

COWELL

Cowell e Holdings Inc.
高偉電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1415



2016

Interim Report



COWELL

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Interim Report 2016

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Corporate Information

COMPANY NAME

Cowell e Holdings Inc.

PLACE OF LISTING OF SHARES

The Stock Exchange of Hong Kong Limited

STOCK CODE

1415

STOCK NAME

Cowell

BOARD OF DIRECTORS

Executive Directors

Mr. Kwak Joung Hwan (*resigned on February 29, 2016*)

Mr. Kim Kab Cheol

Mr. Seong Seokhoon

Non-executive Director

Mr. Kim Jae Min (*resigned on May 12, 2016*)

Independent Non-executive Directors

Mr. Okayama Masanori (*resigned on May 12, 2016*)

Mr. Kim Chan Su

Dr. Song Si Young

Mr. Kim Ilung (*appointed with effect on May 13, 2016*)

COMPANY SECRETARY

Ms. Lam Wing Yan

AUTHORIZED REPRESENTATIVES

Mr. Seong Seokhoon

Ms. Lam Wing Yan

AUDIT COMMITTEE

Mr. Kim Chan Su (*Chairman*)

Dr. Song Si Young

Mr. Kim Ilung (*appointed with effect on May 13, 2016*)

Mr. Okayama Masanori (*resigned on May 12, 2016*)

REMUNERATION COMMITTEE

Dr. Song Si Young (*Chairman*)

Mr. Kim Chan Su

Mr. Seong Seokhoon

NOMINATION COMMITTEE

Mr. Kwak Joung Hwan (*resigned on February 29, 2016*)

Mr. Seong Seokhoon (*redesignated as Chairman on March 1, 2016*)

Dr. Song Si Young

Mr. Kim Chan Su

REGISTERED OFFICE

PO Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Huanan Industrial Zone
Liaobu Town
Dongguan City
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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32/F, Tower 6
The Gateway
9 Canton Road
Tsimshatsui
Kowloon
Hong Kong

AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISOR

Michael Li & Co.
19/F., Prosperity Tower
No. 39 Queen's Road Central
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Hong Kong and Shanghai Banking Corporation Limited

Australia and New Zealand Banking Group Limited

COMPANY WEBSITE

www.cowelleholdings.com

PUBLIC RELATIONS CONSULTANT

Strategic Public Relations Group Limited
2401-2, Admiralty Centre I
18 Harcourt Road, Hong Kong

Management Discussion and Analysis

BUSINESS REVIEW

Cowell e Holdings Inc. (the “**Company**” which together with its subsidiaries, the “**Group**”) is a major supplier of camera modules for mobile devices. The Group primarily engages in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Customers for the Group’s camera modules include some of the leading mobile device manufacturers in the world such as Apple, LG Electronics and Samsung Electronics. The Group also designs, develops, manufactures and sells optical components used in a number of consumer electronics products. Major customers for the Group’s optical components include subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

The Group believes that the Group’s state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as the Group’s strong relationships with the Group’s customers, will continue to differentiate the Group as a provider of high-performance and cost-effective camera modules and optical components, and position the Group to take advantage of attractive growth opportunities. The Group operates two production facilities at Hengkeng and Huanan in Dongguan, PRC, where the Group is able to take advantage of a high-quality labor force, extensive infrastructure for the Group’s operations, and a strategic location to facilitate the transportation of products to the Group’s customers.

For the six months ended June 30, 2016, the Group sold approximately 59.3 million units of camera modules and approximately 72.8 million units of optical components, compared to approximately 91.6 million units of camera modules and approximately 99.9 million units of optical components in the corresponding period of 2015. The Group’s revenue amounted to US\$301.8 million in the first half of 2016 as compared to US\$460.4 million in the first half of 2015. This decrease in revenue was primarily due to significant order cuts by major customers caused by sluggish global economy and slowing smartphone industry. It directly impacted on the bottom line of the Group. In addition, increased research and development (“**R&D**”) expenses for two new products launched in late first half of 2016 enlarged its magnitude. All in all, the Group recorded a net profit of US\$2.6 million in the first half of 2016 as opposed to US\$26.5 million in the first half of 2015.

Camera Modules

Camera Module revenue in the first half of 2016 fell by 34.3% as compared to that in the corresponding period in 2015. Main causes for sluggish sales were:

1. maturing premium smartphone market in China;
2. lengthening handset replacing cycle;
3. lower-than-expected sales of the new products;
4. decreasing orders from our customers driven by growing competition.

