YORKEY

Stock Code : 2788

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.
精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)

2016
Annual Report

** For identification purpose only*

Contents

Corporate Information

Executive Directors

Lai I-Jen
Nagai Michio *(ceased to be an Executive Director and the Chief Executive Officer with effect from 28 February 2017)*
Kurihara Toshihiko *(appointed as an Executive Director and the Chief Executive Officer with effect from 10 March 2017)*

Non-Executive Directors

Liao Kuo-Ming
Wu Shu-Ping

Independent Non-Executive Directors

Chiang Hsiang-Tsai
Chou Chih-Ming
Wang Yi-Chi

Company Secretary and Qualified Accountant

Ng Chi-Ching, FCPA, CPA (Aust.) *(ceased to be the Chief Financial Officer and the Company Secretary with effect from 28 February 2017)*
Wong Tak Yee *(appointed as the Company Secretary with effect from 30 March 2017)*

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

Place of Business in Hong Kong

Workshops 1-2, 6th Floor
Block A, Goldfield Industrial Centre
1 Sui Wo Road
Shatin
New Territories
Hong Kong

Place of Business in the PRC

No. 2 Xiaobian Industrial District
Changan Town
Dongguan City
Guangdong Province
The PRC

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

CTBC Bank Co., Ltd.
Bank Sinopac
Ta Chong Bank Ltd.
China Construction Bank
China Merchant Bank

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman KY1-1110,
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Stock Code

2788

On behalf of the board of directors, I am pleased to present the shareholders the annual report of Yorkey Optical International (Cayman) Ltd (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

Annual Results

The Group's turnover for the year was approximately US$73,491,000, representing a decrease of approximately 5.2% compared with US$77,553,000 for the previous year. The Group's net profit for the year ended 31 December 2016 was approximately US$4,668,000, representing an increase of approximately 15.7% as compared with US$4,033,000 in 2015.

Dividends

The board of directors of the Company ("the Board") recommended a final dividend of HK$0.035 (approximately US0.451 cents) and a special dividend of HK$0.1 (approximately US1.29 cents) per share. Including the interim dividend of HK$0.035 (approximately US0.451 cents) per share paid to shareholders on 3 October 2016, total dividend payable to the shareholders in respect of the year ended 31 December 2016 will be HK$0.17 (approximately US$2.192 cents), bringing a dividend payout ratio of approximately 386%.

Business Review and Outlook

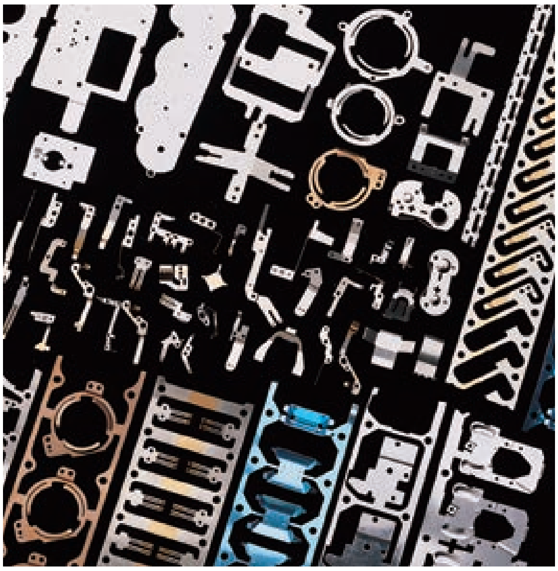
The Group is principally engaged in the manufacturing and sales of plastic and metallic parts and components of optical and opto-electronic products and manufacturing and sales of molds and cases, including plastic and metallic parts and components of digital still cameras ("DSCs"), action cameras, copier-based multifunction peripherals and surveillance cameras.

Chairman's Statement

The year 2016 witnessed rapid changes in global economic conditions and a moderating growth of the Chinese economy. Under the backdrop of slackened growth of the macro-economy, the growth pace of the consumer electronics market has slowed down for another year. Amid this external condition and as aggravated by competition from mobile handset devices as replacement products, the total industry output value of DSCs shrank further. As most of our Group's income is derived from revenue of DSCs business, we are faced with a harsh operating condition which is worsened by some of our distressed customers who have been adversely affected by the 2016 Japan Kumamoto Earthquake (the "Earthquake") and complicated by the disciplinary investigations instituted by regulatory authorities against the Company.

Given the above factors, the Group has proactively controlled its operating expense and strived to explore its customer base and to develop diversified products. In addition to the existent DSCs products, the Group has actively developed diversified products, including components for surveillance cameras, action cameras, healthcare instruments, etc., while providing one-stop comprehensive services from component design, module development manufacture, plastic shaping, metal stamping, surface processing and assembling to enhance its competitive edge.

With the efforts of the management, the Group has recorded revenue of US$73,491,000 for the year 2016, representing a decrease of approximately 5.2% as compared with US$77,553,000 in 2015. The net profit for the year 2016 amounted to US$4,668,000, representing an increase of approximately 15.7% as compared with US$4,033,000 in 2015. The variance in the Group's net profit is due to multiple factors, which mainly includes: (1) some of the Group's customers who have been adversely affected by the Earthquake, which consequently led to a decline in the sales of the Group, have resumed production in the third quarter of the year. Please refer to the inside information announcements dated 8 June 2016 and 30 December 2016 and the interim results announcement dated 9 August 2016 for more details; (2) the improvement in production



efficiency and efficient cost control has led to the increase in gross profit margin, which amounted to 29.2% for the year, representing an increase as compared with 26.7% for the previous year which as a result has led to an increase in the amount of gross profit despite of the decline in the sales for the year; (3) efficient control over operating expense; (4) recognised share of loss in an associate has increased, more details of which are set out in the inside information announcements dated 30 December 2016 and 16 March 2017 and the paragraph headed "Interest in an associate" of the Management Discussion and Analysis section in this annual report; and (5) increase in income tax expense.

The growth in gross profit and efficient operating expense control have the effect of offsetting, amongst others, recognised loss in an associate and increase in income tax expense. Accordingly, the net profit rate for the year amounted to 6.4%, representing a mild increase as compared with 5.2% for the previous year.

In 2016, the Group continued to invest in research and development, technology and quality enhancement while high regard is paid to corporate governance for higher governance level. The concerted efforts of our staff have finally led to the appreciation and endorsement by our clients for the product quality and advanced technology attained by us. The Group will keep up its commitment to the actualization of its core value.

According to the information released by Camera & Imaging Products Association (CIPA), the global shipment volume of DSCs from Japanese brands in 2016 was 24,189,000 units, representing an annual decrease of 31.7% compared with that in 2015. It is expected that the number of DSCs worldwide will continue to decrease in 2017. The Group considers that advanced DSCs will become mainstream in the market, customers will have relatively higher expectations for manufacturing quality, and demands for suppliers will become diversified with small-volume production. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns trust from its customers. The Group provides "one-stop" services as the basis to step up its research and development efforts on new products (including components for surveillance cameras, action cameras, healthcare instruments, beauty treatment instruments, advanced TV and related in-vehicle products, etc.) to maintain its competitive edge.

Looking ahead to 2017, the operating environment continues to be challenging and the uncertainties in the external economic environment remain high. In consideration of the continued increasing labour cost and high staff turnover rate in the PRC, the Group will respond with optimised capability and improvement in automation and efficiency and will carefully evaluate the expansion of new production facilities, so as to reduce its costs and enhance its competitiveness. At the same time, the Group will continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and suppliers for their continuous support, as well as the management team and the staff of the Group for their hard work and contributions in the past year.

Lai I-Jen
Chairman

Management Discussion and Analysis

Important

The final results for the year ended 31 December 2016 set out in this annual report are based on audited financial information prepared under Hong Kong Financial Reporting Standards ("HKFRSs"). As financial results are subject to fluctuations and affected by a number of factors, the Group's financial results for any period should not be taken as indicative of any expected performance of the Group for any future period.

This annual report contains statements with respect to the Group's operating conditions and business prospects which are based on currently available information. Such statements do not constitute guarantees of the future operating performance of the Group. If due to any unexpected factors, including, but are not limited to, changes in economic conditions, shifts in customer demands and changes in laws and regulatory policies, which may cause the Company's actual results to differ from those expressed in the statements, the Group undertakes no obligation to update or revise any such statements to reflect subsequent circumstances. The Group will, however, comply will all disclosure requirements stipulated by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

Operational and Financial Review

The year 2016 witnessed rapid changes in global economic conditions and a moderating growth of the Chinese economy. Under the backdrop of slackened growth of the macro-economy, the growth pace of the consumer electronics market has slowed down for another year. Amid this external condition and as aggravated by competition from mobile handset devices as replacement products, the total industry output value of DSCs shrank further. As most of our Group's income is derived from revenue of DSCs business, we are faced with a harsh operating condition which is worsened by some of our distressed customers who have been adversely affected by the Earthquake and complicated by the disciplinary investigations instituted by regulatory authorities against the Company.

Given the above factors, the Group has proactively controlled operating expense and strived to explore its customer base and to develop diversified products. In addition to the existent DSCs products, the Group has actively developed diversified products, including surveillance cameras, action cameras, healthcare instruments, etc., while providing one-stop comprehensive services from component design, module development manufacture, plastic shaping, metal stamping, surface processing and assembling to enhance its competitive edge.

With the efforts of the management, the Group has recorded revenue of US$73,491,000 for the year 2016, representing a decrease of approximately 5.2% as compared with US$77,553,000 in 2015. The net profit for the year 2016 amounted to US$4,668,000, representing an increase of approximately 15.7% as compared with US$4,033,000 in 2015. The variance in the Group's net profit is due to multiple factors, which mainly includes: (1) some of the Group's customers who have been adversely affected by the Earthquake, which consequently led to a decline in the sales of the Group, have resumed production in the third quarter of the year. Please refer to the inside information announcements dated 8 June 2016 and 30 December 2016 and the interim results announcement dated 9 August 2016 for more details; (2) the improvement in production efficiency and efficient cost control has led to the increase in gross profit margin, which amounted to 29.2% for the year, representing an increase as compared with 26.7% for the previous year which consequently has led to an increase in the amount of gross profit despite the decline in the sales for the year; (3) efficient control over operating expense; (4) recognised share of loss in an associate has increased, more details of which are set out in the inside information announcements dated 30 December 2016 and 16 March 2017 and the paragraph headed "Interest in an associate" in this section of this annual report; and (5) increase in income tax expense.

The growth in gross profit and efficient operating expense control have the effect of offsetting, amongst others, recognised loss in an associate and increase in income tax expense. Accordingly, the net profit rate for the year amounted to 6.4%, representing a mild increase as compared with 5.2% for the previous year.

In 2016, the Group continued to invest in research and development, technology and quality enhancement while high regard is paid to corporate governance for higher governance level. The concerted efforts of our staff have finally led to the appreciation and endorsement by our clients for the product quality and advanced technology attained by us. The Group will keep up its commitment to the actualization of its core value.

Key Relationships with Employees, Customers and Suppliers

The Group placed great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn helped to nurture a closer relationship with the Group's customers. The largest customer and top five customers accounted for 12.2% and 51.4% of the Group's revenue for the year, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2016, allowance for doubtful debts for all customers amounted to US$244,000 as compared with US$238,000 in 2015.

The Group cooperates with its suppliers and purchases various raw materials and materials from them at a competitive price. The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 5.4% and 24.6% of the Group's total purchase for the year, respectively.

Management Discussion and Analysis

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Employment, Training and Development

As at 31 December 2016, the Group had a total of 2,360 employees (as at 31 December 2015: 2,260 employees). Staff costs incurred for the year amounted to approximately US$19,599,000 (2015: US$21,512,000).

Employees are an important asset to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavioral standards to every staff member who would then know clearly about the requirement standards of the Group. Our staff are also encouraged to carry out the operating strategies and achieve the targets set by the Group.

The Group places high value on staff and ensures that a fair and just promotion system is in place and has established sound policies for environment, health and safety aspects to ensure that the Group remains competitive in the market to attract various talents to join us.

The Company has implemented a long-term and stable human capital policy to attract and retain quality talents and to provide incentives for the staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of our products.

Revenue

The Group's revenue for the year was approximately US$73,491,000, representing a decrease of approximately 5.2% as compared with US$77,553,000 for the previous year, mainly due to the negative growth in the DSCs industry affected by competition from mobile devices, and the effects of the Earthquake that has caused damages to the manufacturing plants and the supply chain of production of some Japanese customers of the Company, resulting in cessation of production of some products. As some of the Japanese customers of the Company have resumed production in third quarter of the year, the revenue for the second half of the year is similar to that for the corresponding period in the previous year.

The Group's revenue for the year was mainly derived from the sales of components for DSCs. In spite of the shrinking in the overall DSCs market, some customers have changed to adopt the centralised purchasing strategy. The Group strived to secure orders by capitalising on its strengths in technology, quality and service. In view of the increasing popularity of sports, which drives the development of outdoor action cameras, the Group has also actively devoted its efforts to this area. Accordingly, the percentage of contribution of cameras (including DSCs and action cameras) to the Group's revenue for the year was approximately 71.4%. Nevertheless, in light of factors such as the changing global economic environment and the slowing economy in the PRC, the operating environment remains challenging.

Gross Profit

The Group's gross profit for the year was approximately US$21,433,000 and the gross profit margin was approximately 29.2% (2015: gross profit of US$20,706,000 and gross profit margin of 26.7%), representing an increase as compared with that in the previous year. The increase in gross profit margin was mainly due to the improved efficiency and effective cost control efforts of the Group.

Other Income and Gains

The Group's other income for the year was US$3,221,000 (comprising bank interest income of US$797,000, rental income of US$290,000, exchange gain of US$2,116,000 and miscellaneous income of US$18,000), representing an increase as compared with US$2,882,000 (comprising bank interest income of US$894,000, rental income of US$244,000, reversal for bad and doubtful debts of US$133,000, exchange gain of US$1,555,000 and miscellaneous income of US$56,000) in 2015. The decrease in bank interest income was mainly due to payment of dividends and the purchase of the investment property in Hong Kong that resulted in the decrease in bank deposits, as well as the increase in holding proportion of United States dollars term deposit and the decrease in proportion of Renminbi term deposit, of which the rate of United States dollars term deposit is lower than that of Renminbi term deposit. The increase in rental income was due to the increase in leased plant area and the lease of the aforementioned lease of the investment property in Hong Kong. There was foreign currency profit arising from depreciation of Renminbi against United States dollars.

Interest in an associate

The Group contributed 49% of the registered capital of Pioneer Yorkey do Brasil Ltda. ("PYBL"), which is established in Brasil and is principally engaged in the manufacture and sale of components for DSCs and related components for automobiles.

Since PYBL has continually incurring losses, the Company has discussed with the other shareholder of PYBL to liquidate PYBL in accordance with the provisions of the agreement entered into when PYBL was set up (the "Agreement"). Subsequent to 31 December 2016, PYBL has gradually ceased its manufacturing operation and started to clear its inventory. Since the Company and the other shareholder of PYBL have reached a consensus on the liquidation of PYBL and taking into consideration the intention of both shareholders of PYBL to take up certain assets of PYBL at an agreed price to set off loan, if any, advanced to PYBL, the financial statements of PYBL for the year ended 31 December 2016 prepared in accordance with HKFRSs have not been prepared on a going concern basis.

The Company holds the shareholding interest in PYBL at the cost of US$13,893,000. Up to 31 December 2016, the accumulated post-acquisition loss shared by the Company amounted to US$12,391,000, of which the loss of approximately US$3,501,000 was incurred during the twelve months ended 31 December 2016, with the accumulated currency realignment amounting to US$4,221,000. According to the Hong Kong Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates", the accumulated currency realignment amounting to US$4,221,000 shall be recognised in profit or loss as an investment loss upon disposal of PYBL (the "Disposal"). The Disposal may be through sales, liquidation, repayment of share capital or abandonment.

As at 31 December 2016, the Company's share of investment losses in PYBL has exceeded the Company's net investment in PYBL and a liability has been recognised which represented the Company's share of further losses to the extent the Company has contractual obligation to make payment to PYBL in accordance with the Agreement. As at 31 December 2016, the Company's share of investment losses in excess of its net investment amounted to US$2,719,000.

For further details, please refer to the inside information announcements dated 30 December 2016 and 16 March 2017.

Net Profit

The Group's net profit for the year ended 31 December 2016 was approximately US$4,668,000, representing an increase of approximately 15.7% as compared with US$4,033,000 for the year ended 31 December 2015. Such increase was mainly due to the increase in gross profit, effective operating expense control, the increase of the currency exchange gains and their offsetting effect against share of loss of results of an associate and income tax burden.

Liquidity and Financial Resources

As at 31 December 2016, the Group had current assets of approximately US$130,707,000 (2015: US$141,368,000) and current liabilities of approximately US$27,848,000 (2015: US$20,670,000). The current ratio of the Group was approximately 469% (2015: 684%).

As at 31 December 2016, the Group had cash at bank and on hand of approximately US$109,020,000 (as at 31 December 2015: US$123,812,000), and zero bank borrowing. Net cash decreased by US$14,792,000 from 31 December 2015.

Cash inflow from operating activities for the year was US$10,183,000.

Net cash outflow from investing activities for the year was approximately US$6,170,000, which comprised interest received of approximately US$797,000, capital expenditure in various divisions of the Group of US$734,000 and cash outflow from purchase of investment properties of US$6,233,000.

Please refer to the announcement of the Company dated 21 July 2016 and note 13 to the consolidated financial statements on page 98 for details of the purchase of the investment property.

Net cash outflow used in financing activities for the year was approximately US$18,010,000, representing dividend paid during the year.

Effect of foreign exchange rate changes for the year was US$795,000.

