

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)



* For identification purpose only

2016 Interim Report

Contents

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.
Interim Report 2016

2	Corporate Information
3	Report on Review of Condensed Consolidated Financial Statements
5	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
6	Condensed Consolidated Statement of Financial Position
7	Condensed Consolidated Statement of Changes in Equity
9	Condensed Consolidated Statement of Cash Flows
10	Notes to the Condensed Consolidated Financial Statements
19	Management Discussion and Analysis
26	Other Information

CORPORATE INFORMATION

Executive Directors

Lai I-Jen
Nagai Michio

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.)

Registered Office

Codan 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.
HSBC Bank (Taiwan) Limited
Bank SinoPac
Ta Chong Bank Ltd.
China Construction Bank
China Merchants 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



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**TO THE BOARD OF DIRECTORS OF
YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.**
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Yorkey Optical International (Cayman) Ltd. and its subsidiaries set out on pages 5 to 18, which comprise the condensed consolidated statement of financial position as of 30th June, 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

9th August, 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	NOTES	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Revenue	3	33,111	37,409
Cost of goods sold		(23,689)	(27,325)
Gross profit		9,422	10,084
Other income and gains		1,344	1,007
Distribution costs		(647)	(693)
Administrative expenses		(5,296)	(6,035)
Research and development expenses		(849)	(839)
Share of results of an associate		(992)	(749)
Profit before taxation		2,982	2,775
Taxation	5	(435)	(161)
Profit for the period		2,547	2,614
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		(671)	39
– fair value loss on available-for-sale investments		–	(49)
Other comprehensive expense for the period		(671)	(10)
Total comprehensive income for the period		1,876	2,604
Earnings per share			
– Basic	7	US0.31 cents	US0.32 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2016

	NOTES	30.6.2016 US\$'000 (unaudited)	31.12.2015 US\$'000 (audited)
Non-current assets			
Investment properties		74	126
Property, plant and equipment	8	10,877	12,548
Prepaid lease payments		219	227
Interest in an associate	9	–	848
Deposits paid for acquisition of property, plant and equipment		10	191
		11,180	13,940
Current assets			
Inventories		4,109	4,596
Trade and other receivables	10	12,017	12,945
Amounts due from related companies		22	15
Bank balances and cash		127,024	123,812
		143,172	141,368
Current liabilities			
Trade and other payables	11	15,350	18,298
Dividend payable		14,302	–
Taxation payable		2,488	2,372
		32,140	20,670
Net current assets		111,032	120,698
Total assets less current liabilities		122,212	134,638
Capital and reserves			
Share capital		1,058	1,058
Reserves		121,154	133,580
Total equity		122,212	134,638

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	Attributable to owners of the Company								
	Share capital US\$'000	Share premium US\$'000	Treasury shares US\$'000	Special reserve US\$'000 (Note a)	Translation reserve US\$'000	Statutory surplus reserve fund US\$'000 (Note b)	Investment revaluation reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January, 2015 (audited)	1,066	63,800	-	19,350	8,521	2,585	(45)	50,132	145,409
Other comprehensive income (expense) for the period	-	-	-	-	39	-	(49)	-	(10)
Profit for the period	-	-	-	-	-	-	-	2,614	2,614
Total comprehensive income (expense) for the period	-	-	-	-	39	-	(49)	2,614	2,604
Dividend recognised as distribution (note 6)	-	-	-	-	-	-	-	(7,470)	(7,470)
Treasury shares purchased	-	-	(460)	-	-	-	-	-	(460)
At 30th June, 2015 (unaudited)	1,066	63,800	(460)	19,350	8,560	2,585	(94)	45,276	140,083
At 1st January, 2016 (audited)	1,058	62,982	-	19,350	5,663	2,803	-	42,782	134,638
Other comprehensive (expense) income for the period	-	-	-	-	(671)	-	-	-	(671)
Profit for the period	-	-	-	-	-	-	-	2,547	2,547
Total comprehensive (expense) income for the period	-	-	-	-	(671)	-	-	2,547	1,876
Transfers	-	-	-	-	-	94	-	(94)	-
Dividend recognised as distribution (note 6)	-	-	-	-	-	-	-	(14,302)	(14,302)
At 30th June, 2016 (unaudited)	1,058	62,982	-	19,350	4,992	2,897	-	30,933	122,212

Notes:

- (a) 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.