Optical Components

There are basically two product categories in our optical components product offerings: one is a DVD component and the other is 'Blue Filter' which is a camera modules component. Since DVD market is gradually shrinking as global internet usage is increasing, the consumers' appetite for DVD player has been decreasing. Therefore, the Group developed and introduced Blue Filters, an advance IR cut filter for camera modules, as its new optical component products in the market in 2014. Due to the global smartphone market slowing down in the first half of 2016, the sales of Blue Filters was also in the downward trend. As a result, the sales of optical components decreased by 48.4% as compared to that in the same period of 2015.

The following table presents a breakdown of the Group's revenue by product type and changes therein for the periods indicated.

	Six months ended June 30		Changes	
	2016	2015	Amount	%
	(US\$ in millions, except percentages)			
Revenue				
Camera modules	298.5	454.0	(155.5)	(34.3)%
Optical components	3.3	6.4	(3.1)	(48.4)%
Total	301.8	460.4	(158.6)	(34.4)%

As the majority of the Group's sales and procurement were denominated in U.S. dollars, the Group's exposure to exchange rate fluctuation during the six months ended June 30, 2016 was relatively insignificant. The Group generally does not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to the Group.

OUTLOOK AND FUTURE STRATEGIES

The first half of 2016 was a challenging period for the Group and the second half of 2016 is deemed to be uncertain due mainly to a cooling global smartphone market and global economic slowdown. In order to cope with this challenging business environment and economic situation, the Group will continue to provide strong technology and product development expertise, mass production know-hows and customer services in order to strengthen business relationship with the Group's existing customers and to grow the Group's business with them. The Group intends to develop components of key mobile devices as new product offerings based on our own research taking into account suggestions from the Group's major customers and aim to expand the Group's share of their growing demand for camera modules. Furthermore, the Group will make every endeavor to achieve deeper penetration into the camera modules market by expanding its customer base and product portfolio from primarily fixed-focus camera modules to a wider spectrum of high-end camera modules. The Group will also develop and offer higher resolution camera modules to the Group's customers to improve higher profit margin.

In addition, the Group will keep working with the existing customers to develop camera module solutions for their new products which may come from adding enhancements to the existing product categories or even create new market segments. The Group is willing to develop and manufacture any component of camera module which can bring synergistic value to the Group.

The Group also understands that designing packaging processes and execution of the processes in a consistent manner are the keys to the Group's success in the camera module business. And these will eventually help the Group improve operational efficiency and production yield and strengthen the Group's overall competitiveness in the market. Therefore, the Group will keep beefing up its R&D team and maintain a talent pool of skillful engineers.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at June 30, 2016, the Group had total assets of US\$403.7 million (December 31, 2015: US\$452.5 million); net current assets of US\$145.8 million (December 31, 2015: US\$162.7 million) and total equity of US\$284.0 million (December 31, 2015: US\$285.7 million).

The Group had a solid financial position and continued to maintain a strong and steady inflow from operating activities. As at June 30, 2016, the Group had US\$38.3 million in unencumbered cash and cash equivalents. Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

PLEDGE OF THE GROUP'S ASSETS

The Group had pledged its assets as securities for bank loans and other borrowings and banking facilities which were used to finance daily business operation and purchase of machinery. As at June 30, 2016, plant and equipment, trade receivables and pledged deposit with a net carrying value of US\$90.7 million (December 31, 2015: US\$94.1 million) has been pledged to bank to secure banking facilities.

CAPITAL EXPENDITURES AND COMMITMENTS

The Group's capital expenditures (equivalent to the cash the Group spent for payment for purchases of property, plant and equipment) for the six months ended June 30, 2016 amounted to US\$26.0 million, compared to US\$8.5 million for the six months ended June 30, 2015. The Group's capital expenditures in the first half of 2016 mainly reflected purchases of additional equipment to produce more advanced flip-chip camera modules. The Group intends to fund the Group's planned future capital expenditures through a combination of cash flow from operating activities, available banking facilities and the net proceeds from the issuance of new shares in the Global Offering (as defined in the Prospectus dated March 19, 2015).