Possible Risks and Uncertainties Facing the Group

Exchange Risk Exposure

Foreign currency exposure refers to the risks associated with the foreign exchange rate movements on the financial results and cash flows of the Group. The Group is mainly exposed to currencies of Hong Kong dollars, Japanese Yen and Renminbi. The gains of the Group are mainly settled in United States dollars, while others are in Hong Kong dollars, Renminbi and Japanese Yen. The expenses of the Group are mainly paid in Renminbi, while others are in United States dollars, Hong Kong dollars and Japanese Yen. The exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant as the exchange rates are pegged to each other. There was exchange gain associated with Japanese Yen denominated net assets due to appreciation of

Japanese Yen against United State dollars during the year, while the amount was minimal. During the year, the Group recorded exchange gain due to depreciation of Renminbi against United States dollars during this period. In order to reduce foreign currency exposure, the management of the Group will continue to monitor its foreign currency position, using natural hedge technique and managing its foreign currency exposure by means such as management of transactional currency.

Contingent Liabilities

Reference is made to the announcement of the Company dated 28 February 2017.

The Market Misconduct Tribunal ("MMT") has handed down its report dated 27 February 2017 and has made the determination that (i) a breach of the disclosure requirement has taken place; and (ii) the persons who are in breach of the disclosure requirement are the Company and its two then officers. Under the said report, the MMT has made, inter alia, the following consequential order against the Company: a regulatory fine of HK$1 million, liability for costs and appointment of an independent professional adviser.

Given the above situation, based on the best estimate of the management of the Group, an aggregate provision of US$387,000 with regard to (i) the Fine of HK$1 million (approximately US$129,000) and (ii) the Government's Costs and the SFC's Costs were made as at 31 December 2016. More details are set out on pages 12 to 14 in the paragraph headed "Events After 31 December 2016" in this section of this annual report.

Save as disclosed above, as at 31 December 2016, the Group had no significant or contingent liabilities.

Capital Risk

The capital risk management of the Group is set out in note 5 to the consolidated financial statements on page 87.

Financial Risk

The financial risk management of the Group is set out in note 6 to the consolidated financial statements on pages 87 to 90.

Business Risk

The Group's revenue is mainly generated from the sale of components for DSCs; and under the impacts of the continuously shrinking of the overall DSCs market and the competition from mobile devices, the revenue for the year decreased approximately 5.2% against that of the previous year. Given the declining output value of DSCs, and the fact that the revenue derived from DSCs of the Group accounts for a high proportion of overall revenue, it may cause an adverse effect on revenue and profit. The Group will strive to expand its customer base and develop the application of diversified products, including components for surveillance cameras, action cameras, healthcare instruments, beauty treatment instruments and advanced TV and related in-vehicle products, etc. Meanwhile, the Group will pay attention to and strengthen expenses control to enhance its competitiveness.

Since the Group's production facilities are located in the PRC, the continuously increasing labour costs and high staff turnover rate in the PRC may cause an adverse effect on profit. The Group will respond with optimised capability and improvement in automation and efficiency as a guarantee for product quality and expenses control, etc. The Group will also carefully evaluate the expansion of new production facilities, so as to reduce its costs and enhance its competitiveness at the same time.

Regulation and Compliance Risk

The Group is exposed to legal and regulatory risks in Hong Kong and in the PRC. Such risks might have significant impacts on the financial condition, operations and business prospects of the Group. The investments of the Group at present or in the future might be affected by changes in local, national or international political, social, legal, tax, regulatory, shareholder and environmental requirements from time to time that could result in an additional or unforeseen increase in operating expenses and capital expenditures, and hence may adversely affect the Group's revenues and profits. Please refer to the paragraph headed "Contingent Liabilities" in this section of this annual report on page 11.

The Group keeps monitoring regulatory developments and where necessary, will obtain expert's professional advice in respect of the updated regulatory changes.

Capital Commitment

As at 31 December 2016, the capital commitment of the Group was US$405,000 (2015: US$9,000).

Significant Investment

Save as disclosed in this annual report, the Group held no significant investment as at 31 December 2016 (2015: Nil).

Reference is made to the announcement dated 21 July 2016.

During the year, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No.889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Material Acquisition and Disposal of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries during the year ended 31 December 2016 (2015: Nil).

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2016 and 2015.

Events After 31 December 2016

Hong Kong MMT Proceedings

On 5 April 2016, the Company was notified by the Securities and Futures Commission (the "SFC") that proceedings have been instituted in the Market Misconduct Tribunal (the "MMT") against:

(a) the Company for its failure to disclose inside information as soon as reasonably practicable after it came to its knowledge; and

(b) two then officers of the Company for their:

  (i) reckless or negligent conduct in failing to take any steps to ensure timely disclosure of the inside information to the investing public resulting in the breach by the Company of its disclosure requirement; and/or

  (ii) failure to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of the disclosure requirement by the Company.

On 16 January 2017, the Company and its two then officers (collectively referred to as the "3 Specified Persons") have together with their legal representatives attended the hearing of the MMT proceedings and the 3 Specified Persons have all upon legal advice admitted contravention of the requisite disclosure requirements under the Hong Kong Securities and Futures Ordinance (the "Ordinance"). Through their respective legal counsel, the 3 Specified Persons have all made their submissions in mitigation before the MMT and the hearing before the MMT was concluded on 17 January 2017.

The MMT handed down its report dated 27 February 2017 (the "MMT Report") and made the determination that (a) a breach of the disclosure requirement has taken place; and (b) the persons who are in breach of the disclosure requirement are the 3 Specified Persons.

Under the MMT Report, the MMT made consequential orders against each of the 3 Specified Persons ordering that each is to pay:

(a) the Hong Kong Government (the "Government") the sum the MMT considers appropriate for the costs and expenses reasonably incurred by the Government in relation or incidental to MMT proceedings (such costs and expenses to be taxed if not agreed) (the "Government's Costs"); and

(b) the SFC the sum the MMT considers appropriate for the costs and expenses reasonably incurred by the SFC whether in relation or incidental to MMT proceedings; any investigation carried out before the proceedings were instituted; or any investigation carried out for the purpose of the proceedings (such costs and expenses to be taxed if not agreed) (the "SFC's Costs").

As against the Company, the MMT also ordered that:

(i) a regulatory fine of HK$1 million be paid by the Company to the Government (the "Fine"); and

(ii) the Company do appoint an independent professional adviser approved by the SFC to review the Company's procedure for compliance with Part XIVA of the Ordinance or to advise the Company on matters relating to compliance with Part XIVA of the Ordinance.

Further details of the above are set out in the Company's announcements dated 7 April 2016, 18 January 2017 and 28 February 2017.

The Company is currently enquiring with the SFC in relation to effecting payment of the Fine and has asked the SFC to provide estimates as to the amounts of the Government's Costs and SFC's Costs for the purpose of seeking to agree such costs. At the date the consolidated financial statements were approved, the SFC has not provided the requested estimates nor has the MMT determined what are the appropriate sums the Company is required to pay by way of the Government's costs and the SFC's Costs.

Based on the best estimate of the management of the Group, an aggregate provision of US$387,000 with regard to (i) the Fine of HK$1 million (approximately US$129,000) and (ii) the Government's Costs and the SFC's Costs were made as at 31 December 2016. Please refer to note 21 to the consolidated financial statements on pages 105 to 106.

In relation to the insurance coverage of the Company and its two then officers under the Directors' and Officers' Liability Policy, the Company received a letter issued by the relevant insurance company indicating that they will not provide any coverage to the 3 Specified Persons due to incorrect information provided in the proposal form dated 19 February 2016. The Company does not accept the insurance company's position and is currently seeking legal advice on the matter.

In addition, the Company has on 16 March 2017 received a letter via e-mail in which two shareholders alleged that by reason of the determination under the MMT Report that the Company is liable to make compensation for pecuniary loss to them as a result of the Company's breach of the disclosure requirement under Part XIVA of the Ordinance amounting to HK$388,855. The Company has already made notification of such claim to the insurance company. The insurance company has however indicated that since the Director's and Officers' Liability Policy has already been avoided due to the incorrect information contained in the proposal form dated 19 February 2016 that coverage under the said policy is also not available to the Company in respect of the notification of such claim. Again, the Company does not accept the insurance company's position and is currently seeking legal advice on this matter.

Outlook

According to the CIPA, the global shipment volume of DSCs from Japanese brands in 2016 was 24,189,000 units, representing an annual decrease of 31.7% compared to that in 2015. It is expected that the number of DSCs worldwide will continue to decrease in 2017. The Group considers that advanced DSCs will become mainstream in the market, customers will have relatively higher expectations for manufacturing quality, and demands for suppliers will become diversified with small-volume production. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns its customers' trust. The Group provides "one-stop" services as the basis to step up its research and development efforts on new products (including components for surveillance cameras, action cameras, healthcare instruments, beauty treatment instruments, advanced TV and related in-vehicle products, etc.) to maintain its competitive edge.

Looking ahead to 2017, the operating environment continues to be challenging and the uncertainties in the external economic environment remain high. In consideration of the continued increasing labour cost and high staff turnover rate in the PRC, the Group will respond with optimised capability and improvement in automation and efficiency and will carefully evaluate the expansion of new production facilities, so as to reduce its costs and enhance its competitiveness. At the same time, the Group will continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Final Dividend

The Directors proposed to declare and distribute to the shareholders a final dividend of HK$0.035 per share. It is expected that the final dividend will be paid on or before 1 August 2017.

Special Dividend

Being determined to make better return to the shareholders, the Directors proposed to declare and distribute to the shareholders a special dividend of HK$0.1 per share. It is expected that the special dividend will be paid on or before 25 August 2017.

Including the interim dividend of HK$0.035 per share paid to the shareholders on Monday, 3 October 2016 and the final dividend and special dividend to be paid in the future, total dividend paid to the shareholders for the year 2016 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 386%.

Profile of Directors and Senior Management

Executive Directors

Mr. LAI I-Jen (賴以仁), aged 68, is an executive director and chairman of the Company. He has over 30 years of experience in the manufacture and sale of optical components and optical equipments. He is currently chairman of Asia Optical Co., Inc. ("Asia Optical"), the ultimate holding company of the Group), a company listed on the Taiwan Stock Exchange. Asia Optical is principally engaged in the design, manufacture and sale of optical parts and components and is reputable within industry.

Mr. Lai is also currently chairman of Asia Tech Image Inc., ("Asia Tech"), a company listed on the Taiwan's GreTai Securities Market, and holds directorship in various companies. Asia Tech is held by Asia Optical as to 26.3%, and is principally engaged in the trading of image sensor and electronic related parts and components.

Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

Mr. NAGAI Michio (永井三知夫) *(Ceased to be an executive director and the chief executive officer of the Company with effect from 28 February 2017)*, aged 62, was an executive director and the chief executive officer of the Company. He joined the Group in March 2011. Prior to joining the Group, Mr. Nagai was employed by Pioneer Corporation ("Pioneer"), a company listed in Japan which manufactures and sells audio and video equipment for household, industrial, and automobile use, and has served in various senior positions including as a division head and as a senior vice president. Mr. Nagai has over 30 years of experience in mid- and long-term strategic planning, organisational restructuring, enhancement of manufacture engineering, development and introduction of automation device, project management and various areas of specialty in kind.

Mr. Kurihara Toshihiko (栗原俊彥) *(appointed as an executive director and the chief executive officer of the Company with effect from 10 March 2017)*, aged 63, joined the Group in July 2016 as deputy general manager of Dongguan Yorkey Optical Machinery Components Ltd, an indirectly wholly-owned subsidiary of the Company. Mr. Kurihara graduated from Sophia University with a major in mechanical engineering and has over 30 years of experience in the optical disk pickup industry. Prior to joining the Group, Mr. Kurihara has served various positions in Pioneer. Mr. Kurihara joined Pioneer in 1977 and had served in many managerial positions in the pickup development and sales department of Pioneer from April 1992 to September 2009. Subsequently, from October 2009 to April 2012, Mr. Kurihara served as the chief executive officer of Pioneer Digital Design and Manufacturing Corporation, a joint venture of Pioneer and Sharp. He was an executive officer of Pioneer from June 2012 to June 2015. Mr. Kurihara was a consultant of Pioneer from June 2015 to June 2016.

Profile of Directors and Senior Management

Non-executive Directors

Mr. LIAO Kuo-Ming (廖國銘), aged 80, is a non-executive director of the Company. Mr. Liao joined the Group in March 2001. He was the fifth session honorary chairman of Taiwan Businessmen Association Dongguan (東莞市台商投資企業協會長安分會第五屆名譽會長), the second session vice president of Dongguan City Chang-An Town Taiwan Businessmen Association (東莞市長安鎮台商聯誼會第二屆副會長) and the first session vice president, second session secretary general of Foreign Businessmen Association, Xiaobian, Dongguan, PRC (東莞市長安外商投資企業協會霄邊分會第一屆副會長及第二屆常務理事).

Ms. WU Shu-Ping (吳淑品), aged 54, is a non-executive director of the Company. Ms. Wu is currently a director of Asia Optical, (the ultimate holding company of the Group, a company listed on the Taiwan Stock Exchange) and of Asia Tech, a company listed on the Taiwan's GreTai Securities Market, and holds directorship in various companies. She has an extensive financial background and had been actively involved in the listing, overseas financing, merger & acquisition projects of Asia Optical. Ms. Wu is experienced in the operations of the capital market and capital allocation and management of multinational enterprises in the manufacture industry.

Independent Non-executive Directors

Mr. CHIANG Hsiang-Tsai (江向才), aged 46, was appointed as an independent non-executive director in December 2005. Mr. Chiang holds a master's degree in accountancy and financial information systems from Cleveland State University in the United States and a doctoral degree in business administration with specialisation in accounting and information technology management from Nova Southeastern University in the United States. Mr. Chiang has published a number of research papers in periodicals and produced a number of writings. He is currently a full-time professor (專任教授) with the Department of Accounting and the chief human resources officer (人力資源長) in Feng Chia University in Taiwan. Mr. Chiang currently serves as an independent director of TONS LIGHTOLOGY INC. (a company listed on the Taiwan's GreTai Securities Market) and Heran Co.,Ltd. (a company listed on the Taiwan Emerging Market).

Mr. CHOU Chih-Ming (周智明), aged 58, was appointed as an independent non-executive director in December 2005. He is a registered agent for bookkeeping and tax return filing and founded Chou Chih-Ming Accounting and Tax Agent Firm (周智明事務所) in 1990. He has over 37 years of experience in bookkeeping. Mr. Chou's working experience also includes Chu Ting Enterprise Co., Ltd. (巨簦企業股份有限公司) where he was a scrutineer (監察人). He had also been the sixth session secretary general of Taichung County Associate of Tax and Accounting Agent (台中縣稅務會計記帳代理業職業工會第六屆常務理事), the second session secretary general of the National Federation of Tax and Accounting Agent Republic of China (中華民國稅務會計記帳代理業職業工會全國聯合會第二屆常務理事), the first session president of Taichung County Association of Accounting and Tax Agent Services (台中縣記帳及報稅代理業務人公會第一屆理事長), the first session president of Taichung County Association of Accounting (台中縣記帳士公會第一屆理事長), and the first session executive director of Tax-Accountancy Association, R.O.C (中華民國記帳及報稅代理業務人公會全國聯合會第一屆常務理事).

Mr. WANG Yi-Chi (王逸琦), aged 45, was appointed as an independent non-executive director in May 2012. He holds a doctoral degree in industrial engineering from Mississippi State University in the United States. His areas of expertise are lean enterprise transformation and gemba kaizen. Mr. Wang has published numerous research articles in some international journals and he is currently a full-time professor (專任教授) with the Department of Industrial Engineering and Systems Management at Feng Chia University in Taiwan.

Senior Management

Mr. Kobayashi Yuji (小林雄司), aged 55, has accumulated more than 30 years of working experience in quality management and production management, and is currently the senior manager of the quality assurance division of the Company. He joined the Group in January 2016.

Mr. CHAN Sun-Ko (詹孫科), aged 48, is the head of each of the mould technology department, metal stamping department, plastic injection and moulding department and surface treatment processing department of the Group. Mr. Chan had worked in other companies in the plastic moulding industry and has more than 15 years of experience in this industry. He is responsible for overseeing the production technique and ensuring the product quality for the Group. He joined the Group in July 1998.

Ms. TAN Ya-Juan (譚亞娟), aged 41, is the head of the manager of cases and bags department of the Group. Ms. Tan has over 20 years of experience in the field of manufacturing and assembling of cases and bags, and is responsible for overseeing the production process, quality of products of the cases and bags department. Ms.Tan joined the Group in December 1995.

Mr. ZOU Zhigang (鄒志剛), aged 60, is the head of the assembly department of the Group. Mr. Zou has over 20 years of working experience in the industry. Mr. Zou joined the Group in June 2012.

Mr. HUANG Cheng-I (黃正一), aged 50, is the head of sales and marketing department of the Group. Mr. Huang has over 15 years of sales and marketing experience. He is responsible for the administration and supervision of overall sales and marketing activities of the Group. He joined the Group in July 2000.

Mr. NG Chi Ching (吳子正) *(ceased to be the Chief Financial Officer and Company Secretary with effect from 28 February 2017)*, aged 46, was the chief financial officer of the Group, the company secretary and qualified accountant of the Company. Mr. Ng is responsible for the overall finance of the Group. Mr. Ng graduated from The Australian National University with a bachelor's degree in commerce in 1994. He has over 10 years of experience in financial management and business management. Mr. Ng had worked in an international audit firm during the periods from May 1995 to March 1997 and from July 1997 to July 1999. Mr. Ng is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Mr. Ng joined the Group in January 2006.

Changes in Director's Information under Rule 13.51B(1) of the Listing Rules

Changes in Director's information disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

The Market Misconduct Tribunal ("MMT") has handed down its report dated 27 February 2017 and has made the determination that (i) a breach of the disclosure requirement has taken place; and (ii) the persons who are in breach of the disclosure requirement are the Company and its two then officers, being Mr. Nagai Michio ("Mr. Nagai") and Mr. Ng Chi Ching. Under the said report, the MMT has made, inter alia, the following consequential order against Mr. Nagai:

(a) a regulatory fine of HK$1 million;

(b) an order that he be responsible for the SFC's and the Government's costs, such costs and expenses to be taxed if not agreed;

(c) an order that he must not, for the period of 18 months, without the leave of the Court of First Instance (1) be or continue to be a director, liquidator, or receiver or manager of the property or business, of a listed corporation; or (2) in any way, whether directly or indirectly, be concerned or take part in the management of a listed corporation; and

(d) an order that he undergoes a training programme approved by the SFC.