- (b) 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 profit after taxation of the statutory financial statements of the PRC subsidiary. 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Net cash from operating activities	3,250	2,313
Investing activities		
Purchase of property, plant and equipment	(110)	(310)
Proceeds from disposal of property, plant and equipment	–	1
Other investing activities	358	561
Net cash from investing activities	248	252
Net cash used in financing activities		
Purchase of treasury shares for cash	–	(187)
Net increase in cash and cash equivalents	3,498	2,378
Cash and cash equivalents at 1st January	123,812	122,568
Effect of foreign exchange rate changes	(286)	227
Cash and cash equivalents at 30th June	127,024	125,173

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

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 condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2016 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2015.

The application of the new or revised Hong Kong Financial Reporting Standards issued by the HKICPA in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. OPERATING SEGMENT

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 results for the period 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	
	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)	30.6.2016 US\$'000 (unaudited)	31.12.2015 US\$'000 (audited)
Japan	19,485	17,393	–	–
PRC	10,759	17,226	11,180	13,092
Others	2,867	2,790	–	–
	33,111	37,409	11,180	13,092

3. OPERATING SEGMENT – CONTINUED

Other segment information – continued

Information about major customers

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

	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Customer A	5,291	5,211
Customer B	3,900	4,383
Customer C	3,622	N/A*

* 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:

	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Components of optical and opto-electronic products		
– cameras, action cameras and copiers	25,529	28,152
– others	7,582	9,257
	33,111	37,409

4. DEPRECIATION

During the period, depreciation was charged to profit or loss as follows:

	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Depreciation on investment properties	51	54
Depreciation on property, plant and equipment	1,679	1,915

5. TAXATION

	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
The tax charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the period	(435)	(161)

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

6. DIVIDENDS

	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Dividends recognised as distribution during the period:		
Final dividend for 2015 of HK3.5 cents (equivalent to US0.451 cents) (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
	14,302	7,470
Dividend proposed:		
Interim dividend for 2016 of HK3.5 cents (equivalent to US0.451 cents) (2015: HK3.5 cents; equivalent to US0.451 cents) per share proposed	3,708	3,722

On 9th August, 2016, the directors declared an interim dividend for the six months ended 30th June, 2016 of HK3.5 cents (equivalent to US0.451 cents) per share based on 821,102,000 shares in issue as at the date of issuance of these condensed consolidated financial statements.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2016 is based on the consolidated profit for the period attributable to owners of the Company of US\$2,547,000 (US\$2,614,000 for the six months ended 30th June, 2015) and on 821,102,000 shares (weighted average of 827,729,481 shares for the six months ended 30th June, 2015) in issue during the period.

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

8. PROPERTY, PLANT AND EQUIPMENT

The Group acquired plant and equipment with an estimated useful life of 10 years amounting to US\$291,000 for the six months ended 30th June, 2016 (US\$530,000 for the six months ended 30th June, 2015).

9. INTEREST IN AN ASSOCIATE

	30.6.2016 US\$'000 (unaudited)	31.12.2015 US\$'000 (audited)
Cost of investment, unlisted	13,893	13,893
Share of post-acquisition losses	(9,882)	(8,890)
Currency realignment	(4,011)	(4,155)
	–	848

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

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.

10. TRADE AND OTHER RECEIVABLES

	30.6.2016 <i>US\$'000</i> (unaudited)	31.12.2015 <i>US\$'000</i> (audited)
Trade receivables		
– companies controlled by shareholders of the Company which have significant influence over the Company	7	989
– others	11,729	11,625
	11,736	12,614
Less: Allowance for doubtful debts	(146)	(238)
	11,590	12,376
Other receivables	427	569
	12,017	12,945

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 to 120 days of issuance, while sales 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.