CONTINGENT LIABILITIES

As at June 30, 2016, the Group had no significant contingent liabilities except for the guarantees issued by the Company to secure the banking facilities granted by banks to certain subsidiaries amounting to US\$65,000,000 (December 31, 2015: US\$105,000,000).

HUMAN RESOURCES

The Group employed a total of 5,220 full-time employees as of June 30, 2016 (December 31, 2015: 5,250). Total staff costs for the six months ended June 30, 2016, excluding remuneration of the directors (the “**Directors**”) of the Company were approximately US\$27.7 million (first half of 2015: US\$33.7 million).

The Group provided living, entertainment, dining and training facilities for the Group’s employees. Such training scope includes management skills and technology training, as well as other courses.

The Group has an emolument policy with respect to long-term incentive schemes of the Group. The basis of determining emoluments payable to the Directors is made on a discretionary basis with reference to the Company’s operating results, individual performance and comparable market statistics. Further, the Board has delegated the remuneration committee in reviewing and making recommendations to the board (the “**Board**”) of Directors in respect of the remuneration packages and benefits for the Directors and senior management of the Company. The emolument policy of the Group is determined by the remuneration committee on the basis of their merit, qualifications and competence.

Supplementary Information

DIRECTORS' AND CHIEF EXECUTIVE OFFICERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2016, so far as is known to the Directors, none of the Directors or the chief executive officer of the Company had any interests or short positions in the shares, underlying shares or debenture of the Company or its associated corporations which were (i) recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO"), or (ii) otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Model Code").

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At June 30, 2016, the following persons had interests or short positions in the shares (the "Share") of the Company (or relevant shares which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO:

Interest of substantial shareholders

Name of shareholder	Nature of interest	Number of Shares or underlying Shares ⁽⁴⁾	Approximate percentage of shareholding interest
Mr. Kwak Joung Hwan	Beneficial interest	374,159,400	45.00
Ms. Yang Won Sun ⁽¹⁾	Interest of spouse	374,159,400	45.00
Hahn & Company Eye Holdings Co., Ltd. ("Hahn & Co. Eye")	Beneficial interest	218,159,400	26.24
Hahn & Company 1 Private Equity Fund ("Hahn & Co. PEF") ⁽²⁾	Interests in controlled corporation	218,159,400	26.24
Hahn & Company LLC ("Hahn & Co. LLC") ⁽³⁾	Interests in controlled corporation	218,159,400	26.24

Notes:

- (1) Ms. Yang Won Sun is the spouse of Mr. Kwak Joung Hwan. Under Part XV of the SFO, Ms. Yang is deemed to be interested in the same number of Shares in which Mr. Kwak is interested.
- (2) Hahn & Co. Eye is wholly-owned by Hahn & Co. PEF. Therefore, Hahn & Co. PEF is deemed to be interested in all the Shares held by Hahn & Co. Eye under the provisions of Part XV of the SFO.
- (3) The general partner of Hahn & Co. PEF is Hahn & Co. LLC. Therefore, Hahn & Co. LLC is deemed to be interested in all the Shares held by Hahn & Co. Eye under the provisions of Part XV of the SFO.
- (4) All interests are long positions.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Share Option Scheme**”) on February 4, 2015 to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts to promote the interests of the Group.

Under the Share Option Scheme, the Company has granted share options (the “**Options**”) to certain eligible persons (the “**Grantees**”), being the Directors, executives, certain employees of the Company and its subsidiaries to subscribe for a total of 14,500,000 Shares. Details of the Options granted are set out below:

<Share Option Issuance 1>

Date of Grant:	October 30, 2015
Exercise price:	HK\$3.76 per Share
Total number of Options granted:	An aggregate of 12,600,000 Options
Exercisable period of the Options:	Options are exercisable from January 1, 2018 to October 29, 2025 (both dates inclusive)

<Share Option Issuance 2>

Date of Grant:	April 21, 2016
Exercise price:	HK\$3.57 per Share
Total number of Options granted:	An aggregate of 1,500,000 Options
Exercisable period of the Options:	Options are exercisable from March 1, 2017 to April 20, 2026 (both dates inclusive)

<Share Option Issuance 3>

Date of Grant:	June 20, 2016
Exercise price:	HK\$2.92 per Share
Total number of Options granted:	An aggregate of 400,000 Options
Exercisable period of the Options:	Options are exercisable from June 20, 2019 to April 20, 2026 (both dates inclusive)