Consequently, Mr. Nagai, an executive director during the year ended 31 December 2016, ceased to be an executive director and the chief executive officer of the Company with effect from 28 February 2017.

Ms. WONG Tak Yee (黃德儀), was appointed as the Company Secretary of the Company with effect from 30 March 2017. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited ("Tricor"), which is a global professional services provider specializing in integrated business, corporate and investor services. Ms. Wong has over 25 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. She is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS. Ms. Wong holds a Master of Arts degree from The Hong Kong Polytechnic University. Prior to joining Tricor, Ms. Wong was a senior manager of Company Secretarial Services with Deloitte Touche Tohmatsu in Hong Kong, where she had provided company secretarial and share registration services to its clients.

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the consolidated financial statements on page 113.

Business Review

An analysis of the Group's revenue and operating segments for the year ended 31 December 2016 are set out in note 7 to the consolidated financial statements on pages 91 to 92. A fair evaluation on the Group's operation, including the description of principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" on pages 10 to 12.

Financial Key Performance Indicators

The following table shows the key financial ratios indicating the performance of the Group:

Financial year ended 31 December	2016	2015
Gross profit margin (%)[1]	**29.2**	26.7
Net profit margin (%)[2]	**6.4**	5.2
Return on assets (%)[3]	**4.2**	3.2

As at 31 December	2016	2015
Gearing ratio (%)[4]	**0**	0
Current ratio (%)[5]	**4.7**	6.8
Average trade receivables collection period (days)[6]	**72**	64
Average trade payables repayment period (days)[7]	**94**	86

Notes:

1. Gross profit margin = Gross profit/Revenue x 100%

2. Net profit margin = Net profit/Revenue x 100%

3. Return on assets = Net profit before tax/Total assets

4. Gearing ratio = Net debt/Equity attributable to owners of the Company

5. Current ratio = Current assets/Current liabilities

6. Average trade receivables collection period = (Average trade receivables/Revenue) x 365. Detailed analysis on trade receivables is set out in note 18 to the consolidated financial statements on pages 102 to 104.

7. Average trade payables repayment period = (Average trade payables/Cost of goods sold) x 365. Detailed analysis on trade payables is set out in note 21 to the consolidated financial statements on pages 105 to 106.

Environmental Policy and Performance

Yorkey was established in December 1995. Throughout these years, the Group's business has progressively grown into a sizable manufacturer providing products for numerous well-known brands. Yet in order to continue the journey on this path of growing business, Yorkey realised that it is necessary to operate our business responsibly.

We understand that a good management system helps organisations not only to comply with laws and regulations, but also to minimise negative impacts caused by the operations to the environment and society and to continually drive improvement. Therefore, we have achieved ISO 14001, OHSAS 18001 and ISO 9001 certification for our environmental, health and safety, and quality management system, respectively.

Further details are set out in the section headed "Environmental, Social and Governance Report", ("ESG Report") of this annual report.

Compliance with Relevant Laws and Regulations

Save as disclosed on pages 12 to 14 under the paragraph headed "Events After 31 December 2016" in the "Management Discussion and Analysis" section of this annual report, during the financial year ended 31 December 2016, there was no evidence of non-compliance with the relevant laws and regulations that have significant impacts on the Group as far as the Board is aware.

Key Relationships with Employees, Customers and Suppliers

Customers

The Group placed great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn helped to nurture a closer relationship with the Group's customers. The largest customer and top five customers accounted for 12.2% and 51.4% of the Group's revenue for the year, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Group. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2016, allowance for doubtful debts for all customers amounted to US$244,000 as compared with US$238,000 in 2015.

Suppliers

The Group cooperates with its suppliers and purchases various raw materials and materials from them at a competitive price. The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 5.4% and 24.6% of the Group's total purchase for the year, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risk.

Employment, Training and Development

As at 31 December 2016, the Group had a total of 2,360 employees (as at 31 December 2015: 2,260 employees). Staff costs incurred for the year amounted to approximately US$19,599,000 (2015: US$21,512,000).

Employees are an important asset to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavioral standards to every staff member who would then know clearly about the requirement standards of the Group. Our staff are also encouraged to carry out the operating strategies and achieve the targets set by the Group.

The Group places high value on staff and ensures a fair and just promotion system is in place and has established sound policies for environment, health and safety aspects to ensure that the Group remains competitive in the market to attract various talents to join us.

The Group has implemented a long-term and stable human capital policy to attract and retain quality personnel and to provide incentives for the staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of our products.

Results

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of this annual report.

Five Year Financial 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 114 of this annual report.

Dividends

On 3 October 2016, the Company paid an interim dividend of HK$0.035 (approximately US0.451 cents) per share in respect of the six months ended 30 June 2016.

The Board has resolved to recommend a payment of final dividend of HK0.035 (approximately US0.451 cents) and special dividend of HK$0.1 (approximately US1.29 cents) per share. Hence, taking into consideration of the interim dividend, final dividend and special dividend, the total amount of dividend per share adds up to HK$0.17 (approximately US2.192 cents) in respect of the year ended 31 December 2016. The final dividend, expected to be paid on or before 1 August 2017; whilst the special dividend is expected to be paid on or before 25 August 2017.

Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 22 to the consolidated financial statements on pages 106 to 107.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2016 amounted to approximately US$164,545,000.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 66.

Investment Properties

Reference is made to the announcement dated 21 July 2016.

During the year, the Group acquired a property located in Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No.889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Properties, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements on pages 99 to 100.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 12.2% and 51.4% of the Group's total turnover for the year, respectively.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 5.4% and 24.6% of the Group's total purchase for the year, respectively.

To the best knowledge of the directors and their respective associates, none of them are aware of any shareholder who owns more than 5% of the issued share capital of the Company and has any interest in any of the top five customers and suppliers of the Group for the year.

Directors and directors' service contracts

The directors of the Company ("Directors") during the year ended 31 December 2016 and up to the date of this annual report were:

Executive Directors:

Mr. Lai I-Jen *(Chairman)*
Mr. Nagai Michio *(ceased to be an executive Director and chief executive officer of the Company with effect from 28 February 2017)*
Mr. Kurihara Toshihiko *(Chief Executive Officer) (appointed on 10 March 2017)*

Non-executive Directors:

Mr. Liao Kuo-Ming
Ms. Wu Shu-Ping

Independent non-executive Directors:

Mr. Chiang Hsiang-Tsai
Mr. Chou Chih-Ming
Mr. Wang Yi-Chi

The biographical details of the Directors are set out on pages 15 to 17 of this annual report.

Mr. Lai I-Jen (executive Director) entered into a service contract with the Company for a term of 1 year commencing from 7 June 2013. Mr. Nagai Michio (former executive Director) entered into a service contract with the Company for a term of 1 year commencing from 24 May 2012. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

With effect from 28 February 2017, Mr. Nagai Michio ceased to be an executive Director and the chief executive officer of the Company. For further details, please refer to the section headed "Profile of Directors and Senior Management" of this annual report and the announcement dated 28 February 2017.

Mr. Liao Kuo-Ming (non-executive Director) has been appointed for a term of 1 year commencing from 7 June 2013. Ms. Wu Shu-Ping (non-executive Director) has been appointed for a term of 1 year commencing from 20 December 2005. In addition, the appointment of each of the non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Mr. Chiang Hsiang-Tsai (independent non-executive Director) and Mr. Chou Chih-Ming (independent non-executive Director) have been appointed for a term of 1 year commencing from 20 December 2005. Mr. Wang Yi-Chi (independent non-executive Director) has been appointed for a term of 1 year commencing from 24 May 2012. In addition, the appointment of each of the independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

The Company had received written confirmations from each of the Company's independent non-executive Directors of their independence and considered all independent non-executive Directors to be independent. In accordance with the provisions of the Company's Articles of Association, Mr. Lai I-Jen, Mr. Liao Kuo-Ming, Ms. Wu Shu-Ping, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and

Mr. Wang Yi-Chi will retire from the Board at the forthcoming annual general meeting. Except for Mr. Liao Kuo-Ming, Mr. Chiang Hsiang-Tsai and Mr. Chou Chih-Ming, other Directors, being eligible, will offer themselves for re-election. Details of Directors' emoluments on a named basis are set out in note 9 to the consolidated financial statements on pages 94 to 95 of this annual report.

Mr. Kurihara Toshihiko is appointed as an executive Director and the chief executive officer of the Company with effect from 10 March 2017. In accordance with the provisions of the Company's Articles of Association, Mr. Kurihara shall retire at the forthcoming annual general meeting and offer himself for re-election as an executive Director.

Mr. Kurihara Toshihiko (executive Director) has entered into a service contract with the Company commencing from 10 March 2017 for an initial term of 1 year, unless and until terminated by not less than three months' notice in writing served by other party on the other.

Directors and Chief Executive's Interests in Shares

As at 31 December 2016, the interest or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to be notified to the Stock Exchange and the Company, are set out below:

1. Long positions in the shares, underlying shares and debentures of the Company

As at 31 December 2016, none of the Directors or chief executives of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

2. Short positions in the shares, underlying shares and debentures of the Company and interests and short positions in the shares, underlying shares and debentures of the Company's associated corporation

As at 31 December 2016, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares or debentures of the Company's associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Stock Exchange and the Company pursuant to the Model Code.

At no time during the period was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares, or debentures of, the Company or its associated corporation.

Directors' Interest in Contracts of Significance

Save as disclosed in note 27 to the consolidated financial statements, no significant contract to which the Company or any of its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2016, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

1. Long position in the shares and underlying shares of the Company

Name of shareholder of the Company	Type of interest	Number of shares/ underlying shares in the Company	Percentage of the issued share capital in the Company
Asia Optical International Ltd.	Beneficial owner	186,833,000	22.75%
Asia Optical Co., Inc.	Interest of a controlled corporation	226,833,000 *(Note 1)*	27.63%
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	143,817,000	17.52%
Ability Enterprise Co., Ltd.	Interest of a controlled corporation	143,817,000 *(Note 2)*	17.52%
Fortune Lands International Ltd.	Founder of discretionary trust	113,000,000 *(Note 3)*	13.76%
Mr. Chan Sun-Ko	Interest of a controlled corporation	113,000,000 *(Note 4)*	13.76%

Name of shareholder of the Company	Type of interest	Number of shares/ underlying shares in the Company	Percentage of the issued share capital in the Company
Ms. Wu Bo-Yan	Interest of a spouse	113,000,000 *(Note 5)*	13.76%
Webb David Michael	Beneficial owner	57,626,000	7.02%

Note 1: Asia Optical Co., Inc. holds 100% direct interest in the issued capital of Asia Optical International Ltd. ("AOIL") and Richman International Group Co., Ltd. ("Richman"), which holds 186,833,000 Shares and 40,000,000 Shares in the Company respectively, and therefore is taken to be interested in an aggregate of 226,833,000 Shares held by AOIL and Richman.

Note 2: Ability Enterprise Co., Ltd. ("Ability Enterprise") holds 100% direct interest in the issued capital of Ability Enterprise (BVI) Co., Ltd. ("Ability Enterprise BVI") and therefore is taken to be interested in an aggregate of 143,817,000 Shares held by Ability Enterprise BVI.

Note 3: As recorded in the register required to be kept under section 336 of the SFO, Fortune Lands International Ltd. ("Fortune Lands"), is the founder of The Yorkey Employee's Trust and is the registered owner of 113,000,000 Shares which it will hold as trustee of The Yorkey Employees' Trust.

Note 4: As recorded in the register required to be kept under section 336 of the SFO, Mr. Chan Sun-Ko ("Mr. Chan"), being the sole shareholder of Fortune Lands is taken to be interested in an aggregate of 113,000,000 Shares held by Fortune Lands.

Note 5: As recorded in the register required to be kept under section 336 of the SFO, Ms. Wu Bo-Yan, the spouse of Mr. Chan, is taken to be interested in an aggregate of 113,000,000 Shares in which Mr. Chan is interested in.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any long position being held by any persons, other than a director or chief executive of the Company, in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

2. Short positions in the shares and underlying shares of the Company

As at 31 December 2016, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

Share Option Scheme

A share option scheme (the "Share Option Scheme") was conditionally adopted by the shareholders' written resolution of the Company dated 18 January 2006.

The Share Option Scheme had become unconditional upon the listing of the Company's shares on the Stock Exchange on 10 February 2006. No share options were granted, exercised or cancelled by the Company under the share option scheme during the year and there are no outstanding share options under the Share Option Scheme as at 31 December 2016. The Share Option Scheme had expired on 17 January 2016 and no new share option scheme has been adopted by the Company.

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisitions of shares, or debentures of the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such right.

Summary of Principal Terms of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to employees, senior executive or officer, manager and directors of the Company or any of its subsidiaries and outside third parties who, in the sole discretion of the Board, have contributed or will contribute to the growth and development of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall be 80,000,000 (excluding the over-allotment portion) shares, representing 10% of the issued share capital of the Company as at the date of listing of shares on the Stock Exchange.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time. Options granted in the past 12-month period up to and including the date of grant to substantial shareholders or independent non-executive Directors in excess of 0.1% of the issued share capital of the Company and with an aggregate value in excess of HK$5,000,000 must be approved by the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which the options may be exercised will be notified by the Board to each grantee upon grant of each option, provided that it shall commence on a date not earlier than the date of the grant of an option and not be more than ten (10) years from the date of grant of the option. An offer of grant of an option must be accepted being a date not more than fourteen (14) days after the date of grant. The amount payable on acceptance of an option is HK$1.00.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a term commencing on the 18 January 2006 and ended on the 17 January 2016.

Continuing Connected Transactions

During the year ended 31 December 2016, the Group had the following connected transactions that were subject to the reporting requirements required by Listing Rules for disclosure in this annual report.

1. Lease of property by Dongguan Yorkey Optical Machinery Components Ltd ("Dongguan Yorkey") to Dongguan Guang Tong Business Machines Co., Ltd. ("Dongguan Guang Tong")

On 25 March 2015, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, as tenant renewed the supplemental lease agreement pursuant to which Dongguan Guang Tong has agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a maximum area of 3,523.8528 square metres for production use and a maximum area of 2,509.9712 square metres for dormitory use for a term commencing from 1 January 2016 to 31 December 2018. Monthly rental is calculated based on the actual space used by Dongguan Guang Tong.

Dongguan Guang Tong is wholly owned by Ever Pine. As such, Ability Enterprise BVI indirectly holds 34.65% of the equity interests in Dongguan Guang Tong. Dongguan Guang Tong is an associate of Ability Enterprise BVI and hence, a connected person of the Company for the purposes of the Listing Rules.

For the year ended 31 December 2016, the rental income received from Dongguan Guang Tong amounted to approximately US$271,000.

2. Sale of plastic parts and components from Dongguan Yorkey to Dongguan Guang Tong

On 25 March 2015, Dongguan Yorkey and Dongguan Guang Tong renewed the supplemental DY agreement ("Renewed Supplemental DY Agreement") whereby Dongguan Yorkey agreed to sell plastic parts and components to Dongguan Guang Tong for a term commencing from 1 January 2016 to 31 December 2018.

Entering into the Renewed Supplemental DY Agreement will benefit the Group from the enhancement of the Group's sales portfolio through selling plastic parts and components to Dongguan Guang Tong.

For the year ended 31 December 2016, sales of the plastic parts and components to Dongguan Guang Tong amounted to approximately US$23,000.

3. Engagement of Dongguan Guang Tong for SMT processing by Dongguan Yorkey

On 25 March 2015, Dongguan Yorkey and Dongguan Guang Tong entered into the DY processing agreement whereby Dongguan Yorkey agreed the engagement of Dongguan Guang Tong for SMT processing for a term commencing from 1 January 2016 to 31 December 2018.

As the Group does not possess SMT processing capacity, and after considering that Dongguan Guang Tong is a large SMT processing plant and have conducted business with Japanese customers in the past, its quality, cost, and delivery ("QCD") should be able to meet the Group's requirements; and as it leased a plant from the Group, the engagement can save transportation costs and reduce inventories.

For the year ended 31 December 2016, the engagement of Dongguan Guang Tong for SMT processing by the Group amounted to nil.

4. Lease of property by Dongguan Sintai Optical Co., ("Dongguan Sintai") to Dongguan Yorkey

On 25 March 2015, Dongguan Yorkey Optical Machinery Components Ltd., as tenant and Dongguan Sintai, as landlord, renewed the lease agreement pursuant to which Dongguan Sintai agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a maximum area of 20,719.13 square metres for production use and a maximum area of 4,653.38 square metres for dormitory use for a term commencing from 1 January 2016 to 31 December 2018. Monthly rental is calculated based on the actual space used by Dongguan Yorkey.

Dongguan Sintai is a wholly-owned subsidiary of Asia Optical International Ltd ("AOIL"), the substantial shareholder of the Company, and hence a connected person of the Company.

For the year ended 31 December 2016, the rental paid to Dongguan Sintai amounted to approximately US$1,133,000.

5. Engagement of Shenzhen Sintai Optical Co., Ltd. ("Shenzhen Sintai") for plating and surface treatment processing by Dongguan Yorkey

On 16 December 2015, Dongguan Yorkey and Shenzhen Sintai entered into a process plating agreement pursuant to which Dongguan Yorkey agreed to the engagement of Shenzhen Sintai for plating and surface treatment processing by Dongguan Yorkey. The term will last from 1 January 2016 until 31 December 2018.

Shenzhen Sintai is a wholly-owned subsidiary of AOIL, the substantial shareholder of the Company, and hence a connected person of the Company.

As the Group does not possess plating and surface treatment processing production line, and after considering that Shenzhen Sintai is located closely to the local district of the Group, the Group can save transportation costs and improve efficiency through the engagement of Shenzhen Sintai.

For the year ended 31 December 2016, the total amount of the engagement of Shenzhen Sintai for plating and surface treatment processing by the Group amounted to approximately US$3,533,000.

The independent non-executive Directors have reviewed the continuing connected transactions and in their opinion, these transactions were entered into by the Group:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the terms of the agreements governing such transactions 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 Group's continuing connected transactions 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 its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 27 to 30 of this annual report in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions and Continuing Connected Transactions

The related party transactions referred to in note 27 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Management Contracts

Except for the connected transactions as stated in this directors' report, 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.

