



Perfect Optronics Limited
圓美光電有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8311



Third Quarterly Report 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors (the “Directors”) of Perfect Optronics Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$248.7 million for the nine months ended 30 September 2017 (nine months ended 30 September 2016: approximately HK\$897.9 million).
- Loss attributable to equity holders of the Company for the nine months ended 30 September 2017 amounted to approximately HK\$49.4 million (nine months ended 30 September 2016: profit of approximately HK\$28.6 million).
- The Board does not declare an interim dividend for the nine months ended 30 September 2017 (nine months ended 30 September 2016: Nil).

FINANCIAL RESULTS

The board of directors (the "Board") of Perfect Optronics Limited (the "Company") hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September 2017 together with the comparative unaudited figures for the corresponding period in 2016 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2017

	Note	Three months ended 30 September		Nine months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	65,335	323,747	248,708	897,852
Cost of sales		(72,302)	(287,129)	(263,642)	(820,392)
Gross (loss)/profit		(6,967)	36,618	(14,934)	77,460
Other gains/(losses), net		59	(262)	65	(724)
Distribution and selling expenses		(3,049)	(4,828)	(9,359)	(12,466)
General and administrative expenses		(6,981)	(9,427)	(22,363)	(26,103)
Research and development expenses		(558)	(602)	(1,567)	(4,437)
Operating (loss)/profit		(17,496)	21,499	(48,158)	33,730
Finance income		36	86	103	342
Finance costs		(39)	(312)	(573)	(1,309)
Finance costs, net		(3)	(226)	(470)	(967)
(Loss)/profit before income tax		(17,499)	21,273	(48,628)	32,763
Income tax expense	4	(24)	(3,923)	(742)	(6,166)
(Loss)/profit for the period		(17,523)	17,350	(49,370)	26,597
Other comprehensive income:					
<i>Items that may be reclassified subsequently to income statement</i>					
Change in value of available-for-sale financial assets	5	(2)	(28)	22,532	30
Currency translation differences		133	1,382	428	1,237
Total comprehensive (loss)/income for the period		(17,392)	18,704	(26,410)	27,864

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the nine months ended 30 September 2017

	Note	Three months ended 30 September		Nine months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
(Loss)/profit for the period attributable to:					
Equity holders of the Company		(17,523)	18,046	(49,370)	28,600
Non-controlling interests		—	(696)	—	(2,003)
		(17,523)	17,350	(49,370)	26,597
Total comprehensive (loss)/income for the period attributable to:					
Equity holders of the Company		(17,392)	18,862	(26,410)	29,300
Non-controlling interests		—	(158)	—	(1,436)
		(17,392)	18,704	(26,410)	27,864
Basic and diluted (loss)/earnings per share	7	HK(1.18) cent	HK 1.22 cent	HK(3.33) cents	HK 1.93 cent

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2017

	Attributable to equity holders of the Company									
	Share capital	Share premium	Other reserves*	Merger reserve	Revaluation reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at										
1 January 2017	14,837	465,738	67,349	(415,675)	7,716	(730)	210,724	349,959	—	349,959
Comprehensive loss										
Loss for the period	—	—	—	—	—	—	(49,370)	(49,370)	—	(49,370)
Other comprehensive income										
Change in value of available-for-sale financial assets	—	—	—	—	22,532	—	—	22,532	—	22,532
Currency translation differences	—	—	—	—	—	428	—	428	—	428
Total other comprehensive income	—	—	—	—	22,532	428	—	22,960	—	22,960
Total comprehensive loss	—	—	—	—	22,532	428	(49,370)	(26,410)	—	(26,410)
Dividend relating to 2016 paid in June 2017 — Note 6	—	—	—	—	—	—	(14,837)	(14,837)	—	(14,837)
Balance at										
30 September 2017	14,837	465,738	67,349	(415,675)	30,248	(302)	146,517	308,712	—	308,712

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine months ended 30 September 2017