Supplementary Information

Movement of the Options under the share option scheme during the six months ended June 30, 2016 are listed below:

	Number of Options				As at June 30, 2016	Exercise Price (HK\$)	Closing price of the securities immediately before the Date of Grant (HK\$)	Date of Grant	Vesting Period	Exercisable Period
	As at January 1, 2016	Granted during 2016	Cancelled	Lapsed						
Directors and chief executive officer										
Kim Kab Cheol	3,000,000		—	—	3,000,000	3.76	3.78	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
Seong Seokhoon	1,000,000		—	—	1,000,000	3.76	3.78	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
Lee Sun Yong ⁽¹⁾	—	1,500,000	(1,500,000)	—	—	3.57	3.38	April 21, 2016	April 22, 2016 to February 28, 2017	March 1, 2017 to April 20, 2026
Continuous contract employee										
	8,400,000		(300,000)	—	8,100,000	3.76	3.78	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
	—	400,000	—	—	400,000	2.92	2.86	June 20, 2016	June 21, 2016 to June 19, 2019	June 20, 2019 to April 20, 2026
Total:	12,400,000	1,900,000	(1,800,000)	—	12,500,000					

Note:

(1) Mr. Lee Sun Yong resigned as the chief executive officer of the Company with effect from June 20, 2016.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended June 30, 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Board reviewed the corporate governance of the Group in accordance with the code provisions (the “**Code Provisions**”) as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and considered that, for the six months ended June 30, 2016 (the “**Reporting Period**”), the Company regulated its operation and carried out appropriate corporate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions during the Reporting Period.

AUDIT COMMITTEE

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited consolidated financial report for the six months ended June 30, 2016. Based on this review, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the six months ended June 30, 2016.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. All Directors have confirmed, following specific enquiry of all Directors that they have fully complied with the required standard set out in the Model Code throughout the Reporting Period.

REVIEW OF INTERIM FINANCIAL REPORT

The unaudited interim financial report has been reviewed by the Company’s independent auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and by the audit committee of the Company. The review report of the independent auditor is set out on page 13.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Company nor any of its subsidiaries after the end of the Reporting Period requiring disclosure in this interim report.

THE BOARD OF DIRECTORS

Board Responsibilities

The Board is at the core of the Company's corporate governance structure, and is responsible for the overall strategic leadership and planning of the Company. All important matters of the Company are reserved for the Board's decision and the Board retains the authority of deciding such matters, including formulating and monitoring the Company's long term strategies and policy matters, reviewing financial performance, approving annual budgets, monitoring and reviewing internal control and risk management systems, assuming responsibility for the corporate governance of the Company, and upholding the core values of the Company.

Delegation by the Board

The Board relies on management for the day-to-day operation of the Company's business, and has delegated the authority and responsibility for the daily management, administration and operation of the Group as well as the implementation of the Board's policies and strategies to the senior management of the Group. The Board and senior management fully appreciate their respective responsibilities, and they complement each other in formulating and maintaining higher standards of corporate governance practices of the Company.

By order of the Board

Cowell e Holdings Inc.

Seong Seokhoon

Chairman

Hong Kong, August 11, 2016



Review report to the board of directors of Cowell e Holdings Inc.

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 14 to 26 which comprises the consolidated statement of financial position of Cowell e Holdings Inc. as of June 30, 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

August 11, 2016

Consolidated Statement of Profit or Loss

for the six months ended June 30, 2016 — unaudited
(Expressed in United States dollars)

	Note	Six months ended June 30	
		2016 \$'000	2015 \$'000
Revenue	3 & 4	301,759	460,397
Cost of sales		(276,902)	(400,482)
Gross profit		24,857	59,915
Other revenue		440	1,322
Other net income		1,316	248
Selling and distribution expenses		(1,851)	(1,568)
Administrative expenses		(21,712)	(22,656)
Listing expenses		—	(3,248)
Profit from operations		3,050	34,013
Finance costs	5(a)	(69)	(956)
Profit before taxation	5	2,981	33,057
Income tax	6	(372)	(6,594)
Profit for the period		2,609	26,463
Earnings per share	7		
Basic and diluted		\$0.003	\$0.034

The notes on pages 19 to 26 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2016 — unaudited
(Expressed in United States dollars)

	Six months ended June 30	
	2016	2015
	\$'000	\$'000
Profit for the period	2,609	26,463
Other comprehensive income for the period:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements	(5,002)	33
Total comprehensive income for the period	(2,393)	26,496

The notes on pages 19 to 26 form part of this interim financial report.