Directors' Interest in Competing Business

As at 31 December 2016, none of the Directors or the controlling shareholders of the Company or any of their respective associates (as defined in the Listing Rules) has engaged in any business that competes or may compete with the business of the Group, or has any other conflicts of interests with the Group.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors and officers of the Group is currently in force and was in force throughout the financial year.

Throughout the year, the Company has taken out and maintained directors' and officers' liability insurance which provides appropriate cover for the Directors and officers of the Group.

In relation to the insurance coverage of the Company and its two then officers under the Directors' and Officers' Liability Policy, the Company received a letter issued by the relevant insurance company indicating that they will not provide any coverage to the 3 Specified Persons in relation to the MMT Proceeding due to incorrect information provided in the proposal form dated 19 February 2016. The Company does not accept the insurance company's position and is currently seeking legal advice on the matter.

In addition, the Company has on 16 March 2017 received a letter via e-mail in which two shareholders alleged that by reason of determination under the MMT Report that the Company is liable to make compensation for pecuniary loss to the shareholders as a result of the Company's breach of the disclosure requirement under Part XIVA of the SFO amounting to HK$388,855. The Company has already made notification of such claim to the insurance company. The insurance company has however indicated that since the Director's and Offices' Liability Policy has already been avoided due to the incorrect information contained in the proposal from dated 19 February 2016 that coverage under the said policy is also not available to the Company in respect of the notification of such claim. Again, the Company does not accept the insurance company's position and is currently seeking legal advice on this matter.

Emolument Policy

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

The emolument of the Directors are recommended by the Remuneration Committee and are decided by the Board, as authorised by shareholders at the annual general meeting.

Directors' Remuneration

The Director's fees, basic salaries and other allowances are disclosed in note 9 to the consolidated financial statements.

There were no compensation paid during the financial year or receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in the form of contributions to the China statutory public welfare fund.

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Purchase, Redemption or Sale of Listed Securities of The Company

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

Auditors

A resolution to re-appoint Deloitte Touche Tohmatsu as auditors of the Company will be submitted at the annual general meeting of the Company. There has been no changes in auditors for the preceding three years.

Litigations

On 5 April 2016, the Company was notified by the Securities and Futures Commission (the "SFC") that proceedings have been instituted in the Market Misconduct Tribunal (the "MMT") against:

(a) the Company for its failure to disclose inside information as soon as reasonably practicable after it came to its knowledge; and

(b) two then officers of the Company for their:

    (i) reckless or negligent conduct in failing to take any steps to ensure timely disclosure of the inside information to the investing public resulting in the breach by the Company of its disclosure requirement; and/or

    (ii) failure to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of the disclosure requirement by the Company.

On 16 January 2017, the Company and its then two officers (collectively referred to as the "3 Specified Persons") have together with their legal representatives attended the hearing of the MMT proceedings and the 3 Specified Persons have all upon legal advice admitted contravention of the requisite disclosure requirements under the Hong Kong Securities and Futures Ordinance (the "Ordinance"). Through their respective legal counsel, the 3 Specified Persons have all made their submissions in mitigation before the MMT and the hearing before the MMT was concluded on 17 January 2017.

The MMT handed down its report dated 27 February 2017 (the "MMT Report") and made the determination that (a) a breach of the disclosure requirement has taken place; and (b) the persons who are in breach of the disclosure requirement are the 3 Specified Persons.

Under the MMT Report, the MMT made consequential orders against each of the 3 Specified Persons ordering that each is to pay:

(a) the Hong Kong Government (the "Government") the sum the MMT considers appropriate for the costs and expenses reasonably incurred by the Government in relation or incidental to MMT proceedings (such costs and expenses to be taxed if not agreed) (the "Government's Costs"); and

(b) the SFC the sum the MMT considers appropriate for the costs and expenses reasonably incurred by the SFC whether in relation or incidental to MMT proceedings; any investigation carried out before the proceedings were instituted; or any investigation carried out for the purpose of the proceedings (such costs and expenses to be taxed if not agreed) (the "SFC's Costs").

As against the Company, the MMT also ordered that:

(i) a regulatory fine of HK$1 million be paid by the Company to the Government (the "Fine"); and

(ii) the Company do appoint an independent professional adviser approved by the SFC to review the Company's procedure for compliance with Part XIVA of the Ordinance or to advise the Company on matters relating to compliance with Part XIVA of the Ordinance.

Further details of the above are set out in the Company's announcements dated 7 April 2016, 18 January 2017 and 28 February 2017.

The Company is currently enquiring with the SFC in relation to effecting payment of the Fine and has asked the SFC to provide estimates as to the amounts of the Government's Costs and SFC's Costs for the purpose of seeking to agree such costs. At the date the consolidated financial statements were approved, the SFC has not provided the requested estimates nor has the MMT determined what are the appropriate sums the Company is required to pay by way of the Government's costs and the SFC's Costs.

The Company will make further announcement in compliance with the Listing Rules as well as the Inside Information Provisions under Part XIVA of the Ordinance as and when further developments should arise.

On behalf of the Board

LAI I-Jen
Chairman

21 March 2017

Corporate Governance Practices

The Group is committed to ensure high standards of corporate governance in the interest of its shareholders. The Directors also acknowledge that it is their responsibility for preparing the financial statements of the Group for the year ended 31 December 2016.

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices (the "Code") as stated in Appendix 14 to the Listing Rules. The Company has reviewed each code provision set out in the Code and confirmed that save for those indicated in this annual report, it has fully complied with the Code during the year.

According to the code provision stated in section F.1.1 of the Code, the company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. Where an issuer engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the issuer whom the external provider can contact.

However, as set out in the announcement published by the Company on 28 February 2017, a disqualified order has been made by the Market Misconduct Tribunal ("MMT") against Mr. Ng Chi Ching ("Mr. Ng") pursuant to which he must not, for the period of 15 months, without the leave of the Court of First Instance (1) be or continue to be a director, liquidator, or receiver or manager of the property or business, of a listed corporation, or (2) in any way, whether directly or indirectly, be concerned or take part in the management of a listed corporation. Hence, with effect from 28 February 2017, Mr. Ng ceased to be the financial controller and company secretary of the Company (for details, please refer to the announcement of the Company dated 28 February 2017).

Ms. Wong Tak Yee ("Ms. Wong") has been appointed as the company secretary of the Company with effect from 30 March 2017. For further details, please refer to the announcement dated 30 March 2017. The Company is now taking steps to identify appropriate candidate for the financial controller of the Company and will keep its shareholders and potential investors informed as and when appropriate.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry to all the Directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard as set out in the Model Code.

Board of Directors

For the year ended 31 December 2016, the Board comprised two executive Directors, namely, Mr. Lai I-Jen and Mr. Nagai Michio; two non-executive Directors, namely, Mr. Liao Kuo- Ming and Ms. Wu shu-Ping; and three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi. Mr. Lai I-Jen was the Chairman of the Company.

Change of Directors of the Company since 31 December 2016 and up to this date of this annual report are as follows:

On 28 February 2017, Mr. Nagai Michio ceased to be an executive director and chief executive officer of the Company.

On 10 March 2017, Mr. Kurihara Toshihiko was appointed as an executive director and chief executive officer of the Company.

The Board has four scheduled meetings a year and meet at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Board minutes are kept by the secretary of the Company and are sent to the Directors for records and are open for inspection by the directors. During the year ended 31 December 2016, seven board meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Lai I-Jen *(Chairman)*	7/7
Nagai Michio *(Chief Executive Officer) (ceased to be an executive director and the chief executive director since 28 February 2017)*	6/7
Liao Kuo-Ming	7/7
Wu Shu-Ping	7/7
Chiang Hsiang-Tsai	7/7
Chou Chih-Ming	7/7
Wang Yi-Chi	7/7

The Board is responsible for ensuring that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively whilst the chief executive officer and senior management are responsible for strategic planning of the Company's various business units and day-to-day management and operations.

Each executive director is delegated with individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The roles of the chairman of the Board and the chief executive officer are segregated and are not exercised by the same individual. The Company has received, from each independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent. The independent non-executive directors will provide independent opinion and share their knowledge and experience with the other members of the Board.

Each of the non-executive directors, namely, Mr. Liao Kuo-Ming and Ms. Wu Shu-Ping, is appointed for an initial term of one year commencing from 7 June 2013 and 20 December 2005, respectively, subject to re-election at forthcoming annual general meeting in accordance with the Articles of Association of the Company and the relevant letters of appointment.

The Board had conducted appropriate internal control procedures and reviewed risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Each proposed candidate of director of the Company is provided with presentation and training by the professional legal advisor of the Company prior to appointment to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and other applicable laws and regulations as director of a listed company in Hong Kong.

Training for Directors

The Company has arranged and provided suitable training, placing an appropriate emphasis on the roles, functions and duties of its Directors to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities under applicable laws, rules and regulations and the Listing Rules and the Group's various governance and internal control policies.

During the year, all the Directors attended or read the relevant seminars/information regarding the business operation of the Group, overall economic conditions and applicable orders and the Company provided information to directors from time to time to ensure that the directors continue to make contribution to the Board and comply with the requirements of Paragraph A.6.5 of the Code in a fully informed and relevant manner.

The Directors understand the importance of continuous professional development and are committed to participate in suitable training to develop their knowledge and skills.

Board Diversity Policy

For the purpose of maintaining a sustainable and balanced development, when determining the composition of the Board, the Company will consider board diversity with regard to factors including, but not limited to, gender, age, culture, race, educational background, expertise and experience, knowledge and skills, and any other factors that the Board considers relevant and appropriate to achieving board diversity. Appointments to the Board are made on merit principle, with consideration based on whether the strengths of such candidate complement other directors and expand the skills and experience of the Board as a whole.

Appointment, Re-election and Removal of Directors

The Company has established formal and transparent procedures for the appointment and succession planning of Directors.

Each of the Directors has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election at the next following annual general meeting upon retirement pursuant to relevant articles of the Articles of Association of the Company.

In accordance with the Company's Articles of Association adopted by the Company on 24 May 2012, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. At each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years and being eligible to offer themselves for re-election.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The nomination committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference as suggested under the code provisions under the Code. The remuneration committee comprises three members, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi, all of whom are independent non-executive directors. The chairman of the remuneration committee is Mr. Chiang Hsiang-Tsai. The remuneration committee will meet at least twice a year to determine the remuneration policy for Directors and senior management. During the year, two remuneration committee meetings were held and the attendance of each director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	2/2
Wang Yi-Chi	2/2

The Company has adopted the model of remuneration committee as described in code provision B.1.2(c)(ii) of the Code to make recommendations to the Board on the remuneration packages of directors and senior management.

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration package of the Directors and the senior management to ensure that the remuneration offered is appropriate for the duties and responsibilities assumed and in line with the general market practice.

The work performed by the remuneration committee during the year ended 31 December 2016 included determining the policy for the remuneration of executive directors, assessing performance of executive directors and approving the terms of executive directors' service contracts. Each member of the remuneration committee abstains from voting on any resolution concerning his/her own remuneration.

Remuneration of Directors

Details of the amount of Directors' emoluments are set out in note 9 to the consolidated financial statements.

Auditors' Remuneration

During the year ended 31 December 2016, the fees paid/payable to the auditor, in respect of audit services provided by the auditor, to the Group was approximately US$207,000 and other non-audit services particularly for interim results review and tax compliance which amounted to approximately US$77,000 and US$85,000, respectively, for the year under review.

Audit Committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the code provisions under the Code. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures coordination between internal and external auditors, assesses the independence and appropriateness of the external auditors, and monitors the compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedure approved by the Board. The audit committee performed the above duties during the year ended 31 December 2016.

The audit committee comprises three independent non-executive directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi. The chairman of the audit committee is Mr. Chiang Hsiang-Tsai.

During the year, two audit committee meetings were held and the attendance of each director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	2/2
Wang Yi-Chi	2/2

At the meetings, the audit committee has reviewed the interim results for the six months ended 30 June 2016 and the consolidated financial statements of the Group for the year ended 31 December 2015. The final results for the year ended 31 December 2016 were reviewed by the audit committee on 21 March 2017.

The directors acknowledged their responsibility for preparing the consolidated financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

Nomination Committee

The nomination committee was established on 16 March 2012 in accordance with the code provisions under the Code. Details of the duties and responsibilities of the nomination committee are set out in its terms of reference. The nomination committee is established primarily for the purpose of regularly reviewing the structure, size and composition of the Board, and making recommendations to the Board, on nominations and appointment of directors, and succession planning for directors.

The nomination committee comprises three independent non-executive directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi. The chairman of the nomination committee is Mr. Chiang Hsiang-Tsai.

During the year, one nomination committee meeting was held and the attendance of each director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai	1/1
Chou Chih-Ming	1/1
Wang Yi-Chi	1/1

The following is a summary of the work performed by the nomination committee during the year:

- reviewed the structure, size and composition of the Board and made recommendation to the Board on the directors who should retire and make themselves available for re-election and election at the annual general meeting of the Company held on 16 June 2016, pursuant to the Company's Articles of Association; and
- assessed the independence of all independent non-executive directors.

Corporate Governance Functions

The Board has delegated the responsibility to the audit committee to be responsible for performing the corporate governance duties and determining the relevant policies of the Company. Terms of reference of the audit committee adopted by the Board in compliance with the requirement under code provisions D.3.1 of the Code include the duties of the audit committee on corporate governance functions to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the directors and the senior management, to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct, guidelines and compliance manual applicable to employees and directors and to review the Group's compliance with the Code and disclosures in this Corporate Governance Report.

Risk Management and Internal Controls

Responsibilities of the Board

The Board acknowledges its responsibility to maintain sound and effective risk management and internal control systems of the Company on an ongoing basis in order to manage rather than eliminate risks of failure to achieve business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

During the year, the Board reviewed and assessed the effectiveness of risk management and internal control systems of the Group, which covered the major control procedures in the areas of financial, operational, compliance and risk management. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's control environment and processes. In respect of the year ended 31 December 2016, the Board was satisfied with the effectiveness and adequacy of the Group's risk management and internal control systems. No significant areas of concern were identified.

To ensure that the risk management process is consistent with best practice, the Group engaged an external consultant during the year to review the Group's existing practice, and their suggestions were incorporated into the Group's risk management framework subsequently.

The Board has reviewed and is satisfied with the adequacy of resources, qualifications, experiences and training requirements of staff responsible for the accounting, financial reporting and internal audit function.

The Risk Management Committee

The Risk Management Committee ("RMC"), reporting to the audit committee, was set up during the year and is responsible for strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

The activities of the RMC are to be reviewed at least twice a year by the audit committee which continuously assesses the risk management requirements as the Group develops. The internal control system is designed for the identification and management of risks that are significant to the fulfillment of the Group's business objectives. The audit committee reviews the findings and the opinion of the RMC on the effectiveness of the Group's risk management system and reports to the Board annually.

Risk Management Mechanism

The Group has enhanced its existing risk management process in order to formalise its risk management framework. Adopting both top-down and bottom-up approaches in relation to risk management, the Group's risk management framework comprises the following key elements:

1. Identify risks;

2. Analyse risks;

3. Evaluate risks;

4. Treat risks;

5. Monitor and review the performance of the risk management process and changes which might affect it; and

6. Communicate and consult with internal and external stakeholders.

Potential risks identified are evaluated using appropriate qualitative and quantitative techniques and risk responses (i.e. accept, reduce, transfer and avoid) formulated, which are consistent with the Group's risk appetite. Risks are assessed based on a risk assessment matrix that helps to rank the risks into 4 risk levels (e.g. Extremely High, High, Medium and Low) and to prioritise risk management effort to determine the appropriate risk mitigation plans.

Daily risk monitoring is performed by respective management/department heads of each business unit/department who have to confirm the effectiveness of the internal control and risk management on an annual basis.

Internal Audit Function

The Group's Internal Audit ("IA") department, reporting to the audit committee, assists on the improvement in risk management process and strengthens the risk management and internal control framework, in order to ensure the adequacy and effectiveness of the Group's risk management and internal control framework.

During the year, the IA played a major role in monitoring the internal governance of the Group. It conducted independent reviews of the adequacy and effectiveness of the Group's internal control system and reported the review results of the internal audit programme, significant control issues, and the overall adequacy of the control environment to the Board through the audit committee on a regular basis.

To ensure systematic coverage of all auditable areas and effective deployment of resources, an annual risk-based IA plan with reference to the risk assessment results has been formulated. This IA plan, which is to be prepared annually to reflect the major changes in the organisational structure, is submitted to the audit committee for approval.

Disclosure of Inside Information

The Group is fully aware of its obligation of handling and dissemination of inside information under the Listing Rules and the Securities and Futures Ordinance. The Group has established an inside information management policy for identifying, monitoring and reporting inside information to our shareholders, investors, analysts and media. The internal policy is updated whenever required and adopted accordingly to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure. The Group conducts its affairs in accordance with the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012.

Shareholders' Rights

Procedures for calling for an extraordinary general meeting and making recommendation

Pursuant to the Company's Articles of Association, any one or more members 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 to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for election as a Director

Pursuant to Article 88 of the Articles of Associations of the Company, no person other than a Director retiring at the annual general meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a written notice ("Notice") signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such Notice is given of his intention to propose such person for election. If a Shareholder wishes to propose a person other than a Director for election as a Director at a general meeting, the Shareholder shall lodge a Notice signed by himself and the person to be proposed shall sign and lodge a notice of his willingness to be elected at the principal place of business of the Company in Hong Kong or at the Hong Kong share registrar and transfer office of the Company provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Making Enquiries or Proposals to the Board

Shareholders who would like to make enquiries or proposals regarding the Company to the Board may send such enquiry or proposals via email to: ir@yorkey-optical.com.

