payables were amounts due to BOE Group for the purchase cost and other expenses payable of \$220,324,000 (2018: \$61,252,000). Non-current deposits of \$17,816,000 (2018: \$36,785,000) were paid to BOE Group for the purchase of TFT panels toolings for manufacturing TFT modules. Prepayment of \$9,341,000 (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/recoverable within one year.

## 30. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

|                                |       | 2019             | 2018             |
|--------------------------------|-------|------------------|------------------|
|                                | Note  | \$'000           | \$'000           |
| <b>Non-current assets</b>      |       |                  |                  |
| Investments in subsidiaries    | 14    | 2,507,544        | 2,515,135        |
| <b>Current assets</b>          |       |                  |                  |
| Other receivables              |       | 465              | 442              |
| Cash and cash equivalents      |       | 688              | 1,561            |
|                                |       | 1,153            | 2,003            |
| <b>Current liabilities</b>     |       |                  |                  |
| Other payables                 |       | 4,258            | 3,390            |
| Current tax payable            |       | 11               | 10               |
|                                |       | 4,269            | 3,400            |
| <b>Net current liabilities</b> |       | <b>(3,116)</b>   | <b>(1,397)</b>   |
| <b>NET ASSETS</b>              |       | <b>2,504,428</b> | <b>2,513,738</b> |
| <b>CAPITAL AND RESERVES</b>    |       |                  |                  |
| Share capital                  | 25(c) | 183,794          | 183,794          |
| Reserves                       | 25(a) | 2,320,634        | 2,329,944        |
| <b>TOTAL EQUITY</b>            |       | <b>2,504,428</b> | <b>2,513,738</b> |

Approved and authorised for issue by the board of directors on 30 March 2020.

**Gao Wenbao**  
Director

**Ko Wing Yan, Samantha**  
Director



### 31. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c). Certain comparative figures have been adjusted to conform to current year's presentation.

### 32. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate parent and the ultimate controlling party of the Group to be BOE Technology (HK) Limited, which is incorporated in Hong Kong, and BOE Technology Group Co., Ltd, which is incorporated in the PRC, respectively. BOE Technology Group Co., Ltd produces financial statements available for public use.

### 33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

|  | Effective for accounting periods beginning on or after |
|--|--|
| Amendments to HKFRS 3, <i>Definition of a business</i>         | 1 January 2020   |
| Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i> | 1 January 2020   |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

# Five Year Summary

(Expressed in Hong Kong dollars)

|   | Note | 2015<br>\$' 000  | 2016<br>\$' 000  | 2017<br>\$' 000  | 2018<br>\$' 000  | 2019<br>\$' 000  |
|---|------|------------------|------------------|------------------|------------------|------------------|
| <b>Results:</b>                         |      |                  |                  |                  |                  |                  |
| Revenue                                 |      | 2,487,820        | 2,247,470        | 2,879,159        | 3,177,359        | <b>3,573,978</b> |
| Profit from operations                  | 1    | 324,810          | 59,699           | 20,628           | 26,162           | <b>29,440</b>    |
| Finance costs                           | 1    | (3,472)          | (1,197)          | (50)             | –                | <b>(538)</b>     |
| Share of profits/(losses) of associates |      | 4,020            | (453)            | (297)            | (606)            | <b>(552)</b>     |
| Profit before taxation                  |      | 325,358          | 58,049           | 20,281           | 25,556           | <b>28,350</b>    |
| Income tax (expense)/credit             |      | (24,997)         | (7,526)          | 1,832            | (8,423)          | <b>(3,330)</b>   |
| Profit for the year                     |      | 300,361          | 50,523           | 22,113           | 17,133           | <b>25,020</b>    |
| Attributable to:                        |      |                  |                  |                  |                  |                  |
| Equity shareholders of the Company      |      | 300,605          | 50,523           | 22,113           | 17,133           | <b>25,020</b>    |
| Non-controlling interests               |      | (244)            | –                | –                | –                | <b>–</b>         |
| Profit for the year                     |      | 300,361          | 50,523           | 22,113           | 17,133           | <b>25,020</b>    |
| <b>Assets and liabilities:</b>          |      |                  |                  |                  |                  |                  |
| Property, plant and equipment           | 1    | 412,608          | 361,797          | 500,847          | 539,198          | <b>504,215</b>   |
| Interest in associates                  |      | 4,747            | 4,150            | 4,436            | 3,636            | <b>10,447</b>    |
| Intangible assets                       |      | –                | –                | –                | 5,899            | <b>5,269</b>     |
| Loans receivable                        |      | 31,000           | 15,500           | –                | –                | <b>–</b>         |
| Other financial assets                  |      | 57,353           | 10,783           | 13,069           | 3,132            | <b>–</b>         |
| Non-current deposits                    |      | –                | 18,336           | 63,010           | 53,065           | <b>29,339</b>    |
| Deferred tax assets                     |      | 725              | 2,731            | 10,348           | 10,348           | <b>10,277</b>    |
| Net current assets                      | 1    | 1,415,545        | 2,326,198        | 2,220,099        | 2,162,947        | <b>2,212,120</b> |
| Total assets less current liabilities   | 1    | 1,921,978        | 2,739,495        | 2,811,809        | 2,778,225        | <b>2,771,667</b> |
| Non-current bank loans                  |      | (8,879)          | –                | –                | –                | <b>–</b>         |
| Lease liabilities                       | 1    | –                | –                | –                | –                | <b>(3,143)</b>   |
| Deferred tax liabilities                |      | (7,663)          | (7,888)          | (8,162)          | (8,195)          | <b>(8,182)</b>   |
| Deferred Income                         |      | –                | –                | (1,606)          | (11,006)         | <b>(8,907)</b>   |
| <b>Net assets</b>                       |      | <b>1,905,436</b> | <b>2,731,607</b> | <b>2,802,041</b> | <b>2,759,024</b> | <b>2,751,435</b> |
| <b>Capital and reserves</b>             |      |                  |                  |                  |                  |                  |
| Share capital                           |      | 82,782           | 183,764          | 183,794          | 183,794          | <b>183,794</b>   |
| Reserves                                |      | 1,822,654        | 2,547,843        | 2,618,247        | 2,575,230        | <b>2,567,641</b> |
| <b>Total equity</b>                     |      | <b>1,905,436</b> | <b>2,731,607</b> | <b>2,802,041</b> | <b>2,759,024</b> | <b>2,751,435</b> |
| <b>Earnings per share (in HK cents)</b> |      |                  |                  |                  |                  |                  |
| Basic                                   |      | 91.2             | 8.4              | 3.0              | 2.3              | <b>3.4</b>       |
| Diluted                                 |      | 90.4             | 8.4              | 3.0              | 2.3              | <b>3.4</b>       |