Consolidated Statement of Financial Position

at June 30, 2016 — unaudited
(Expressed in United States dollars)

	Note	At June 30, 2016 \$'000	At December 31, 2015 \$'000
Non-current assets			
Property, plant and equipment	8	128,237	112,780
Intangible assets		2,704	2,560
Other receivables		7,573	7,644
Deferred tax assets		158	323
		138,672	123,307
Current assets			
Inventories	9	69,848	101,280
Trade and other receivables	10	112,878	105,546
Current tax recoverable		380	353
Pledged deposits		28,412	28,498
Bank deposits	11	15,227	14,505
Cash and cash equivalents	11	38,319	79,056
		265,064	329,238
Current liabilities			
Trade and other payables	12	110,199	114,662
Bank loans		3,033	40,822
Current tax payable		6,070	11,102
		119,302	166,586
Net current assets		145,762	162,652
Total assets less current liabilities		284,434	285,959
Non-current liabilities			
Net defined benefit retirement obligation		230	209
Deferred tax liabilities		174	95
		404	304
NET ASSETS		284,030	285,655
CAPITAL AND RESERVES			
Share capital	13	3,326	3,326
Reserves		280,704	282,329
TOTAL EQUITY		284,030	285,655

The notes on pages 19 to 26 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2016 — unaudited
(Expressed in United States dollars)

	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Capital redemption reserve \$'000	Other reserve \$'000	General reserve fund \$'000	Property revaluation reserve \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'000
Balance at January 1, 2015	2,993	22,531	—	7	762	5,507	1,030	8,298	151,304	192,432
Changes in equity for the six months ended June 30, 2015:										
Profit for the period	—	—	—	—	—	—	—	—	26,463	26,463
Other comprehensive income	—	—	—	—	—	—	—	33	—	33
Total comprehensive income	—	—	—	—	—	—	—	33	26,463	26,496
Transfer from retained profits	—	—	—	—	—	953	—	—	(953)	—
Issuance of new shares, net of relevant expenses (note 13(b))	333	43,867	—	—	—	—	—	—	—	44,200
Contribution by a shareholder (note 13(b))	—	—	2,040	—	—	—	—	—	—	2,040
Balance at June 30, 2015 and July 1, 2015	3,326	66,398	2,040	7	762	6,460	1,030	8,331	176,814	265,168
Changes in equity for the six months ended December 31, 2015:										
Profit for the period	—	—	—	—	—	—	—	—	34,217	34,217
Other comprehensive income	—	—	—	—	—	—	—	(14,109)	103	(14,006)
Total comprehensive income	—	—	—	—	—	—	—	(14,109)	34,320	20,211
Transfer from retained profits	—	—	—	—	—	1,062	—	—	(1,062)	—
Equity settled share-based transactions	—	—	276	—	—	—	—	—	—	276
Transfer upon disposal	—	—	—	—	—	—	(1,030)	—	1,030	—
Balance at December 31, 2015	3,326	66,398	2,316	7	762	7,522	—	(5,778)	211,102	285,655
Balance at January 1, 2016	3,326	66,398	2,316	7	762	7,522	—	(5,778)	211,102	285,655
Changes in equity for the six months ended June 30, 2016:										
Profit for the period	—	—	—	—	—	—	—	—	2,609	2,609
Other comprehensive income	—	—	—	—	—	—	—	(5,002)	—	(5,002)
Total comprehensive income	—	—	—	—	—	—	—	(5,002)	2,609	(2,393)
Equity settled share-based transactions	—	—	768	—	—	—	—	—	—	768
Balance at June 30, 2016	3,326	66,398	3,084	7	762	7,522	—	(10,780)	213,711	284,030

The notes on pages 19 to 26 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended June 30, 2016 — unaudited
(Expressed in United States dollars)