	Attributable to equity holders of the Company									
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Other reserves* HK\$'000 (Unaudited)	Merger reserve HK\$'000 (Unaudited)	Revaluation reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Retained earnings HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)	Total equity HK\$'000 (Unaudited)
Balance at 1 January 2016	14,837	465,738	67,349	(415,675)	7,091	(2,272)	127,413	264,481	15,248	279,729
Comprehensive income										
Profit for the period	—	—	—	—	—	—	28,600	28,600	(2,003)	26,597
Other comprehensive income										
Change in value of available-for-sale financial assets	—	—	—	—	15	—	—	15	15	30
Currency translation differences	—	—	—	—	—	685	—	685	552	1,237
Total other comprehensive income	—	—	—	—	15	685	—	700	567	1,267
Total comprehensive income	—	—	—	—	15	685	28,600	29,300	(1,436)	27,864
Dividend relating to 2015 paid in June 2016	—	—	—	—	—	—	(7,418)	(7,418)	—	(7,418)
Balance at 30 September 2016	14,837	465,738	67,349	(415,675)	7,106	(1,587)	148,595	286,363	13,812	300,175

* Other reserves include: (1) the difference between the share capital issued by the Company for acquisition of the subsidiaries pursuant to a reorganisation for the listing of the Company and the aggregate capital of the subsidiaries being acquired at the time of the reorganisation; and (2) the amount of the loan waived by the controlling shareholder upon completion of the common control combination.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 13 June 2013, as an exempted company with limited liability under the Companies Law (as Revised) of the Cayman Islands. The Company's shares are listed on the GEM.

The Group is principally engaged in the trading and processing of display panels, development and sales of optics products and trading of related electronic components.

The unaudited consolidated financial results of the Group for the nine months ended 30 September 2017 (the "Consolidated Financial Results") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. The Consolidated Financial Results are presented in Hong Kong dollars ("HK\$"), unless otherwise stated, and have been prepared under the historical cost convention, except for available-for-sale financial assets which have been measured at fair value.

The Consolidated Financial Results have been reviewed by the audit committee of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the Consolidated Financial Results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except as described below.

The Group has adopted and applied, for the first time, the following amendments to standards that have been issued and effective for the accounting periods beginning on 1 January 2017:

Hong Kong Accounting Standard ("HKAS") 7 Amendment	Statement of Cash Flows
HKAS 12 Amendment	Income Taxes
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

For those new standards and amendments to standards which have been issued but are not yet effective and have not been early adopted in prior accounting periods, the Group is in the process of assessing their impact on the Group's results and financial position.

The preparation of the Consolidated Financial Results in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

3. REVENUE

Revenue represents the sales of display panels, optics products and related electronic components to external parties.

The Group's revenue from its major products are as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Thin film transistor liquid crystal display ("TFT-LCD") panels and modules	59,714	306,577	219,747	828,881
Optics products	1,055	3,590	11,916	8,884
Driver integrated circuits ("ICs")	2,570	9,852	9,419	47,796
Polarisers	1,351	1,273	3,689	6,940
Others	645	2,455	3,937	5,351
	65,335	323,747	248,708	897,852

4. INCOME TAX EXPENSE

The amount of income tax charged to the income statement represents:

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax	41	3,891	793	6,220
Deferred income tax	(17)	32	(51)	(54)
	24	3,923	742	6,166

Hong Kong profits tax has been provided at the rate of 16.5% (nine months ended 30 September 2016: 16.5%) on the estimated assessable profit during the period arising in or derived from Hong Kong. Taxation on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

5. CHANGE IN VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

Change in value of available-for-sale financial assets during the nine months ended 30 September 2017 represents the change in fair value of the Group's unlisted equity investments. The fair value is within level 3 of the fair value hierarchy.

5. CHANGE IN VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

As at 30 September 2017, the Group's available-for-sale financial assets comprised:

- (1) Certain preferred shares in Mobvoi Inc. ("Mobvoi"), a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. There have been no addition to or disposal of such private equity investment since the Group acquired it in January 2015. The most recent issue by Mobvoi of new preferred shares to a new investor took place in late March 2017 and the Group's shareholding in Mobvoi was further diluted to approximately 1.53% (on a fully diluted basis and as converted basis). The fair value of the Group's investment in Mobvoi as at 30 September 2017 amounted to approximately HK\$54,203,000 (31 December 2016: HK\$31,671,000), which was assessed based on comparable transaction method and equity value allocation with option-pricing method performed by an independent valuer;
- (2) Certain ordinary shares issued by a private company and subscribed by the Group in May 2017 at approximately HK\$2,606,000, representing an approximately 3.33% shareholding of such company. Such private company is principally engaged in the research and development, manufacturing and sale of separator which is a key component in lithium battery.