During the year, an annual general meeting of the Company was held on 16 June 2016. The attendance of each director is shown below:

Name of director	Number of general meetings
Lai I-Jen	1/1
Nagai Michio (ceased to be an executive director and the chief executive director since 28 February 2017)	1/1
Liao Kuo-Ming	1/1
Wu Shu-Ping	1/1
Chiang Hsiang-Tsai	1/1
Chou Chih-Ming	1/1
Wang Yi-Chi	1/1

Investor Relations

The Company is committed to maintain a high level of transparency in communicating with its shareholders and the investment community at large. The Company provides information in relation to the Company and its business in its annual report which is to be dispatched to shareholders on a timely basis.

All the shareholders of the Company are to be given a 21 days' notice of the date and venue of the Company's annual general meeting where the shareholders will have an opportunity to communicate directly with the Board.

Company Secretary

For the year ended 31 December 2016, Mr. Ng Chi-Ching ("Mr. Ng"), was the company secretary and a full time employee of the Company. For the year ended 31 December 2016, Mr. Ng confirmed that he had complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

However, as set out in the announcement published by the Company on 28 February 2017, a disqualified order has been made by the MMT against Mr. Ng pursuant to which he must not, for the period of 15 months, without the leave of the Court of First Instance (1) be or continue to be a director, liquidator, or receiver or manager of the property or business, of a listed corporation, or (2) in any way, whether directly or indirectly, be concerned or take part in the management of a listed corporation. Hence, with effect from 28 February 2017, Mr. Ng ceased to be the financial controller and company secretary of the Company (for details, please refer to the announcement of the Company dated 28 February 2017).

Ms. Wong Tak Yee ("Ms. Wong"), a Director of Tricor Services Limited, an external service provider, has been appointed as the company secretary of the Company with effect from 30 March 2017. The primary contact person at the Company with Ms. Wong is Mr. Kurihara Toshihiko, executive director of the Company. For further details, please refer to the announcement dated 30 March 2017. Ms. Wong has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Directors' and Auditor's Responsibility for Accounts

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year, which give a true and fair view of the financial position of the Group on a going concern basis.

Statements of directors' responsibilities for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditor's Report in this annual report.

Constitutional Documents

During the year ended 31 December 2016, the Company has not made any changes to its Memorandum and Articles of Association.

Yorkey was established in December 1995. Throughout these years, the Group's business has progressively grown into a sizable manufacturer providing products for numerous well-known brands. Yet in order to continue the journey on this path of growing business, Yorkey realised that it is necessary to operate our business responsibly.

We understand a good management system helps organisations not only to comply with laws and regulations, it also helps to minimise negative impacts from the operations to the environment and society and continually drives improvement, therefore, we have achieved ISO 14001, OHSAS 18001 and ISO 9001 certification for our environmental, health and safety, and quality management system respectively.

Through this first-year ESG report, we would like to disclose information on the sustainability practices to stakeholders, and record ESG issues systematically as a reference for the continuous improvement in sustainability performance.

This ESG report was prepared according to Appendix 27 of the Rules Governing the Listing of Securities set by the Hong Kong Exchanges and Clearing Limited ("HKEx"), in which the Company has made reference to the General Disclosures (as defined therein). The Company may consider disclosing information regarding the Key Performance Indicators (as defined therein) as well in the future ESG reporting.

Reporting Scope

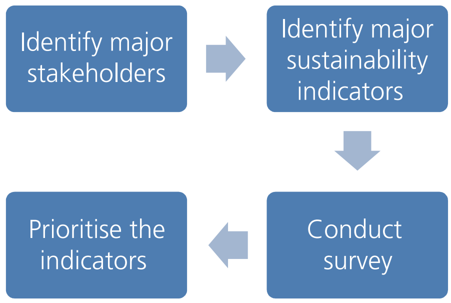
The information covered in the ESG report focuses on the subsidiary – Dongguan Yorkey Optical Machinery Components Ltd. It consists of a factory in Dongguan, which is the core operation of the Group.

Contact

For any comment of this ESG report, please feel free to contact us through email at ykesg@yorkey-optical.com.

Stakeholder Engagement and Materiality Assessment

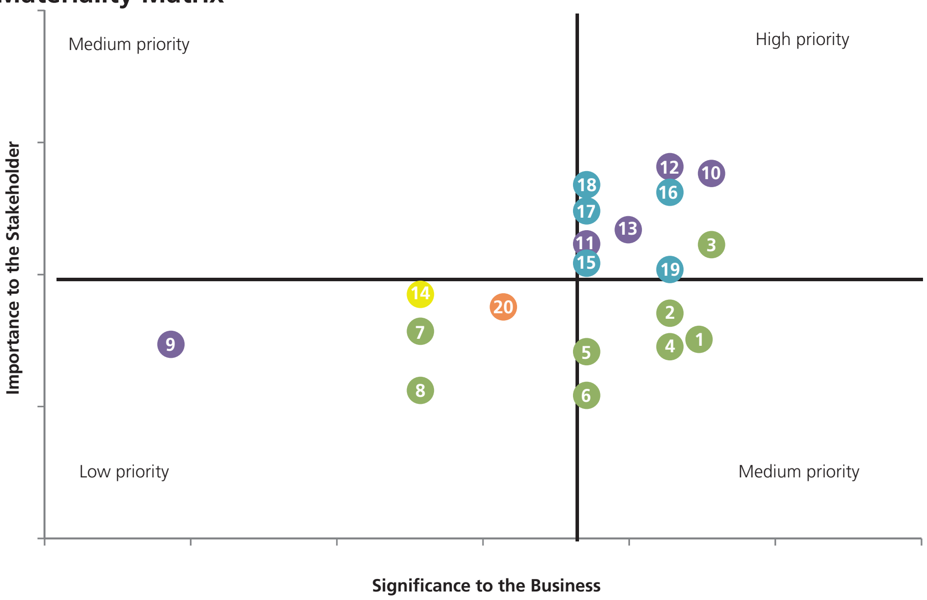
Yorkey values the opinions and views of our stakeholders. In order to understand stakeholders' view on ESG and identify which specific issues are the most influential topics to our operation from the stakeholder's perspectives, an online questionnaire was launched. The questionnaire included the major sustainability indicators (environmental, labour practices, supply chain, community, and product responsibility) and was sent to various stakeholders. Throughout the process, opinions were collected from multiple fields of stakeholders, including board of directors, employees and suppliers.



The questionnaire was live for around 2 months. The responses highlighted Yorkey's efforts in getting the ESG information across to our stakeholders. Among the responses we have received, majority of the respondents expressed awareness of the Group's overall ESG performance. Notably, with the increased discussion on global warming, as well as other social issues, a majority of our respondents believe that ESG performance will have an increasing impact on our Group's performance in the future. Many noted that a good ESG performance will not only help the Group reduce production cost and foster loyalty among employees, but it will also strengthen customers' confidence in our products, thus increasing the competitiveness of the Group.

The questionnaire also contains a set of rating questions that allows stakeholders to determine the importance and relativity of each sustainability indicators to our operations, from the collected results, a materiality graph that revealed the most concerned ESG topics to the Group was plotted. Issues that fall on the top right corner of the graph are considered relatively material.

Materiality Matrix



Environment	Employment	Operation
1 Air Emission 2 Greenhouse Gas Emission ***3 Hazardous Waste*** 4 Non-hazardous Waste 5 Energy Consumption 6 Water Consumption 7 Packaging Consumption 8 Impacts on Environment	9 Employment ***10 Occupational Health & Safety*** ***11 Employee Training*** ***12 Child Labour*** ***13 Forced Labour*** **Supplier Management** 14 Supply Chain Management	***15 Customer Health and Safety*** ***16 Customer Satisfaction*** ***17 Intellectual Property*** ***18 Customer Privacy*** ***19 Anti-corruption*** **Community** 20 Community Investment

10 most concerned ESG topics were identified and policies have been implemented to address these topics. With these opinions in mind, we will continue to strive for excellence in our ESG performance and aim to achieve more in the future. Details of our effort are presented in the later sections.

Sustainable Environment

As a manufacturer of optical and opto-electronic product related parts and components, we rely on resources exploited from the earth for the productions and therefore the importance of pursuing environmental sustainability in order to bring sustainable business development is well-understood.

To achieve environmental sustainability, an environmental management system certified with ISO14001 has been developed since 2005. In addition, the "Corporate Social Responsibility Management Standard" was established, in which the following environmental policies are incorporated to guide the business operation:

– Conduct third-party audit of the ISO14001 environmental management system annually to ensure the effectiveness of the systematic approach to manage environmental issues raised from the operations.

– Implement cleaner means of production to reduce the use of energy and resources, and emission of pollutants.

– Replace old equipment with energy efficient models to improve the efficiency of resources use.

Air Emission

We are dedicated to minimise the environmental impacts with best efforts. Air emission is inevitably generated during the manufacturing process; therefore we strive to control the air pollutant levels to meet the standards set by the Guangdong Province Government.

Emission Source and Air Pollutants

The major sources of air emission in the operation are identified at several stages during the manufacturing process in additional to oil fume emitted from staff kitchen. Particulates and Volatile Organic Compounds ("VOCs") are the major airborne pollutants from manufacturing processes, while oil fume is anticipated from the staff kitchen.

Mitigation and Monitoring

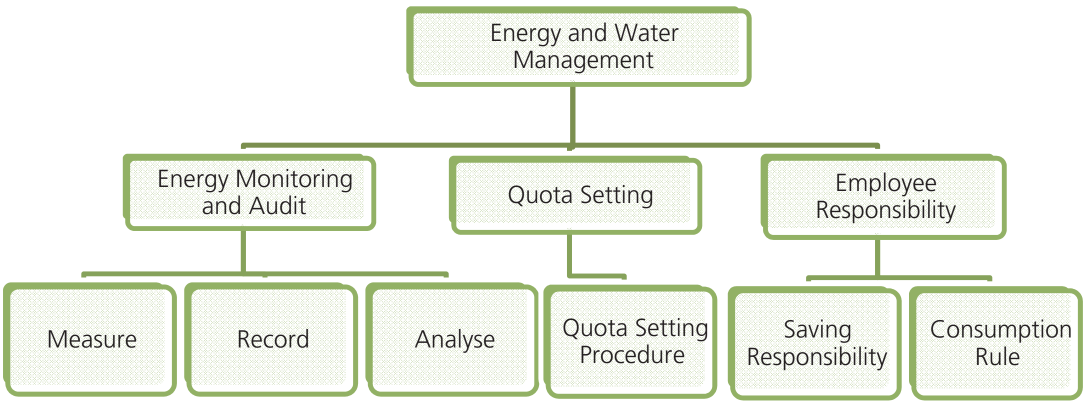
To cope with the relevant laws and regulations in relation to the emission restrictions imposed on pollutions due to air emission, chimneys with legally required heights were installed to ensure pollutants from the manufacturing processes are sufficiently diluted with air before reaching nearby residents; for the staff kitchen, oil mist separators were installed to minimise the oil fume emission, and natural gas is used for stoves.

In order to ensure the pollutant levels do not exceed the threshold level, air quality testing is conducted by certified third party at least annually, and there was no breach of the legal limits in 2016.

Energy, Water and Greenhouse Gas Emission

Energy and water uses are matters of great concern nowadays because energy comes dominantly from the combustion of fossil fuels which are facing dwindling supplies; while freshwater supply is also facing scarcity issue. Apart from the concern of shortage in future supplies, energy and water consumption lead to increase of greenhouse gas ("GHG") concentration in the atmosphere, resulting in global climate change. Yorkey is therefore focusing on minimising its environmental footprint, by conserving the use of energy and water during its manufacturing operation.

Energy, in terms of electricity and fuel, plays a crucial role in all the operations of machines and equipment; while water is also essential in the manufacturing process as well as in staff dormitory for domestic use. We have developed a management system based on the Chinese National Standard, GB/T 24001-1996 – "*Environmental Management Systems – Specification with Guidance for Use*", to guide the operational uses of energy and water. The system consists of six elements as categorized into three areas as illustrated below:



Energy Monitoring and Audit: Energy consumption of the factory is measured and regularly submitted to the government as required. The record is also essential to develop plans for improvement in energy efficiency and to adjust the management system appropriately to fit the condition of energy use.

Quota Setting: Quota is set on the consumptions of electricity, fuel and water to control the use of resources, which is also important to calculate and project the costs of products and operations. The limits are reviewed regularly to ensure that the product quality is not affected, as well as the effectiveness of such limits.

Employee Responsibility: We have set up rules with respect to the uses of energy and water in the factory and relevant training are given to all staff to nurture energy and water savings habits as part of developing employee responsibility. A reward-and-punishment program was also established to further encourage staff to use resources in a proper manner.

Sustainability Highlight - Department of the Year

The Stamping Department was rewarded for being the best-performed department on energy and water saving behaviours in 2016. The following summarized what the Department did over the year:

Energy saving performance

- According to the energy monitoring result, it achieved the top 3 for energy-saving performance

Lighting

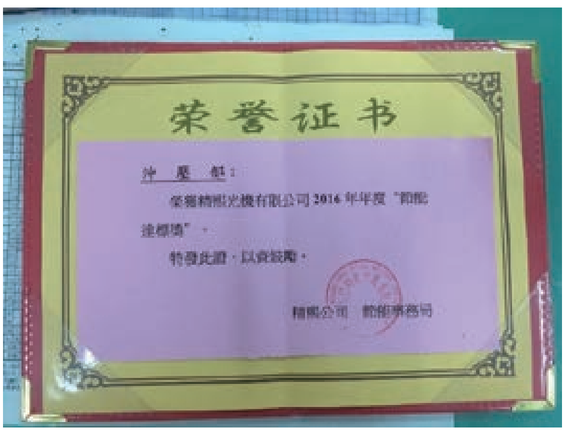
- Lights were turned off when the room was not occupied
- Computers were shut down if not in use

Equipment

- Management notice was stuck on equipments with >10KW energy consumption
- Equipment was turned off after use

Water

- Staff observed pipe leakage and immediately noticed technician to repair

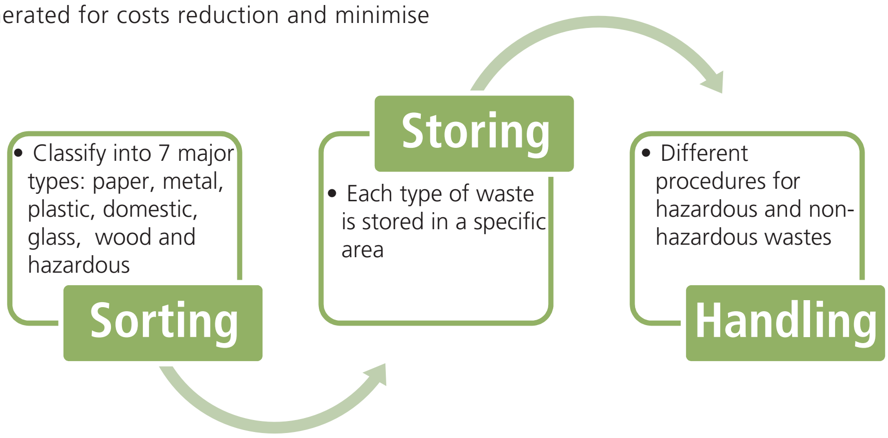


We look forward to seeing improvement in the uses of energy and water next year.

In 2016, we have replaced the lighting in our factory to LED lighting which is more energy efficient. The initiative has set a good demonstration of saving energy costs and reducing carbon emissions, Yorkey will therefore continue to evaluate the feasibility of implementing other saving measures to achieve carbon reduction.

Waste Management

To ensure compliance with relevant laws and regulations, as well as to reduce the amount of wastes generated for costs reduction and minimise the use of natural resources, a standardised procedure was set up for an effective waste management:



Non-Hazardous Waste

Non-hazardous wastes generated from the operation can be identified and divided into the following categories: carton, plastic, metals, wood, glass and general waste. To reduce the waste generation, the 3Rs (Reduce, Reuse & Recycle) is incorporated in the waste management procedure:

- Reduction at source: Reducing the generation of waste is the top priority in waste hierarchy. To do so, we have developed a practice to ensure an accurate amount of raw materials is purchased which minimise the surplus of raw materials.

- Material reuse: During the manufacturing process, raw materials are reused whenever possible. In addition, the cartons used for transporting products to customers are also reused.

- Recycle: We intend to recycle wastes to the greatest extent, wastes separated are sent to qualified recyclers.

In addition to solid wastes, a wastewater treatment plant was installed. Wastewater generated from manufacturing processes are recycled and sent back to the processes after treatment, reducing both freshwater demand and wastewater production.

Hazardous Waste

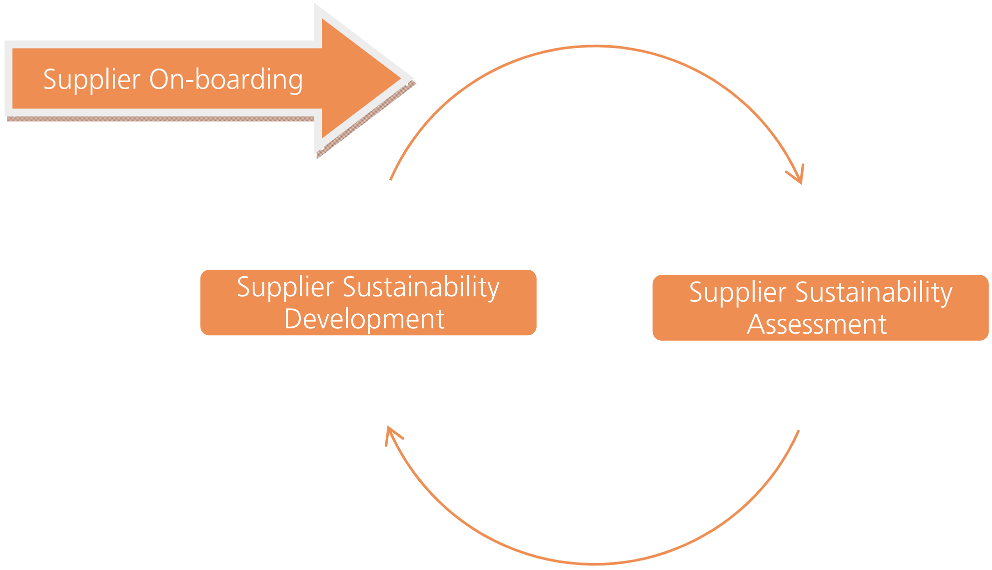
Hazardous wastes generated from the manufacturing process are also identified, such as coating and ink, organic solvent, mineral oil and items contaminated by any hazardous substances. Hazardous wastes require treatment different from non-hazardous waste; therefore a specific guidance is set up for collection, storage and transport of hazardous waste to ensure they are handled properly in accordance with the rules, laws and regulations in PRC. The wastes are collected periodically and handled by qualified waste collectors for disposal.