Note 1: As a result of the adoption of HKFRS16, *Leases*, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, 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. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.

# Properties Held by the Group



|    | Location  | Existing use   | Percentage holding |
|----|---|----------------|--------------------|
| 1. | Flat G, 22nd Floor, Tower 1,<br>Yue Man Centre,<br>Nos. 300 and 302 Ngau Tau Kok Road,<br>Kwun Tong,<br>Kowloon | Staff quarters | 100%               |
| 2. | 128 Heyuan Road, Yuancheng District<br>Heyuan City, Guangdong,<br>The People's Republic of China                | Industrial     | 100%               |
| 3. | Unit 3 Milbanke Court,<br>Milbanke Way, Bracknell,<br>Berkshire,<br>United Kingdom                              | Office         | 100%               |

Note: The above properties are either freehold, held on long or medium-term leases or have no specified lease term.

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors:

Mr. Gao Wenbao (*Chairman*)  
Ms. Ko Wing Yan, Samantha  
Mr. Su Ning

### Non-executive Directors:

Ms. Yang Xiaoping  
(retired on 27 April 2019)  
Mr. Dong Xue  
(retired on 27 April 2019)  
Mr. Yuan Feng  
(retired on 27 April 2019)  
Mr. Shao Xibin  
(appointed on 28 April 2019)  
Mr. Jin Hao  
(appointed on 28 April 2019)  
Ms. Zhang Shujun  
(appointed on 28 April 2019)

### Independent Non-executive Directors:

Mr. Fung, Yuk Kan Peter  
Mr. Chu, Howard Ho Hwa  
Mr. Hou Ziqiang

## COMPANY SECRETARY

Mr. Pang Tien Kin

## AUDIT COMMITTEE

Mr. Fung, Yuk Kan Peter (*Chairman*)  
Mr. Chu, Howard Ho Hwa  
Mr. Hou Ziqiang

## REMUNERATION COMMITTEE

Mr. Fung, Yuk Kan Peter (*Chairman*)  
Mr. Gao Wenbao  
Ms. Ko Wing Yan, Samantha  
Mr. Chu, Howard Ho Hwa  
Mr. Hou Ziqiang

## NOMINATION COMMITTEE

Mr. Gao Wenbao (*Chairman*)  
Mr. Su Ning  
Mr. Fung, Yuk Kan Peter  
Mr. Chu, Howard Ho Hwa  
Mr. Hou Ziqiang

## INDEPENDENT AUDITORS

KPMG  
Public Interest Entity Auditor registered in accordance  
with the Financial Reporting Council Ordinance

## PRINCIPAL BANKERS

MUFG Bank, Ltd.  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units A-F, 35/F., Legend Tower  
No.7 Shing Yip Street  
Kwun Tong, Kowloon  
Hong Kong

## PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited  
4th Floor North, Cedar House  
41 Cedar Avenue  
Hamilton HM 12, Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17/F., Hopewell Centre  
183 Queen's Road East, Wan Chai  
Hong Kong

## ADR DEPOSITARY

The Bank of New York  
American Depositary Receipts  
101 Barclay Street, 22W  
New York, NY 10286  
U.S.A.

## STOCK CODE

710

## WEBSITE

<http://www.boevx.com>

## **BOE Varitronix Limited**

Unit A-F, 35/F, Legend Tower, 7 Shing Yip Street,  
Kwun Tong, Kowloon, Hong Kong

[www.boevx.com](http://www.boevx.com)