6. INTERIM DIVIDEND

The Board does not declare an interim dividend for the nine months ended 30 September 2017 (nine months ended 30 September 2016: Nil).

Final dividend for the year ended 31 December 2016 of approximately HK\$14,837,000 was paid in June 2017.

7. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Nine months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	(49,370)	28,600
Weighted average number of ordinary shares in issue (thousands)	1,483,687	1,483,687
Basic and diluted (loss)/earnings per share (HK cent per share)	HK(3.33) cents	HK1.93 cent

For the purpose of determining the diluted (loss)/earnings per share amount, no adjustment has been made to the basic (loss)/earnings per share amount for the nine months ended 30 September 2017 and 2016 as the Group had no potentially dilutive ordinary shares in issue during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

The Group is principally engaged in the trading of display components for electronics, which are the major display components applied on mobile phones. In addition, it is also engaged in the development and sale of optics products and related electronic components. The Group also processes some of the products which it trades.

The Group has been going through a difficult period during the nine months ended 30 September 2017 (the "Period"). The Group recorded a significant decrease in revenue and incurred loss during the Period. The Group's revenue for the nine months ended 30 September 2017 amounted to approximately HK\$248,708,000, decreased by approximately 72% as compared to the corresponding period of the previous year. Affected by the significant drop in revenue, the Group recorded a consolidated loss attributable to equity holders of the Company during the Period, which amounted to approximately HK\$49,370,000 (nine months ended 30 September 2016: profit of approximately HK\$28,600,000).

The Group recorded revenue from display products segment of approximately HK\$236,792,000 during the Period, down by approximately 73% year-over-year. During the Period, sales of TFT-LCD panels and modules amounted to approximately HK\$219,747,000, representing a decrease of approximately 73% year-over-year. For other products such as driver ICs and polarisers, the Group's revenue from its driver ICs and polarisers amounted to approximately HK\$9,419,000 (nine months ended 30 September 2016: HK\$47,796,000) and HK\$3,689,000 (nine months ended 30 September 2016: HK\$6,940,000) respectively during the Period.

According to a recent report published by China Academy of Information and Communications Technology, during the Period, the number of China domestic mobile phone shipments reached 367.0 million units and the number of new model release reached 823, down 8.2% and 28.0% year-over-year, respectively. During the Period, the Group faced challenges arising from fierce competition in the market and the changes in specifications of smartphone display panels. The market share of mobile phone display panel taken up by domestic China display panel manufacturers continues to increase. This affected the Group's display panel business which mainly supplies imported products. In addition, the Company understands that one of the Group's major suppliers increased its direct supply of display modules to mobile phone manufacturers in China, which further affected the Group's revenue during the Period. On the other hand, smartphone manufacturers introduced the new 18:9 aspect ratio products which resulted in a weak demand for traditional 16:9 display panels during the Period. Such specification transformation, which led a number of customers to postpone their orders until the debut of mobile phone models with the new specifications, significantly affected the entire display products supply chain during the Period. As worsened by the price war engaged by some

China display panel manufacturers, prices of traditional display panels dropped significantly during the Period and seriously affected the Group's performance. Due to the drop in market prices of mobile phone display panels, the Group made a provision of approximately HK\$15,821,000 against the Group's inventories during the Period. Such amount was included in the cost of sales of the Group's consolidated income statement for the nine months ended 30 September 2017, which contributed to the gross loss of the Group during the Period.

For the Group's optics product business, during the Period, the Group continued to promote its automotive head up display device and virtual reality ("VR") entertainment headsets, as well as trading optics products components. However, it is expected to take longer time for content development and technical support to improve until the market becomes mature. During the Period, revenue for the Group's optics products segment amounted to approximately HK\$11,916,000, representing an increase of approximately 34% as compared with the relatively low base of approximately HK\$8,884,000 for the corresponding period in 2016.