A thorough emergency plan is also set up for the hazardous wastes to cope with circumstances such as leakage, fire and explosion or other accidents. The plan provides timely and appropriate actions to minimise the environmental and human health impacts under such circumstances.

Sustainable Supplier Management

To extend sustainability across our supply chain, apart from assessing our suppliers' environmental and social practices, we believe that engaging suppliers in managing sustainability will bring mutual benefit for both parties.

It is our commitment to prioritise suppliers who performed better in sustainability, ensuring workers are treated fairly and for the purpose of protecting the environment. The supplier on-boarding process and assessment system have incorporated the consideration of the environmental and social aspects.



Supplier On-boarding Process

We have developed a supplier on-boarding process not only to meet the expectation of customers, but also to reduce the impact to the environment. The very first and critical step in our supplier management system is to ensure suppliers have the capability to provide the required raw materials or products that meet our quality and environmental requirements. After the screening process, potential suppliers are required to provide samples to confirm its quality and materials used to be able to meet our requirement. An assessment including the management of environmental, labour and health & safety will then be conducted before we approve them as qualified suppliers.

All qualified suppliers must comply with the sustainable procurement standard which the sourcing consideration is extended to the capability of the following sustainability topics:

Substance of Environmental Concern

We realise the risk that the presence of certain substances such as heavy metals in products can end up accumulating in the environment after disposal, which causes threats to the living organisms, as well as human health. It is therefore, the Group's commitment to prohibit the presence of such substances in the manufacturing process, and obligation to ensure any products from suppliers do not contain or exceed the limit for those substances.

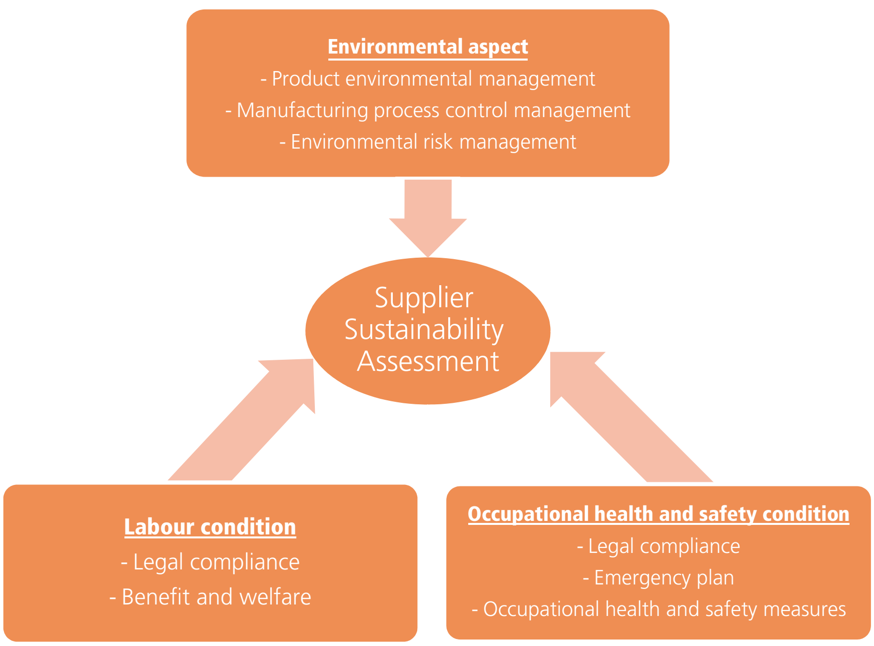
A List of Substance of Environmental Concern was compiled with reference to certain local legal standards and the Substance of Very High Concern ("SVHC") Candidate List under the Registration, Evaluation, Authorisation and Restriction of Chemicals regulation of European Union. Potential suppliers are required to submit a Non-use Guarantee Statement for Prohibited Substances and Inductive Coupled Plasma ("ICP") report tested by third party to ensure their products comply with our requirements.

Conflict Mineral

We are aware of the global issue of natural resources extracted in a conflict zone being sold to perpetuate the armed conflicts among countries and local armed force; therefore our Group is committed to avoiding using conflict minerals extracted from those conflict zones such as the Republic of the Congo and its adjacent countries. When necessary, conflict mineral investigation is conducted following the Electronic Industry Code of Conduct ("EICC")/Global e-Sustainability Initiative ("GeSI") Conflict Minerals Reporting standards on potential suppliers.

Supplier Sustainability Assessment and Development

The sustainability performance of qualified suppliers is assessed annually to ensure their performances meet our expectations and requirements with reference to the relevant laws, policies, rules and regulations. In addition to quality performance assessment, we have broadened the scope of the assessment to the environmental aspects, labour conditions and occupational health and safety conditions. Through this continuous assessment, we aim to enhance both the Group's and our suppliers' continuous development and sustainability practice.



A scoring methodology was developed to effectively rate suppliers' sustainability performance. After the assessment, each supplier is categorised into different grades. In cases where suppliers failed to meet the minimum requirement, a grace period is given to improve their sustainability practices or else, those suppliers will be disqualified.

Through regular assessment, suppliers can continuously strengthen their sustainability practice, and ultimately, to work collaboratively and share the same goal with us and achieve sustainability in business.

Sustainable Employment

Employees are the pillar of our business and are greatly contributed to the steady development of the Group. We value the contribution from employees and regard them as the key participants in sustainable development.

Labour Standard and Human Rights

We strictly follow all requirements of labour standard and human rights in national legislation and the EICC to provide all employees with their deserved protection.

Child and forced labour are prohibited in workplace. To prevent any violation of the relevant laws and regulations on prohibition of child and forced labour, ages and identities of candidates are verified thoroughly before joining us; the Group has also developed a set of internal guidelines and procedures in relation to the promotion, recruitment and dismissal of employees with reference to the applicable labour laws and regulations. In addition, suppliers are not allowed to violate against these labour standards.

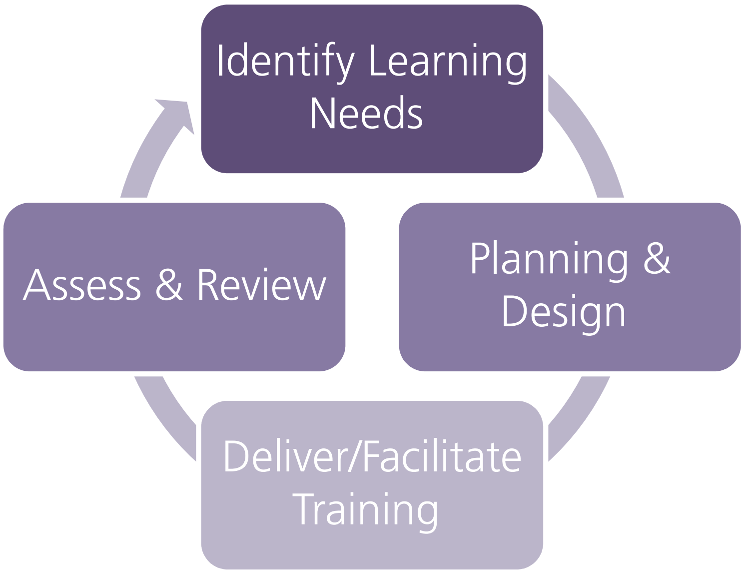
The remuneration package of our employees usually exceeds the legal requirements, for example, (i) working hour is set to be 40 hours per week with a maximum of 60 hours per week in case of any overtime work; (ii) at least one resting day is granted per week; and (iii) minimum salary is guaranteed and compensation is given for any overtime work. Apart from the statutory holidays and annual leaves, other paid leaves such as marriage leaves, nursing leaves and compassionate leaves are also granted for employees.

To create a fair and diverse workplace, any form of discrimination is prohibited and we are committed to providing equal opportunities in recruitment, workplace, promotion and welfare and benefits. For instance, recruitment criteria are based on the capability of candidates to the job position regardless of their sex, age, nation, disability and religion, except for the positions that are considered not suitable for female as stated in the legal regulations.

Development and Training

The development of workforce is a key component of our sustainability strategies. We aim to assist employees with their career development by providing training to ensure employees are well equipped with necessary knowledge for their work and continuous development.

An education and training management procedure was established. Annual review is conducted to assess whether the training program was well-designed and adequate for employees, for improvement in the future training programs.



Different types of training are provided to employees based on their positions and job nature, internal and external training are provided with a wide range of topics, such as sustainability topics including ISO standards, energy-saving, occupational health and safety, technical skills and Confucianism in management courses. It is our purpose to provide various courses to suit the employees' needs and interests and to further enhance their knowledge in these areas.

Professional qualification training

We held a number of training sessions and/or programmes for employees to acquire different professional qualifications. Those training programmes and/or sessions can be job-related such as maintenance electrician training courses, or non-job related such as nursery teacher training courses.

Workplace Wellness

Keeping employees mentally and physically healthy is good for both employees themselves and for the productivity and profitability of the Group.

We are devoted to democratic management – we value opinions from employees as they are crucial in continuously improving our management. To ensure internal communication channels are comprehensive, a labour union is established such that it now serves as a channel for employees to express their concerns on their needs, and annually, there is a meeting of the representative(s) of the union with the management to review the labour condition. The Group has also set up a bulletin board which is regularly updated to ensure transparency of the policies and operations of the Group to employees; and an opinion box is set to allow expression of opinions from employees.

Welfares of employees are also well taken care of. Staff dormitory next to the factory is rented out at a low rate to reduce employees' cost of living in accommodation and transportation. Various kinds of allowance and subsidy such as accommodation, medical and continuous education are also provided. In addition, as a way to promote hard-working and punctual behaviour in workplace, well-performed employees are awarded.

We understand striking a balance between work and leisure for a healthy lifestyle is equally important in the sustainable development of employees, thus, we hold and encourage employees to participate in various leisure activities to promote work life balance.

Participation of physical activities

To promote fitness of our employees, we actively encourage our employees to participate in different physical activities, including the Cheung on Town Mini Marathon and athletics competition organised by the Government. Through these activities, we would like to promote the importance of physical activities and improve the health conditions and lower the chance of attracting illness to our employees.

Sustainable Operation

We pledge to create a sustainable operation by incorporating the four core values – integrity, quality, safety and environment into our daily operation.

Product Responsibility

The Group's corporate mission is to pursue satisfactory product quality to customers while maintaining a sustainable business. A quality and environmental management system was developed in accordance with ISO9001, ISO13485, ISO/TS16949 and ISO14001, not only to ensure the products meet customers' expectations and related legal standards particularly on health and safety, but also to continuously improve performance.

The products of the Group have been well-recognized by our customers as our products have been able to meet the various standards and requirements in relation to (i) environmental protections; (ii) quality assurance and control; (iii) cost; and (iv) delivery time.

To prevent defective products, comprehensive inspections are performed at different stages of the product life-cycle, ranging from sourcing, manufacturing, and the packaging and delivery of end products. In addition to the product-related inspections, the effectiveness of various quality and environment management systems can significantly enhance the Group's product quality. As such, the Group has also carried out external audits on the management systems are also carried out.

We have also set up a standard procedure on how to handle complaints from customers and uplift the quality of our products and services. Timely investigations and responses to customers requests are provided in order to maintain customer satisfaction and prevent recurrence of similar incidents in the future.

Customers' opinion towards the satisfactory of products is the key indicator of the performance of the quality and environmental management systems. We place a high value on their opinions and conduct internal audit accordingly to identify areas for improvement so as to meet the Group's ultimate objective – "Gaining trust from customers with quality products."

Yorkey's Code of Conduct

As a responsible and ethical corporate, the Group believes that integrity is the foundation of enhancing a sustainable business; we therefore, aim to cultivate a corporate culture of integrity in dealing with its employees, suppliers and customers. The Group has implemented a code of conduct which emphasizes the importance of integrity when doing business. This code of conduct consists a set of business principles on privacy protection, anti-corruption, fairness and whistle blowing in the course of the Group's operation.

Privacy Protection

We are committed to protecting privacy and intellectual property information for our customers, suppliers and employees. All information is handled only by assigned employees and only with permission from the management of Group. Any leakage of such information to any other parties that are not involved is strongly prohibited.

Anti-corruption

Money and assets are used legally and properly for business purpose only. We prohibit any form of bribery, extortion, fraud and money laundering. Employees are required to obey the rules as set out according to such principle and not to damage the Group's interests and image.

Fairness in Operation

We comply with the legal requirements to ensure a fair operation and advertisement, and ensure that there is no disclosure of false or misleading information in our Group's advertisement, financial and non-financial records.

The Group ensures fair competition among potential suppliers as well as competitors; therefore we have implemented a standard procedure in the selection of suppliers, and ensure that no illegal means are used to compete with competitors.

Whistle-blowing

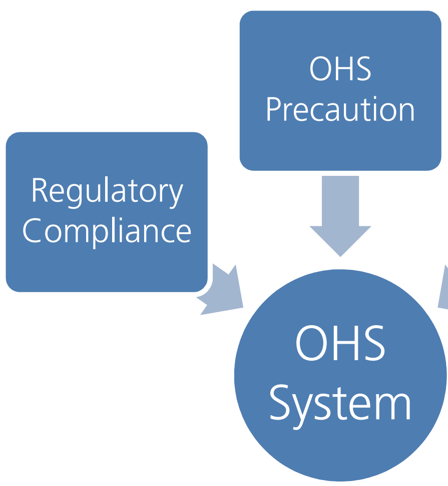
We encourage employees, suppliers or other personnel to report freely any violation of the Group's rules and business ethics. Whistle-blowing mechanisms are implemented and it is our Group's policy not to leak any personal information of the whistle-blower other than to the Group's internal responsible team.

Health, Safety and Environment

To manage the Health, Safety and Environment ("HSE") risks, we have developed HSE policy, and counteraction mechanisms were also set up for handling HSE incidents. To fulfil the duties and obligations on safety production and environmental protection, a Letter of Responsibility is signed with the Local Government every year to declare our commitments to fully comply with the related safety and environmental laws and regulations in our operation.

Occupational Health and Safety ("OHS")

We pay a close attention to OHS of employees and puts zero accident as the ultimate goal, therefore safety and precaution are always taken into account in the decision-making process.



Under the certified OHS Management System (OHSAS18001) system, we are committed to complying with OHS laws, regulations and industry standards. To prevent accidents from happening, OHS hazards and risks in the workplace are identified. Precautional approaches, including safety operational procedures and maintenance of equipment, employee training and personal protective equipment, regular inspections on the manufacturing process and conditions of machinery and facilities, were developed. For dangerous activities such as lifting operations, hot work (welding and cutting, etc.), confined space work and special electrical equipment, full supervision is needed.

A workplace occupational hazard inspection is regularly conducted by external certified parties. The inspection scope includes the effectiveness of precaution measures against OHS hazards, Indoor Air Quality ("IAQ"), noise and heat index to ensure the measures are adequate and, the levels of OHS parameters are below the limits set by the Government. For this year, no significant issue was identified.

Regular health checks are also provided to employees who are subject to high OHS risks to ensure they are in good health condition.

If any accident happens, the accident would be recorded and assessed thoroughly in order to improve the OHS condition in workplace and to prevent the reoccurrence of any similar case in the future. We also ensure our workers are well-compensated and assisted for their treatments and livelihoods.

Environment

During the manufacturing process, pollution and nuisance to the environment and neighbours can potentially occur due to air emission, noise, waste or accidental discharge; therefore these risks are well-identified and managed through compliance with the minimum legal requirements under the HSE system.

Awareness Training

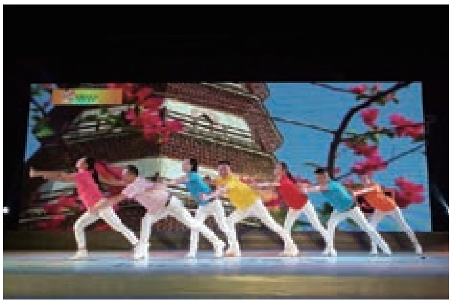
Training is important for employees to understand the HSE risks in the workplace. We therefore provide compulsory OHSAS18001 and ISO14001 training for all new employees. In order to ensure employees are well equipped with HSE knowledge for their work, other training including safety training for special operation workers and post-accident, injury and environmental pollution incident training are provided.

Incentive Program

To encourage employees to fulfil our HSE policy and minimise the possibility of the occurrence of any work injury, various incentive programs were developed. Assessments on the HSE performance of each department are conducted monthly, and rewards or punishments will be given to relevant department based on the performance.

Sustainable Community

We endeavour to practice good corporate citizenship, and aim to support and cooperate with the community. We have joined the local Enterprise Investment Association to support poor students and help them to pursue their dreams, as well as regularly participating and performing in the cultural evening variety show organised by the Government.



To enrich the culture life and improve the comprehensive quality, we established a library with around 2,000 books where our staff and the general public are welcome to learn and enjoy a leisurely reading time in the library.

We have also established a volunteer team encouraging employees to participate in voluntary charitable activities, including the annual tree planting day in Dalingshan Forest Park, and blood donation in Yorkey.