	30.6.2016 <i>US\$'000</i> (unaudited)	31.12.2015 <i>US\$'000</i> (audited)
Age		
0 to 60 days	9,269	9,522
61 to 90 days	2,029	1,895
91 to 120 days	217	711
121 to 180 days	19	127
181 to 365 days	56	121
	11,590	12,376

11. TRADE AND OTHER PAYABLES

	30.6.2016 <i>US\$'000</i> (unaudited)	31.12.2015 <i>US\$'000</i> (audited)
Trade payables		
– companies controlled by shareholders of the Company which have significant influence over the Company	250	1,334
– others	9,779	10,920
	10,029	12,254
Payables for purchase of property, plant and equipment	–	–
Payroll and welfare payables	535	2,023
Other payables and accruals (including accruals for rental expense payable to a related company amounting to US\$93,000 at 30th June, 2016; US\$199,000 at 31st December, 2015)	4,786	4,021
	15,350	18,298

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

	30.6.2016 <i>US\$'000</i> (unaudited)	31.12.2015 <i>US\$'000</i> (audited)
Age		
0 to 60 days	7,257	8,411
61 to 90 days	1,626	2,033
91 to 180 days	931	1,637
181 to 365 days	150	173
Over 365 days	65	–
	10,029	12,254

12. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in the condensed consolidated statement of financial position and notes 10 and 11, the Group has the following transactions with related parties during the period:

Nature of transactions	1.1.2016 to 30.6.2016 US\$'000 (unaudited)	1.1.2015 to 30.6.2015 US\$'000 (unaudited)
Revenue:		
Sales of goods	37	5,083
Property rental income	139	150
Cost and expenses:		
Purchases of raw materials	61	122
Processing charges paid	1,809	1,957
Rental paid	585	633

No emoluments were paid to the Group's key management, i.e. directors of the Company, during both periods.

13. CAPITAL COMMITMENTS

	30.6.2016 US\$'000 (unaudited)	31.12.2015 US\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	8	9

14. EVENT AFTER THE END OF THE REPORTING PERIOD

In July 2016, the Group entered into a provisional sale and purchase agreement with an independent third party to acquire an industrial property in Hong Kong at a consideration of HK\$42,800,000 for rental income and for potential capital appreciation. Further details of this transaction are set out in the Company's announcement dated 21st July, 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Review

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.

Revenue

The Group’s turnover for the six months ended 30th June, 2016 was approximately US\$33,111,000, representing a decrease of approximately 11.5% compared with US\$37,409,000 for the previous corresponding period, mainly due to the decline in the DSCs industry affected by competition from mobile devices and the 2016 Japan Kumamoto Earthquake (the “Earthquake”) 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.

The Group’s revenue for the Period was mainly derived from the sales of components for DSCs. In spite of the shrinking 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. Accordingly, the percentage of DSCs contribution to the Group’s revenue was approximately 63.5%. The Group has also gradually made use of its own technology strengths and followed the market trends of mainstream products. Given the increasing popularity of sports, which drives the development of outdoor action cameras, the Group has also actively devoted its efforts to this area. Nevertheless, with factors such as the changing global economic environment and the slowing economy in the PRC, the operating environment remained challenging.

Gross Profit

The Group's gross profit for the six months ended 30th June, 2016 was approximately US\$9,422,000 and the gross profit margin was approximately 28.5% (for the first half of 2015: gross profit of US\$10,084,000 and gross profit margin of 27.0%), representing an increase as compared to those in the previous year. The increase in gross profit margin was mainly due to the improved efficiency and effective cost control.

The Group was capitalised on its enhanced technique to provide one-stop comprehensive services from component design, module development manufacture, plastic shaping, metal stamping, surface processing and assembling.

Other Income and Gains

The Group's other income and gains for the six months ended 30th June, 2016 was US\$1,344,000 (comprising bank interest income of US\$358,000, rental income of US\$139,000, reversal for bad and doubtful debts of US\$94,000 and exchange gain of US\$753,000), representing an increase as compared with US\$1,007,000 (comprising bank interest income of US\$561,000, rental income of US\$150,000, reversal for bad and doubtful debts of US\$187,000, exchange gain of US\$85,000 and miscellaneous income of US\$24,000) for the corresponding period in 2015. The decrease in bank interest income was mainly due to the decrease in interest rates. There was foreign currency profit arising from depreciation of Renminbi against United States dollars.