In early 2015, the Group subscribed for certain preferred shares of Mobvoi, which is a private company principally engaged in the business of developing and providing voice search systems on mobile, smart wearable and other devices. The Group's investment in Mobvoi is classified as available-for-sale financial asset and is carried at fair value on the Group's consolidated statement of financial position. No dividend has been received by the Group from Mobvoi since its investment. During the Period, Volkswagen AG ("Volkswagen") (through its affiliate) subscribed for another round of new preferred shares of Mobvoi and the Group's shareholding proportion in Mobvoi became approximately 1.53% (on a fully diluted and as converted basis). Such investment by Volkswagen enables Mobvoi to obtain new capital for developing new products and expanding into the market of automotive related devices and systems, by forming a joint venture in the People's Republic of China on artificial intelligence car-sharing and on-demand and ride-sharing transportation services business with an affiliate of Volkswagen. The fair value of the Group's investment in Mobvoi thus further increased during the Period following the investment by Volkswagen (please refer to note 5 of the Consolidated Financial Results). Meanwhile, the Group can benefit through its established strategic cooperation with Mobvoi.

Besides the Group's investment in Mobvoi, in May 2017, the Group subscribed for certain ordinary shares issued by a private company in Taiwan at approximately HK\$2,606,000, representing an approximately 3.33% shareholding of such company. Such investment is also classified as available-for-sale financial asset. The investee company is principally engaged in the research and development, manufacturing and sale of separator, which is a key component in lithium battery. The Group considers that the high demand in lithium

batteries in different areas such as portable electronics, vehicles, medical devices, etc. will lead to the growth in the separators market. It is expected that such investment will also facilitate future business cooperation between the investee company and the Group.

Looking forward, the Group's display products business will continue to face various difficult challenges. Much severe competition and rapid changes in market conditions are expected. Nevertheless, the Group is expected to somehow be able to benefit from the trend of consumers' replacement for new high-end smartphones. The Group will continue to optimise its product diversity and to widen its revenue base.

For the optics products business, the augmented reality ("AR") and VR market has revealed its potential but it is still not mature enough. The Group will keep pace with the latest technical development in the market and to prepare for the next hot wave in the AR and VR market. In addition to the development of its own brand, the Group will also seek for partnerships in the long run.

In order to improve the Group's performance, the Group will strive to explore new development and market opportunities, introduce new products, suppliers and customers, improve operation efficiency, and capture appropriate growth opportunities.

Financial review

Revenue

Total revenue of the Group for the nine months ended 30 September 2017 amounted to approximately HK\$248,708,000, decreased by approximately 72% as compared with the corresponding period in 2016 of approximately HK\$897,852,000. Decrease in total revenue was mainly attributable to the decrease in revenue from the Group's sales of display products, including TFT-LCD panels and modules, driver ICs and polarisers.

Gross (loss)/profit

Gross loss amounted to approximately HK\$14,934,000 was recorded for the nine months ended 30 September 2017 as compared with gross profit of approximately HK\$77,460,000 for the nine months ended 30 September 2016. The significant drop in the Group's revenue during the Period and the provision of obsolete inventories of approximately HK\$15,821,000 which was included in the Group's consolidated cost of sales led to the gross loss during the Period.

Expenses

The Group's distribution and selling expenses for the nine months ended 30 September 2017 amounted to approximately HK\$9,359,000, representing an approximately 25% decrease as compared with the corresponding period in 2016 of approximately HK\$12,466,000. The decrease was mainly due to the decrease in staff costs attributable to decrease in headcount and the reduced sales activities during the Period.

The Group's general and administrative expenses for the nine months ended 30 September 2017 amounted to approximately HK\$22,363,000, representing an approximately 14% decrease as compared with the corresponding period in 2016 of approximately HK\$26,103,000. The decrease was mainly attributable to the decrease in staff costs, bank charges and professional fees during the Period.

Research and development ("R&D") costs amounted to approximately HK\$1,567,000 for the nine months ended 30 September 2017, representing an approximately 65% decrease as compared with the corresponding period in 2016 of approximately HK\$4,437,000. The decrease was mainly due to the disposal in late 2016 of a subsidiary, Shinyoptics Corporation, which incurred much R&D expenses.

(Loss)/profit for the period attributable to equity holders of the Company

Loss attributable to equity holders of the Company for the nine months ended 30 September 2017 amounted to approximately HK\$49,370,000 (nine months ended 30 September 2016: profit of approximately HK\$28,600,000), which was mainly attributable to the significant decrease in the Group's revenue and provision for obsolete inventories made during the Period.