HKEx ESG Reporting Guide Index

HKEx ESG Reporting Guide General Disclosures		Policy/Procedure	Remarks
A. Environment			
A1 Emission	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.	Social Responsibility Management Standard Waste Management Procedure Hazardous Waste Management	SUSTAINABLE ENVIRONMENT – Air Emission SUSTAINABLE ENVIRONMENT – Waste Management
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Energy Management Procedure	SUSTAINABLE ENVIRONMENT – Energy, Water and Greenhouse Gas Emission
A3 The Environment and Natural Resources	Policies on minimising the operation's significant impact on the environment and natural resources.	Green Procurement Standard	SUSTAINABLE ENVIRONMENT
B. Social			
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Human Resource Management Procedure Recruitment Management Procedure Salary Management Procedure	SUSTAINABLE EMPLOYMENT – Labour Standard and Human Rights
B2 Health and Safety	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	Environment, Health and Safety Management Policy Work Injury Management Standard	SUSTAINABLE EMPLOYMENT – Workplace Wellness SUSTAINABLE OPERATION – Health, Safety and Environment

HKEx ESG Reporting Guide General Disclosures		Policy/Procedure	Remarks
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Training refers to vocational training. It may include internal and external courses paid by the employer.	Education and Training Management Procedure	SUSTAINABLE EMPLOYMENT – Development and Training
B4 Labour Standard	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.	Labour and Ethics Management Policy Child Labour Policy	SUSTAINABLE EMPLOYMENT – Labour Standard and Human Rights
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	Supplier Management Procedure	SUSTAINABLE SUPPLIER MANAGEMENT
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Customer Privacy and Property Management Standard Customer Complaint Management Standard Quality and Environment Policy	SUSTAINABLE OPERATION – Product Responsibility SUSTAINABLE OPERATION – Yorkey's Code of Conduct
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.	Corporate Code of Conduct	SUSTAINABLE OPERATION – Yorkey's Code of Conduct
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	Social Responsibility Management Standard	SUSTAINABLE COMMUNITY

Deloitte. 德勤

TO THE SHAREHOLDERS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 64 to 113, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2016, 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 Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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"), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Accuracy of share of results of an associate and disclosure of interest in an associate/obligation related to interest in an associate	
We identified accuracy of share of results of an associate and disclosure of interest in an associate/obligation related to interest in an associate as a key audit matter due to the significance of the Group's associate. The Group contributed 49% of the registered capital of the associate and the Group has to continue recognising its share of further losses to the extent that the Group has contractual obligation to make payment to the associate in accordance with the provisions of the agreement entered into in 2011 when the associate was set up (the "Agreement"). As shown in the consolidated statement of profit or loss and other comprehensive income, the Group's share of loss of an associate for the year ended 31 December 2016 amounted to US$3,501,000, and as shown in the consolidated statement of financial position, the Group's obligation related to interest in an associate as at 31 December 2016 amounted to US$2,719,000. Summarised financial information about the associate is disclosed in note 16 to the consolidated financial statements. The Group shares the results of an associate using the equity method of accounting based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS financial statements") which have not been prepared on a going concern basis, but taken into consideration of the intention of both shareholders of the associate to take up certain assets of the associate at an agreed price to set off loan, if any, advanced to the associate.	Our procedures in relation to accuracy of share of results of an associate and disclosure of interest in an associate/obligation related to interest in an associate included: • Understanding the process of how the HKFRS financial statements were prepared; • Understanding the circumstances underlying the associate and information about the associate leading to the HKFRS financial statements not being prepared on a going concern basis; • Understanding the basis of how the measurement of the associate's assets and liabilities in the HKFRS financial statements is determined; • Working with local independent component auditor to evaluate and assess the appropriateness of the HKFRS financial statements including the measurement of the associate's assets and liabilities; • Examining the Agreement for the Group's contractual obligation to make payment to the associate; • Recalculating the amount of the Group's share of the associate's loss and other comprehensive expense for the current year; and • Assessing whether the summarised financial information about the associate disclosed in the consolidated financial statements is properly extracted from the HKFRS financial statements.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company 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 disclosure requirements of 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, we exercise professional judgment and maintain professional skepticism 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.

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is Yen Sau Yin, Emily.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Revenue	*7*	**73,491**	77,553
Cost of goods sold		**(52,058)**	(56,847)
Gross profit		**21,433**	20,706
Other income and gains		**3,221**	2,882
Distribution costs		**(1,531)**	(1,207)
Administrative expenses		**(11,732)**	(12,462)
Research and development expenses		**(1,741)**	(1,718)
Loss on disposal of available-for-sale investments		**–**	(216)
Share of results of an associate		**(3,501)**	(2,959)
Profit before taxation	*8*	**6,149**	5,026
Taxation	*10*	**(1,481)**	(993)
Profit for the year		**4,668**	4,033
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
– exchange differences arising from translation of financial statements of foreign operations		**(2,443)**	(2,858)
– reclassification adjustment relating to disposal of available-for-sale investments		**–**	45
Other comprehensive expense for the year		**(2,443)**	(2,813)
Total comprehensive income for the year		**2,225**	1,220
Earnings per share			
– Basic	*12*	**US0.57 cents**	US0.49 cents

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Non-current assets			
Investment properties	13	6,236	126
Property, plant and equipment	14	9,249	12,548
Prepaid lease payments	15	206	227
Interest in an associate	16	–	848
Deposits paid for acquisition of property, plant and equipment		303	191
		15,994	13,940
Current assets			
Inventories	17	4,407	4,596
Trade and other receivables	18	17,259	12,945
Amounts due from related companies	19	21	15
Bank balances and cash	20	109,020	123,812
		130,707	141,368
Current liabilities			
Trade and other payables	21	21,726	18,298
Obligation related to interest in an associate	16	2,719	–
Taxation payable		3,403	2,372
		27,848	20,670
Net current assets		102,859	120,698
Total assets less current liabilities		118,853	134,638
Capital and reserves			
Share capital	22	1,058	1,058
Reserves		117,795	133,580
Total equity		118,853	134,638

The consolidated financial statements on pages 64 to 113 were approved and authorised for issue by the Board of Directors on 21 March 2017 and are signed on its behalf by:

LAI I-JEN	**KURIHARA TOSHIHIKO**
CHAIRMAN	*EXECUTIVE DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital US$'000	Share premium US$'000	Special reserve US$'000	Translation reserve US$'000	Statutory surplus reserve fund US$'000	Investment revaluation reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2015	1,066	63,800	19,350	8,521	2,585	(45)	50,132	145,409
Other comprehensive (expense) income for the year	–	–	–	(2,858)	–	45	–	(2,813)
Profit for the year	–	–	–	–	–	–	4,033	4,033
Total comprehensive (expense) income for the year	–	–	–	(2,858)	–	45	4,033	1,220
Transfers	–	–	–	–	218	–	(218)	–
Dividend recognised as distribution (Note 11)	–	–	–	–	–	–	(11,165)	(11,165)
Treasury shares purchased (Note 22)	(8)	(818)	–	–	–	–	–	(826)
At 31 December 2015	1,058	62,982	19,350	5,663	2,803	–	42,782	134,638
Other comprehensive expense for the year	–	–	–	(2,443)	–	–	–	(2,443)
Profit for the year	–	–	–	–	–	–	4,668	4,668
Total comprehensive (expense) income for the year	–	–	–	(2,443)	–	–	4,668	2,225
Transfers	–	–	–	–	345	–	(345)	–
Dividend recognised as distribution (Note 11)	–	–	–	–	–	–	(18,010)	(18,010)
At 31 December 2016	1,058	62,982	19,350	3,220	3,148	–	29,095	118,853

The special reserve represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital of the subsidiaries acquired pursuant to the group reorganisation in 2005.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiary of the Company is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is allocated based on 10% of the profit after taxation of the statutory financial statements of the PRC subsidiary. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve fund can be used by the PRC subsidiary to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
Operating activities		
Profit before taxation	**6,149**	5,026
Adjustments for:		
Interest income	**(797)**	(894)
Depreciation on investment properties	**120**	107
Depreciation on property, plant and equipment	**3,180**	3,751
Loss on disposal of property, plant and equipment	**33**	111
Amortisation of land use rights	**6**	6
Allowance for obsolete inventories	**86**	176
Allowance (reversal of allowance) for bad and doubtful debts	**6**	(133)
Loss on disposal of available-for-sale investments	**–**	216
Share of results of an associate	**3,501**	2,959
Operating cash flows before movements in working capital	**12,284**	11,325
Increase in inventories	**(195)**	(409)
(Increase) decrease in trade and other receivables	**(6,075)**	2,619
Decrease in amount due from an associate	**–**	1,053
(Increase) decrease in amounts due from related companies	**(7)**	9
Increase (decrease) in trade and other payables	**4,524**	(1,004)
Cash from operations	**10,531**	13,593
PRC income tax paid	**(348)**	(68)
Net cash from operating activities	**10,183**	13,525
Investing activities		
Interest received	**797**	894
Purchase of investment properties	**(6,233)**	–
Purchase of property, plant and equipment	**(417)**	(433)
Deposits paid for acquisition of property, plant and equipment	**(317)**	(180)
Proceeds from disposal of available-for-sale investments	**–**	784
Net cash (used in) from investing activities	**(6,170)**	1,065
Cash used in financing activities		
Dividends paid	**(18,010)**	(11,165)
Shares repurchased	**–**	(826)
Net cash used in financing activities	**(18,010)**	(11,991)
Net (decrease) increase in cash and cash equivalents	**(13,997)**	2,599
Cash and cash equivalents at 1 January	**123,812**	122,568
Effect of foreign exchange rate changes	**(795)**	(1,355)
Cash and cash equivalents at 31 December	**109,020**	123,812
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	**109,020**	123,812

1. GENERAL

The Company is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 29. A major shareholder of the Company is Asia Optical Co., Inc. which holds approximately 27.6% of the issued shares of the Company as at 31 December 2016. In the opinion of the directors, Asia Optical Co., Inc. is the ultimate holding company of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in United States dollars ("US$"), which is the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 9 "Financial instruments" (continued)

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 9 "Financial instruments" (continued)

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the adoption of HKFRS 9 in the future will have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 15 "Revenue from contracts with customers" (continued)

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related Interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 "Leases" (continued)

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of US$2,246,000 as disclosed in note 24. The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However it is not practicable to provide a reasonable estimate of the financial effect until the Group performs a detailed review.

Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"

The amendments to HKFRS 10 "Consolidated financial statements" and HKAS 28 "Investments in associates and joint ventures" deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of the other new and revised HKFRSs will have a material impact on the results and financial positions of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments that are measured at fair values at the end of the reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 "Financial instruments: Recognition and measurement" are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognised on a straight-line basis over the period of the respective leases.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

For leasehold land and buildings in Hong Kong, where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and buildings, the cost of leasehold land and buildings is depreciated over the lease term of 50 years, using the straight-line method.

The cost of buildings in the PRC is depreciated over 20 years, using the straight-line method.

The cost of leasehold improvements is depreciated on a straight-line basis over the period of the respective leases or 5 years, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is recognised so as to write off the cost of other items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amounts due from related companies and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of the reporting period. Changes in the carrying amount of available-for-sale financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities (including trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to defined contribution retirement benefits plans or state-managed retirement benefits schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of equity instruments expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the grant date, the fair value of the share options granted is recognised immediately in profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade receivables is US$16,683,000 (net of allowance for doubtful debts of US$244,000) (2015: carrying amount of US$12,376,000, net of allowance for doubtful debts of US$238,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its owners.

The capital structure of the Group consists primarily of equity attributable to owners of the Company, comprising issued share capital and reserves, including retained profits.

At the end of the reporting period, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs of the Company. The Group's overall strategy remains unchanged from the prior year.

6. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade receivables, amounts due from related companies, bank balances and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2016 **US$'000**	2015 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**125,724**	136,203
Financial liabilities		
Amortised cost	**14,668**	12,254

6. FINANCIAL INSTRUMENTS (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful debts estimated by the Group's management based on prior experience and their assessment of the current economic environment. In order to minimise the credit risk, the management of the Group continuously monitors to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has concentration of credit risk as 18% (2015: 13%) and 61% (2015: 44%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk by geographical location as 45% (2015: 49%) and 41% (2015: 43%) of the total trade receivables are due from customers located in Japan and the PRC, respectively.

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group has certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 14% (2015: 16%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale whilst all costs are denominated in the group entities' functional currency. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are disclosed in respective notes. Although the Group currently does not use any derivative contracts to hedge against its exposure to currency risk, the Group actively utilises natural hedge technique, such as managing the currencies used in transactions, to manage its foreign currency exposures. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group is mainly exposed to currency of Hong Kong dollars and Japanese Yen. The following table details the Group's sensitivity to a 10% increase and decrease in United States dollars against Japanese Yen. Since Hong Kong dollars is pegged to United States dollars, the management considers that the exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant and therefore has not been included in the sensitivity analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes trade and other receivables, trade and other payables and bank balances. The number below indicates an increase in profit for the year where United States dollars strengthens against Japanese Yen. If United States dollars weakens against Japanese Yen, there would be an equal and opposite impact on the profit.

	2016 **US$'000**	2015 US$'000
Japanese Yen	**46**	50

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable-rate interest bearing financial assets, mainly bank balances at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2015: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would increase/decrease by US$545,000 (2015: increase/decrease by US$619,000).

6. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities at the end of the reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows only as the financial liabilities are non interest-bearing.

	Repayable on demand or less than 3 months US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
At 31 December 2016			
Financial liabilities			
Trade and other payables	**14,668**	**14,668**	**14,668**
At 31 December 2015			
Financial liabilities			
Trade and other payables	12,254	12,254	12,254

7. REVENUE AND OPERATING SEGMENT

Revenue

Revenue represents the fair value of the consideration received or receivable for goods sold by the Group to outside customers during the year.

Operating segment

The chief executive officer, being the chief operating decision maker of the Group, regularly reviews revenue analysis of the components of optical and opto-electronic products and considers them as one single operating segment on an aggregate basis. Other than revenue analysis, no operating results and other discrete financial information are available for the assessment of performance of the respective business divisions. For these reasons, no separate segment information is presented.

The chief executive officer reviews the profit for the year of the Group as a whole to make decisions about performance assessment and resource allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly, no separate segment information is prepared.

Other segment information

Geographical information

The Group's operations are located in the PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	US$'000	US$'000	**US$'000**	US$'000
Japan	**40,294**	38,784	**–**	–
PRC	**25,640**	33,492	**15,994**	13,092
Others	**7,557**	5,277	**–**	–
	73,491	77,553	**15,994**	13,092

7. REVENUE AND OPERATING SEGMENT (continued)

Other segment information (continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016 US$'000	2015 US$'000
Customer A	8,992	10,523
Customer B	8,916	N/A*
Customer C	8,158	10,810

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2016 US$'000	2015 US$'000
Components of optical and opto-electronic products		
– cameras, action cameras and copiers	57,839	59,584
– others	15,652	17,969
	73,491	77,553

8. PROFIT BEFORE TAXATION

	2016 US$'000	2015 US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments *(note 9)*	**257**	246
Staff's retirement benefits scheme contributions	**1,764**	2,002
Other staff costs	**19,599**	21,512
	21,620	23,760
Less: Staff costs included in research and development expenses	**(494)**	(523)
	21,126	23,237
Depreciation on property, plant and equipment	**3,180**	3,751
Less: Depreciation included in research and development expenses	**(53)**	(71)
	3,127	3,680
Allowance for obsolete inventories included in cost of goods sold	**86**	176
Allowance (reversal of allowance) for bad and doubtful debts	**6**	(133)
Amortisation of land use rights	**6**	6
Auditor's remuneration	**284**	276
Cost of inventories recognised as expense	**52,058**	56,847
Depreciation on investment properties	**120**	107
Loss on disposal of available-for-sale investments	**–**	216
Loss on disposal of property, plant and equipment	**33**	111
Operating lease rentals in respect of		
– motor vehicles	**194**	219
– rented premises	**1,077**	1,319
and after crediting:		
Exchange gain, net	**2,116**	1,555
Interest income (included in other income and gains)	**797**	894
Property rental income before deduction of negligible outgoings	**290**	244

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors and the Chief Executive are as follows:

	2016 Fees US$'000	2016 Salaries and other benefits US$'000	2016 Total US$'000	2015 Fees US$'000	2015 Salaries and other benefits US$'000	2015 Total US$'000
Executive directors						
Mr. Lai I-Jen	15	–	15	15	–	15
Mr. Nagai Michio *(note)*	15	152	167	15	141	156
Non-executive directors						
Mr. Liao Kuo-Ming	15	–	15	15	–	15
Ms. Wu Shu-Ping	15	–	15	15	–	15
Independent non-executive directors						
Mr. Chiang Hsiang-Tsai	15	–	15	15	–	15
Mr. Chou Chih-Ming	15	–	15	15	–	15
Mr. Wang Yi-Chi	15	–	15	15	–	15
	105	152	257	105	141	246

Note: Mr. Nagai Michio acts as the Chief Executive of the Company. The remuneration of Mr. Nagai Michio as the Chief Executive of the Company was JPY12,000,000 and HK$325,983 (approximately equivalent to US$152,000 in total) (2015: JPY12,000,000 and HK$325,634 (approximately equivalent to US$141,000 in total)) for the year ended 31 December 2016.

Mr. Nagai Michio ceased to be an executive director and the Chief Executive of the Company with effect from 28 February 2017.

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

The five highest paid individuals of the Group included one (2015: one) director, whose emoluments are disclosed above. The emoluments of the remaining four (2015: four) individuals in the Group were as follows:

	2016 US$'000	2015 US$'000
Employees		
– basic salaries and allowances	246	176
– performance related bonus	70	–
– retirement benefits scheme contributions	2	4
	318	180

There is no performance related incentive payment to the four (2015: four) highest paid individuals during the year. The emoluments of each of these highest paid individuals is less than HK$1,000,000 (equivalent to US$129,000).

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. TAXATION

	2016 US$'000	2015 US$'000
The tax (charge) credit comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	**(1,416)**	(995)
(Under)overprovision in prior years	**(65)**	2
	(1,481)	(993)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's profit neither arises in nor is derived from Hong Kong during both years.