	Note	Six months ended 30 June	
		2016 \$'000	2015 \$'000
Operating activities			
Cash generated from operations		29,171	47,614
Tax paid		(5,176)	(7,102)
Net cash generated from operating activities		23,995	40,512
Investing activities			
Payment for purchase of property, plant and equipment		(26,031)	(8,484)
Other cash flows arising from investing activities		(875)	72
Net cash used in investing activities		(26,906)	(8,412)
Financing activities			
Proceeds from bank loans		154,272	375,723
Repayment of bank loans		(192,068)	(460,011)
Proceeds from issuance of new shares, net of relevant expenses	13(b)	—	44,200
Contribution by a shareholder	13(b)	—	2,040
Decrease/(increase) in pledged deposits		86	(24,713)
Other cash flows arising from financing activities		(69)	(956)
Net cash used in financing activities		(37,779)	(63,717)
Net decrease in cash and cash equivalents		(40,690)	(31,617)
Cash and cash equivalents at January 1	11	79,056	82,224
Effect of foreign exchange rate changes		(47)	(33)
Cash and cash equivalents at June 30	11	38,319	50,574

The notes on pages 19 to 26 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in United States dollars unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on August 11, 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Cowell e Holdings Inc. (the “Company”) and its subsidiaries (the “Group”) since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s Independent review report to the Board of Directors is included on page 13.

The financial information relating to the financial year ended December 31, 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended December 31, 2015 are available on both the websites of The Stock Exchange of Hong Kong Limited and the Company. The auditors have expressed an unqualified opinion on those financial statements in their report dated March 21, 2016.

2 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRSs 2012–2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Interim Financial Report

(Expressed in United States dollars unless otherwise indicated)

2 Changes in accounting policies (continued)

Annual Improvements to IFRSs 2012–2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, IAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to IAS 1, Presentation of financial statements: Disclosure initiative

The amendments to IAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

3 Revenue and segment reporting

The principal activities of the Group are manufacturing and sale of camera module and optical components. Revenue represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base includes two customers (2015: two customers), with each of whom transactions have exceeded 10% of the Group's revenues, for the six months ended June 30, 2015. Revenues from sales to these customers, arose in the camera module segment, during the reporting period are set out below.

	Six months ended June 30	
	2016	2015
	\$'000	\$'000
Largest customer	244,710	380,796
– Percentage of total revenue	81%	83%
Second largest customer	43,761	66,391
– Percentage of total revenue	15%	14%

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments. No operating segments have been aggregated to form the following reportable segments.

(Expressed in United States dollars unless otherwise indicated)

3 Revenue and segment reporting (continued)**(a) Information about segment profit or loss**

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended June 30	Camera module		Optical components		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue from external customers	298,434	453,991	3,325	6,406	301,759	460,397
Reportable segment revenue	298,434	453,991	3,325	6,406	301,759	460,397
Segment profit/(loss)	4,082	37,176	(618)	199	3,464	37,375

Segment profit/(loss) is the profit/(loss) before tax. To arrive at segment profit/(loss), the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit or loss

	Six months ended June 30	
	2016 \$'000	2015 \$'000
Reportable segment profit	3,464	37,375
Unallocated head office and corporate expenses	(483)	(4,318)
Consolidated profit before taxation	2,981	33,057

4 Seasonality of operations

The Group's camera module segment, on average experiences higher sales in the fourth quarter, compared to other quarters in the year, due to the increased retail demand for its products during the holiday season. As a result, this division of the Group typically reports lower revenues and segment results for the first half of the year than the second half.

For the twelve months ended June 30, 2016, the camera module segment reported reportable segment revenue of \$811,796,000 (twelve months ended June 30, 2015: \$1,054,635,000), and reportable segment profit of \$51,486,000 (twelve months ended June 30, 2015: \$94,237,000).

Notes to the Unaudited Interim Financial Report

(Expressed in United States dollars unless otherwise indicated)

5 Profit before taxation

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

(a) Finance costs

	Six months ended June 30	
	2016 \$'000	2015 \$'000
Interest expense on bank borrowings	69	956

(b) Other items

Amortisation	208	183
Depreciation	8,032	6,972
Research and development costs (other than amortisation and depreciation)	8,310	6,080
Reversal of write-down of inventories (note 9)	—	(206)
Interest income	(211)	(236)
Net loss on disposal of plant and equipment	—	360
Impairment loss on trade receivables	185	—

6 Income tax

	Six months ended June 30	
	2016 \$'000	2015 \$'000
Current tax — Hong Kong Profits Tax	335	3,623
Current tax — Overseas	(204)	2,922
Deferred taxation	241	49
	372	6,594

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended June 30, 2016. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$2,609,000 (six months ended June 30, 2015: \$26,463,000) and 831,518,800 ordinary shares (six months ended June 30, 2015: weighted average of 789,918,800 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as the Group did not have dilutive potential ordinary shares during the interim period (2015: Nil).