Other comprehensive income — change in value of available-for-sale financial assets

Change in value of available-for-sale financial assets during the nine months ended 30 September 2017 amounted to approximately HK\$22,532,000, being the increase in fair value of the Group's unlisted equity investment in Mobvoi during the Period as mentioned above.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2017, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company:

Name of Director	Capacity	Number of shares held	Percentage of the Company's issued share capital
Mr. Cheng Wai Tak	Interest in controlled corporation	923,427,151 (Note)	62.24%
	Beneficial owner	2,220,000	0.15%

Note: These 923,427,151 shares are held by Winful Enterprises Limited ("Winful Enterprises"), which in turn is wholly and beneficially owned by Mr. Cheng Wai Tak. As such, Mr. Cheng Wai Tak is deemed under the SFO to be interested in these 923,427,151 shares held by Winful Enterprises.

Save as disclosed above, as at 30 September 2017, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 30 September 2017, other than the Director and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in shares of the Company:

Name	Nature of interests	Number of shares held	Percentage of the Company's issued share capital
Winful Enterprises	Directly beneficially owned	923,427,151 (Note)	62.24%

Note: Mr. Cheng Wai Tak is deemed under the SFO to be interested in these 923,427,151 shares held by Winful Enterprises.

Save as disclosed above, as at 30 September 2017, no other person had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted by the sole shareholder of the Company by way of written resolutions passed on 20 January 2014.

No share option has been granted under the Share Option Scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the nine months ended 30 September 2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2017, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any shares of the Company.

COMPLIANCE WITH CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the nine months ended 30 September 2017.

COMPETING INTERESTS

Based on the information available to the Company and within the knowledge and belief of the Directors, none of the Directors or the controlling shareholders of the Company or their respective close associates (as defined under the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group, or had or might have any other conflict of interest with the Group throughout the nine months ended 30 September 2017.

NON-COMPETITION UNDERTAKING

On 20 January 2014, each of Mr. Cheng Wai Tak and Winful Enterprises, the controlling shareholders of the Company (collectively, the “Covenantors”) entered into a deed of non-competition undertaking (“Non-Competition Deed”) in favour of the Company (for itself and for and on behalf of all members of the Group), pursuant to which each of the Covenantors, irrevocably and unconditionally, undertook and covenanted with the Company that with effect from the listing date of the Company and for as long as the shares of the Company remain so listed on the Stock Exchange and he/it, individually or collectively with any other Covenantor(s), is, directly or indirectly, interested in 30% or more of the shares of the Company in issue, or is otherwise regarded as a controlling shareholder (as defined under the GEM Listing Rules from time to time) of the Company, he/it shall not, and shall procure that none of his/its associates (for the purpose of the Non-Competition Deed, shall have the meaning as defined under Rule 1.01 of the GEM Listing Rules but excluding the Group) shall:

- (a) directly or indirectly (other than through the Group) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with existing business activity of the Group and any business activities undertaken by the Group from time to time (the “Restricted Business”) except for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any publicly listed company; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the Restricted Business including, but not limited to, solicitation of the Group’s customers, suppliers or staff.

Further details of the Non-Competition Deed have been set out in the section headed “Relationship with the Controlling Shareholders” of the prospectus of the Company dated 24 January 2014.

CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. Throughout the nine months ended 30 September 2017, the Company had complied with all the code provisions of the CG Code, except for the deviation stipulated below.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Under the current management structure of the Company, Mr. Cheng Wai Tak ("Mr. Cheng") is the Chairman of the Board (the "Chairman") and Chief Executive Officer of the Company (the "Chief Executive Officer"). With Mr. Cheng's extensive experience in the industry, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would provide the Company with strong and consistent leadership, allow for effective and efficient planning and implementation of business decisions and strategies, and would be beneficial to the business prospects and management of the Group. Although Mr. Cheng performs both the roles of Chairman and Chief Executive Officer, the division of responsibilities between the Chairman and Chief Executive Officer is clearly established. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the Chief Executive Officer is responsible for the management of the business of the Group. The two roles are performed by Mr. Cheng distinctly. The Board also considers that the current management structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the code provision C.3.3 of the CG Code. The audit committee consists of three independent non-executive Directors, namely Mr. Wong Yik Chung John, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Wong Chi Chiu and Mr. Li Shui Yan. The audit committee has reviewed this report and has provided advice and comments thereon.

By order of the Board
Perfect Optronics Limited
Cheng Wai Tak
Chairman

Hong Kong, 8 November 2017