Interest in an Associate

Pioneer Yorkey do Brasil Ltda ("PYBL")'s recorded revenue for the six months ended 30th June, 2016 was US\$2,353,000, representing a decrease of approximately 70.4% as compared with US\$7,938,000 for the previous corresponding period.

PYBL's net loss for the six months ended 30th June, 2016 was approximately US\$2,024,000, as compared with net loss of approximately US\$1,528,000 for the corresponding period in 2015.

The revenue of PYBL was derived from the sales of components for DSCs and related components for automobiles.

Despite Brazil is the host nation of the 2016 Olympics, its economic development is not as well as expected in recent years. Coupled with the downturn of the DSCs industry, PYBL was loss making.

Net Profit

The Group's net profit for the six months ended 30th June, 2016 was approximately US\$2,547,000, representing a decrease of approximately 2.6% as compared with US\$2,614,000 for the corresponding period in 2015.

Liquidity and Financial Resources

As at 30th June, 2016, the Group had current assets of approximately US\$143,172,000 (as at 31st December, 2015: US\$141,368,000) and current liabilities of approximately US\$32,140,000 (as at 31st December, 2015: US\$20,670,000). The current ratio of the Group was approximately 445% (as at 31st December, 2015: 684%).

As at 30 June 2016, the Group had cash at bank and on hand of approximately US\$127,024,000 (as at 31st December 2015: US\$123,812,000), and zero bank borrowing. Net cash increased by US\$3,212,000 from 31st December 2015. The Group's gearing ratio, calculated as total bank borrowings divided by total assets, was 0% (31 December 2015: 0%)

Net cash generated from operating activities in the six months ended 30th June, 2016 was approximately US\$3,250,000.

Net cash inflow from investing activities in the six months ended 30th June, 2016 was approximately US\$248,000, which comprised of cash outflow of capital expenditure in various divisions of the Group of approximately US\$110,000, and cash inflow from other investment activities of approximately US\$358,000.

No cash outflow from financing activities for the six months ended 30th June, 2016.

Effect of foreign exchange rate changes for the six months ended 30th June, 2016 was US\$286,000.

Exchange Risk Exposure and Contingent Liabilities

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 exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant as they are pegged. Despite there was exchange gain associated with Japanese Yen denominated net assets during the Period due to the appreciation of Japanese Yen against United State dollars, the amount was minimal. The Group recorded exchange gain during the Period due to the depreciation of Renminbi against United States dollars.

As at 30th June, 2016, the Group had no significant contingent liabilities.

Capital Commitment

As at 30th June, 2016, the capital commitment of the Group was US\$8,000 (as at 31st December, 2015: US\$9,000).

Employment, Training and Development

As at 30th June, 2016, the Group had a total of 2,047 employees (as at 30th June, 2015: 2,866 employees). Staff costs incurred during the six months ended 30th June, 2016 amounted to approximately US\$10,092,000 (for the six months ended 30th June, 2015: US\$11,774,000). Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration of the employees includes salary and discretionary bonus which is based on the Group's results and individual performance. The share option scheme adopted by the Company on 18th January, 2006 expired on 17th January, 2016 and no new share option scheme was adopted by the Company during the six months ended 30th June, 2016.

The remuneration policy of the Group is formulated and recommended by the Remuneration Committee of the Company for the Board's approval. The Remuneration Committee's responsibilities also include reviewing and approving the management's remuneration proposals, and making recommendations to the Board on the adjustments to remuneration packages payable to directors, senior management and employees of the Group.

A long term and stable human capital policy accommodated with fringe benefits, including medical insurance and provident fund, and competitive remuneration packages are adopted to attract and retain quality personnel and provide incentives for the employees to enhance performance.

The Group strives to maintain good relations with its employees and is committed to employee training and development on a regular basis to maintain the quality of our products.

Events after 30th June, 2016

On 21st July, 2016, Yorkey Optical Technology Limited, a wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Land Concept Investment Limited for the acquisition of an industrial property (the "Property") at a consideration of HK\$42,800,000 (the "Acquisition"). It is estimated that the total cost of the Property together with transaction costs such as stamp duty, property agent commission and legal costs will be approximately HK\$46,687,100. The Acquisition will be funded by general working capital of the Group.