Tax charge for the year is reconciled to profit before taxation as follows:

	2016 US$'000	2015 US$'000
Profit before taxation	**6,149**	5,026
Tax at the applicable income tax rate of 25% (2015: 25%)	**(1,537)**	(1,257)
Tax effect of share of results of an associate	**(875)**	(740)
Tax effect of expenses not deductible for tax purposes	**(555)**	(425)
Tax effect of income not taxable for tax purposes	**200**	50
Tax effect of different tax rates applied to certain subsidiaries regarded as foreign enterprises in the PRC	**1,351**	1,377
(Under)overprovision in prior years	**(65)**	2
Tax charge for the year	**(1,481)**	(993)

11. DIVIDENDS

	2016 US$'000	2015 US$'000
Dividends recognised as distribution during the year		
– Interim dividend for 2016 of HK3.5 cents (equivalent to US0.451 cents) (2015: HK3.5 cents; equivalent to US0.451 cents) per share	**3,708**	3,722
– Final dividend for 2015 of HK3.5 cents (equivalent to US0.451 cents) per share (2015: final dividend for 2014 of HK3.5 cents; equivalent to US0.451 cents per share)	**3,708**	3,735
– Special dividend for 2015 of HK10 cents (equivalent to US1.29 cents) (2015: special dividend for 2014 of HK3.5 cents; equivalent to US0.451 cents) per share	**10,594**	3,735
Cancellation upon repurchase of shares	**–**	(27)
	18,010	11,165
Dividends proposed		
– Final dividend for 2016 of HK3.5 cents (equivalent to US0.451 cents) (2015: final dividend for 2015 of HK3.5 cents; equivalents to US0.451 cents) per share	**3,708**	3,708
– Special dividend for 2016 of HK10 cents (equivalent to US1.29 cents) (2015: special dividend for 2015 of HK10 cents; equivalent to US1.29 cents) per share	**10,594**	10,594
	14,302	14,302

A final dividend of HK3.5 cents (2015: HK3.5 cents) per share and a special dividend of HK10 cents (2015: HK10 cents) per share have been proposed by the directors for the year and are subject to approval by the shareholders in the forthcoming annual general meeting. They are calculated on the basis of 821,102,000 shares (2015: 821,102,000 shares) in issue at the date of issuance of these consolidated financial statements.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to owners of the Company of US$4,668,000 (2015: US$4,033,000) and on 821,102,000 shares (2015: weighted average number of 823,703,907 shares) in issue during the year.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares during both years.

13. INVESTMENT PROPERTIES

	2016 US$'000	2015 US$'000
COST		
At 1 January	1,637	1,710
Currency realignment	(101)	(73)
Addition	6,233	–
At 31 December	7,769	1,637
DEPRECIATION		
At 1 January	1,511	1,471
Currency realignment	(98)	(67)
Provided for the year	120	107
At 31 December	1,533	1,511
CARRYING VALUE		
At 31 December	6,236	126

The carrying amount of the Group's investment properties comprises:

	2016 US$'000	2015 US$'000
Leasehold land and buildings in Hong Kong	6,222	46
Buildings in the PRC	14	80
	6,236	126

The fair value of the Group's investment properties, including leasehold land portion, at the end of the reporting period was US$8,061,000 (2015: US$1,697,000). The fair value has been arrived at based on a valuation at the end of the reporting period, determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was carried out with reference to recent market prices for similar properties in similar locations and conditions. There has been no change from the valuation techniques used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All the Group's investment properties are held for rental purposes under operating leases.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Furniture, fixtures and equipment US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Plant and machinery US$'000	Total US$'000
At 1 January 2015	6,779	12,746	3,211	400	58,883	82,019
Currency realignment	(293)	(544)	(152)	(18)	(2,614)	(3,621)
Additions	–	152	283	–	257	692
Disposals	–	(704)	–	–	(200)	(904)
At 31 December 2015	6,486	11,650	3,342	382	56,326	78,186
Currency realignment	(408)	(753)	(216)	(18)	(3,662)	(5,057)
Additions	–	186	–	21	401	608
Disposals	–	(44)	(10)	(178)	(78)	(310)
At 31 December 2016	**6,078**	**11,039**	**3,116**	**207**	**52,987**	**73,427**
DEPRECIATION						
At 1 January 2015	4,594	11,656	2,672	400	46,363	65,685
Currency realignment	(209)	(507)	(125)	(18)	(2,146)	(3,005)
Provided for the year	320	426	188	–	2,817	3,751
Eliminated on disposals	–	(633)	–	–	(160)	(793)
At 31 December 2015	4,705	10,942	2,735	382	46,874	65,638
Currency realignment	(313)	(713)	(186)	(18)	(3,133)	(4,363)
Provided for the year	258	291	219	1	2,411	3,180
Eliminated on disposals	–	(40)	(9)	(160)	(68)	(277)
At 31 December 2016	**4,650**	**10,480**	**2,759**	**205**	**46,084**	**64,178**
CARRYING VALUES						
At 31 December 2016	**1,428**	**559**	**357**	**2**	**6,903**	**9,249**
At 31 December 2015	1,781	708	607	–	9,452	12,548

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	2016 US$'000	2015 US$'000
The carrying amount of the Group's property interests comprises:		
Leasehold land and buildings in Hong Kong	97	100
Buildings in the PRC	1,331	1,681
	1,428	1,781

15. PREPAID LEASE PAYMENTS

	2016 US$'000	2015 US$'000
CARRYING VALUE		
At 1 January	227	244
Currency realignment	(15)	(11)
Charged to profit or loss	(6)	(6)
At 31 December	206	227

Prepaid lease payments represent prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

16. INTEREST IN AN ASSOCIATE/OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE

	2016 US$'000	2015 US$'000
Cost of investment, unlisted	13,893	13,893
Share of post-acquisition losses	(12,391)	(8,890)
Currency realignment	(4,221)	(4,155)
	(2,719)	848

The Group contributed 49% of the registered capital of Pioneer Yorkey do Brasil Ltda. ("PYBL"), which is established in Brasil and is engaged principally in the manufacture and sale of components for digital still cameras and related components for automobiles.

16. INTEREST IN AN ASSOCIATE/OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE (continued)

The Group is able to exercise significant influence over PYBL because it has the power to appoint one out of the three directors of PYBL under the provisions stated in the Articles of Association of PYBL.

PYBL has been incurring losses. In December 2016, the Company commenced discussion with the other shareholder of PYBL to liquidate PYBL in accordance with the provisions of the agreement entered into in 2011 when PYBL was set up (the "Agreement"). Subsequent to 31 December 2016, PYBL ceased its manufacturing operation. The financial statements of PYBL for the year ended 31 December 2016 prepared in accordance with HKFRSs (the "PYBL Financial Statements"), based on which the Group has equity accounted for, have not been prepared on a going concern basis, but taken into consideration of the intention of both shareholders to take up certain assets of PYBL at an agreed price to set off loan, if any, advanced to PYBL.

As at 31 December 2016, the Group's share of losses has exceeded the Group's net investment in PYBL and a liability has been recognised which represent the Group's share of further losses to the extent the Group has contractual obligation to make payment to PYBL in accordance with the Agreement.

The summarised financial information below represents amounts shown in the PYBL Financial Statements:

	At 31 December	
	2016	2015
	US$'000	US$'000
Current assets	**11,774**	7,272
Non-current assets	**–**	9,075
Current liabilities	**(17,323)**	(5,928)
Non-current liabilities	**–**	(8,689)

	Year ended 31 December	
	2016	2015
	US$'000	US$'000
Revenue	**5,497**	11,562
Loss for the year	**(7,145)**	(6,039)
Other comprehensive expense for the year	**(134)**	(2,545)
Total comprehensive expense for the year	**(7,279)**	(8,584)

16. INTEREST IN AN ASSOCIATE/OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

	At 31 December	
	2016	2015
	US$'000	US$'000
Net (liabilities) assets	**(5,549)**	1,730
Group's 49% share of net (liabilities) assets of an associate	**(2,719)**	848

17. INVENTORIES

	2016	2015
	US$'000	US$'000
Raw materials	**1,816**	1,933
Work in progress	**974**	1,161
Finished goods	**1,617**	1,502
	4,407	4,596

18. TRADE AND OTHER RECEIVABLES

	2016	2015
	US$'000	US$'000
Trade receivables		
– companies controlled by shareholders of the Company which have significant influence over the Company	**137**	989
– others	**16,790**	11,625
	16,927	12,614
Less: Allowance for doubtful debts	**(244)**	(238)
	16,683	12,376
Other receivables	**576**	569
	17,259	12,945

18. TRADE AND OTHER RECEIVABLES (continued)

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 days to 120 days of issuance, while invoices to long-established customers are normally payable within one year.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2016 US$'000	2015 US$'000
Age		
0 to 60 days	**13,243**	9,522
61 to 90 days	**2,414**	1,895
91 to 120 days	**826**	711
121 to 180 days	**126**	127
181 to 365 days	**74**	121
	16,683	12,376

Before accepting any new customers, the Group will appoint a special team to monitor the potential customer's credit quality and define credit limits by customer. More than 98% of the trade receivables are neither past due nor impaired.

Included in the Group's trade receivables balance at the end of the reporting period are debtors with aggregate carrying amount of US$200,000 (2015: US$248,000) which are past due at the reporting date for which the Group had not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date when credit was initially granted. The Group does not hold any collateral over these balances. The average age of these receivables is 196 days (2015: 210 days).

18. TRADE AND OTHER RECEIVABLES (continued)

Aging of trade receivables based on the invoice date which are past due but not impaired is as follows:

	2016 US$'000	2015 US$'000
Overdue by 1 to 60 days	126	127
Overdue by 61 to 245 days	74	121
	200	248

No interest is charged on trade receivables. The Group has made full allowances on all the receivables overdue for 365 days based on historical experience as such receivables are generally not recoverable. Allowances on trade receivables between 121 days and 365 days are made based on estimated irrecoverable amounts from the sales of goods with reference to past default experience.

Movement in the allowance for doubtful debts is as follows:

	2016 US$'000	2015 US$'000
At 1 January	238	371
Impairment losses recognised on receivables	6	–
Impairment losses reversed	–	(133)
At 31 December	244	238

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2016 US$'000	2015 US$'000
Japanese Yen	83	66
Hong Kong dollars	947	682

19. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are due from companies controlled by shareholders of the Company which have significant influence over the Company. The amounts are unsecured and interest-free. The age of these receivables are within 60 days (2015: within 60 days).

20. BANK BALANCES AND CASH AND ANALYSIS OF CASH AND CASH EQUIVALENTS

The bank deposits carry interest at prevailing market rates ranging from 0.25% to 1.8% (2015: 0.25% to 0.84%) per annum. The bank deposits are with original maturity of not more than three months.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2016 **US$'000**	2015 US$'000
Japanese Yen	**409**	397
Hong Kong dollars	**3,785**	4,035

21. TRADE AND OTHER PAYABLES

	2016 **US$'000**	2015 US$'000
Trade payables		
– companies controlled by shareholders of the Company which have significant influence over the Company	**1,330**	1,334
– others	**13,338**	10,920
	14,668	12,254
Payroll and welfare payables	**2,552**	2,023
Other payables and accruals (including accruals for regulatory fine and costs and expenses amounting to US$387,000 (2015: nil) (see note 28) and accruals for rental expense payable to a related company amounting to US$89,000 (2015: US$199,000))	**4,506**	4,021
	21,726	18,298

21. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2016 US$'000	2015 US$'000
Age		
0 to 60 days	**11,288**	8,411
61 to 90 days	**1,779**	2,033
91 to 180 days	**1,412**	1,637
181 to 365 days	**189**	173
	14,668	12,254

The average credit period on purchases of goods is 60 days.

Included in trade and other payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2016 US$'000	2015 US$'000
Japanese Yen	**37**	38
Hong Kong dollars	**280**	106

22. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each				
At 1 January 2015	1,000,000	10,000	827,778	8,278
Share repurchased and cancelled during the year ended 31 December 2015	–	–	(6,676)	(67)
At 31 December 2015 and 31 December 2016	**1,000,000**	**10,000**	**821,102**	**8,211**

22. SHARE CAPITAL (continued)

	US$'000
Shown in the consolidated statement of financial position	
At 31 December 2016	**1,058**
At 31 December 2015	1,058

During the year ended 31 December 2015, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares	Price per share Highest	Lowest	Aggregate consideration paid
	'000	HK$	HK$	HK$'000
June	**3,388**	**1.07**	**1.01**	**3,568**
August	**1,236**	**0.87**	**0.80**	**1,039**
September	**1,840**	**0.89**	**0.85**	**1,601**
October	**212**	**0.95**	**0.92**	**200**
	6,676			**6,408**

	US$'000
Equivalent to	**826**

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

23. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 18 January 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and expired on 17 January 2016. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services to the Company and for the purpose of rewarding their contribution to the long-term success of the Group by providing the opportunity to obtain ownership interest in the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of shares on the Stock Exchange which represents 80,000,000 shares (excluding the over-allotment portion), without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under the Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's shares in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days of the date of grant, upon payment in total of HK$1. Options may be exercised at any time immediately from the date of grant of the share option and during the period in which notified by the board of directors at the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Up to 31 December 2016, no options were granted to directors, eligible employees or other outside third parties under the Scheme which expired on 17 January 2016.

24. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Motor vehicles		Rented premises	
	2016	2015	**2016**	2015
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**79**	118	**1,071**	1,075
In the second to fifth year inclusive	**30**	15	**1,066**	2,150
	109	133	**2,137**	3,225

The leases are negotiated for an average term of 2 years (2015: 3 years) and rentals are fixed over the contracted lease terms.

The Group as lessor

At the end of the reporting period, the Group has contracted with tenants for future minimum lease payments in respect of investment properties which fall due as follows:

	2016	2015
	US$'000	US$'000
Within one year	**495**	185
In the second to fifth year inclusive	**1,175**	369
	1,670	554

The investment properties held have committed tenants for periods of an average lease term of 4 years (2015: 3 years).

25. CAPITAL COMMITMENTS

	2016 US$'000	2015 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	405	9

26. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employees make monthly mandatory contributions to the scheme.

The employees employed in the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in future years.

27. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in notes 18, 19 and 21, the Group has the following significant transactions with related parties during the year:

Nature of transactions	2016 US$'000	2015 US$'000
Revenue:		
Sales of goods	368	8,699
Property rental income	271	244
Cost and expenses:		
Purchases of raw materials	151	222
Processing charges paid	3,533	4,310
Rental paid	1,133	1,247

The Company's directors represent the Group's key management and their emoluments for the year are set out in note 9.

28. OTHER MATTERS

On 5 April 2016, the Company was notified by the Securities and Futures Commission (the "SFC") that proceedings have been instituted in the Market Misconduct Tribunal (the "MMT") against:

(a) the Company for its failure to disclose inside information as soon as reasonably practicable after it came to its knowledge; and

(b) two then officers of the Company for their:

  (i) reckless or negligent conduct in failing to take any steps to ensure timely disclosure of the inside information to the investing public resulting in the breach by the Company of its disclosure requirement; and/or

  (ii) failure to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of the disclosure requirement by the Company.

On 16 January 2017, the Company and its then two officers (collectively referred to as the "3 Specified Persons") have together with their legal representatives attended the hearing of the MMT proceedings and the 3 Specified Persons have all upon legal advice admitted contravention of the requisite disclosure requirements under the Hong Kong Securities and Futures Ordinance (the "Ordinance"). Through their respective legal counsel, the 3 Specified Persons have all made their submissions in mitigation before the MMT and the hearing before the MMT was concluded on 17 January 2017.

The MMT handed down its report dated 27 February 2017 (the "MMT Report") and made the determination that (a) a breach of the disclosure requirement has taken place; and (b) the persons who are in breach of the disclosure requirement are the 3 Specified Persons.

Under the MMT Report, the MMT made consequential orders against each of the 3 Specified Persons ordering that each is to pay:

(a) the Hong Kong Government (the "Government") the sum the MMT considers appropriate for the costs and expenses reasonably incurred by the Government in relation or incidental to MMT proceedings (such costs and expenses to be taxed if not agreed) (the "Government's Costs"); and

(b) the SFC the sum the MMT considers appropriate for the costs and expenses reasonably incurred by the SFC whether in relation or incidental to MMT proceedings; any investigation carried out before the proceedings were instituted; or any investigation carried out for the purpose of the proceedings (such costs and expenses to be taxed if not agreed) (the "SFC's Costs").

28. OTHER MATTERS (continued)

As against the Company, the MMT also ordered that:

(i) a regulatory fine of HK$1 million be paid by the Company to the Government (the "Fine"); and

(ii) the Company do appoint an independent professional adviser approved by the SFC to review the Company's procedure for compliance with Part XIVA of the Ordinance or to advise the Company on matters relating to compliance with Part XIVA of the Ordinance.

Further details of the above are set out in the Company's announcements dated 7 April 2016, 18 January 2017 and 28 February 2017.

The Company is currently enquiring with the SFC in relation to effecting payment of the Fine and has asked the SFC to provide estimates as to the amounts of the Government's Costs and SFC's Costs for the purpose of seeking to agree such costs. At the date the consolidated financial statements were approved, the SFC has not provided the requested estimates nor has the MMT determined what are the appropriate sums the Company is required to pay by way of the Government's Costs and the SFC's Costs. Based on the best estimate of the management of the Group, an aggregate provision of US$387,000 with regard to (i) the Fine of HK$1 million (approximately US$129,000) and (ii) the Government's Costs and the SFC's Costs were made as at 31 December 2016 which is included in "trade and other payables" (see note 21) in the consolidated statement of financial position.

29. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Directly held:			
Yorkey Optical Technology Limited	Samoa/PRC	US$550,001	Investment and property holding and trading of plastic and metallic parts and components of optical and opto-electronic products
Indirectly held:			
Click Away Services Limited	British Virgin Islands/ PRC	US$1	Provision of technical training and after-sales services
東莞精熙光機有限公司 (Dongguan Yorkey Optical Machinery Components Ltd.)	PRC, wholly foreign owned enterprise established for a term of 30 years commencing 11 December 1995	US$20,680,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during the year.

Financial Summary

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Revenue	92,766	84,288	84,454	77,553	**73,491**
(Loss) profit before taxation	(136)	3,257	5,558	5,026	**6,149**
Taxation	196	(691)	(462)	(993)	**(1,481)**
Profit for the year	60	2,566	5,096	4,033	**4,668**

	At 31 December				
	2012	2013	2014	2015	2016
	US$'000	US$'000	US$'000	US$'000	US$'000
ASSETS AND LIABILITIES					
Total assets	175,164	172,112	166,813	155,308	**146,701**
Total liabilities	(22,557)	(21,907)	(21,404)	(20,670)	**(27,848)**
Net assets	152,607	150,205	145,409	134,638	**118,853**