The Acquisition could increase the Company's current revenue by leasing out the Property and could provide potential capital appreciation opportunity to the Group. The Board is of the view that the Acquisition is a sound investment. Please refer to the announcement of the Company dated 21st July, 2016 for details of the Acquisition.

Hong Kong Market Miconduct Tribunal ("MMT") Proceedings

Reference is made to the Company's Annual Report 2015.

The Securities and Futures Commission (the "SFC") announced on 6th April, 2016 that it has commenced proceedings in the MMT against (i) the Company for failing to disclose price sensitive information as soon as reasonably practicable; and (ii) Mr. Nagai Michio ("Mr. Michio"), the Chief Executive Officer and Executive Director of the Company and Mr. Ng Chi Ching ("Mr. Ng"), the Financial Controller and Company Secretary of the Company, for their reckless or negligent conduct causing the alleged breach by the Company of the provisions of the statutory corporate disclosure regime or failure to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent the alleged breach. The Company issued the announcement on 7th April, 2016.

Preliminary conference was held on 20th June, 2016 and the substantive hearing is scheduled to take place on 16th January, 2017.

The Company, Mr. Michio and Mr. Ng continue seeking legal advice on their respective position in relation to the MMT Proceedings.

Outlook

Looking ahead, 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 be more careful when evaluating new site expansion so as to reduce its costs and enhance its competitiveness.

In respect of further update on the impacts of the Earthquake on the Company, the Company's orders between July to September 2016 remain affected. It is expected that the consolidated revenue of the Group for the second half of 2016 (from July 2016 to December 2016) will range from US\$32,115,000 to US\$38,137,000, as compared with the consolidated revenue of US\$40,144,000 for the corresponding period in 2015, representing an expected decrease of approximately US\$2,007,000 (5%) to US\$8,029,000 (20%). The above information is only an estimate by the management of the Company based on the impacts of the Earthquake on some of the Japanese customers of the Company and the information currently available. Details of any further information on this matter will be announced and disclosed in a separate announcement (if necessary) or disclosed in the final results announcement and annual report for 2016.

Notwithstanding the above, the manufacturing and sales of components of optical and opto-electronic products remain the core business of the Group. Leverage on its own technology advantages and highly responsive ability, the Group will endeavour to provide "one-stop" services by stepping up its research and development efforts on new products (including components for surveillance cameras, action cameras, healthcare instruments, beauty treatment instruments and advanced TV etc.) with a view of maintaining competitiveness.

OTHER INFORMATION

Disclosure of Interests

Interests of Directors and Chief Executive

As at 30th June, 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 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 30th June 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 30th June, 2016, none of the Directors or chief executives of the Company, had any interest in 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.

Interests of Substantial shareholders

As at 30th June, 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 therefore is taken to be interested in an aggregate of 186,833,000 Shares held by AOIL.

Note 2: Ability Enterprise Co., Ltd. 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 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 International Ltd. ("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.

Save as disclosed above, as at 30th June, 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 of the Company which would be recorded in the register required to be kept under section 336 of Part XV of the SFO.

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

As at 30th June, 2016, the Company had not been notified of any short 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 Part XV of the SFO.

Interim Dividend

The Board resolved to declare an interim dividend of HK\$0.035 (2015: HK\$0.035) per share in respect of the six months ended 30th June, 2016, payable to shareholders whose names appear on the register of members of the Company on Monday, 5th September, 2016.

The interim dividend will be paid on or before Monday, 3rd October, 2016.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 1st September to Monday, 5th September, 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all valid documents in respect of transfers of shares accompanied by the relevant share certificates and the completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 31st August, 2016.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th June, 2016.

Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance in the interest of its shareholders.

The Group has applied the principles and complied with all the applicable code provisions set out in the Code on Corporate Governance Practices (the “Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the six months ended 30th June, 2016.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. The audit committee of the Group has reviewed the unaudited interim results of the Group for the six months ended 30th June, 2016.

Further, the unaudited interim results of the Group for the six months ended 30th June, 2016 have been reviewed by the Company’s auditor in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants.

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 code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the Period and they have all confirmed they have fully complied with the required standard as set out in the Model Code.