8 Property, plant and equipment

(a) Acquisitions and disposals

During the six months ended June 30, 2016, the Group acquired items of plant and equipment with a cost of \$26,031,000 (six months ended June 30, 2015: \$8,484,000). Items of plant and equipment with a net book value of \$Nil were disposed of during the six months ended June 30, 2016 (six months ended June 30, 2015: \$360,000), resulting in a loss on disposal of \$Nil (six months ended June 30, 2015: \$360,000).

(b) Customer's equipment

A customer has provided machinery to the Group for production of goods to that customer. The original acquisition costs of machinery borne by the customer amounted to \$116,438,000 (December 31, 2015: \$117,235,000) and was not recognised as the Group's property, plant and equipment. There is no rental charge for the machinery and the management consider that the arrangement has been taken into account in determining sales prices with the customer.

9 Inventories

During the six months ended June 30, 2015, \$206,000 was recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of reversal of a write-down of inventories to estimated net realisable value. This reversal arose due to an increase in the estimated net realisable value of certain camera modules as a result of a change in consumer preferences.

Notes to the Unaudited Interim Financial Report

(Expressed in United States dollars unless otherwise indicated)

10 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At June 30, 2016 \$'000	At December 31, 2015 \$'000
Within 1 month	65,948	51,817
Over 1 to 2 months	25,109	30,987
Over 2 to 3 months	329	911
Over 3 months	585	2,489
Trade receivables, net of allowance for doubtful debts	91,971	86,204
Other receivables and prepayments	20,907	19,342
	112,878	105,546

Trade receivables are due within 30 to 90 days from the date of billing.

Trade receivables with carrying amount of \$65,734,000 (December 31, 2015: \$67,656,000) were used to secure the Group's bank loans.

11 Bank deposits and cash and cash equivalents

	At June 30, 2016 \$'000	At December 31, 2015 \$'000
Bank deposits within three months to maturity when placed	7,602	5,833
Cash at bank and in hand	30,717	73,223
Cash and cash equivalents in the statement of financial position and the condensed consolidated cash flow statement	38,319	79,056
Bank deposits with more than three months to maturity when placed	15,227	14,505

(Expressed in United States dollars unless otherwise indicated)

12 Trade and other payables

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

	At June 30, 2016 \$'000	At December 31, 2015 \$'000
Within 1 month	50,759	35,019
Over 1 to 3 months	42,556	62,404
Over 3 to 6 months	2,742	1,276
Trade payables	96,057	98,699
Accrued charges and other payables	14,142	15,963
	110,199	114,662

13 Capital, reserves and dividends

(a) Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: \$Nil).

(b) Issuance of new shares

On March 31, 2015, the Company's shares were listed on The Stock Exchange of Hong Kong Limited, among which 83,200,000 new shares of \$0.004 each were issued to investors following the completion of the Company's initial public offering at a price of HK\$4.25 per share. The gross proceeds received by the Company from the global offering was approximately HK\$353,600,000 (equivalent to \$45,567,000). One of the substantial shareholders has contributed \$2,040,000 to compensate part of the listing expenses incurred and such amount has been recognised under capital reserve.

(c) Equity settled share-based transactions

On April 21, 2016 and June 20, 2016, 1,500,000 and 400,000 share options were granted respectively for nominal consideration of HK\$1 to employees of the Group under the Company's employee share option scheme (no share options granted during the six months ended June 30, 2015). Each share options gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on February 28, 2017 and June 19, 2019 respectively, and then exercisable until April 2026. The exercise price are HK\$3.57 and HK\$2.92 respectively, being the weighted average closing price of the Company's ordinary shares immediately before the grant.

During the six months ended June 30, 2016, no options were exercised and 1,800,000 share options were cancelled under the share option scheme.

Notes to the Unaudited Interim Financial Report

(Expressed in United States dollars unless otherwise indicated)

14 Capital commitments outstanding not provided for in the interim financial report

	At June 30, 2016 \$'000	At December 31, 2015 \$'000
Contracted for	2,342	3,352

15 Contingent liabilities

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to certain banks to secure banking facilities granted by banks to certain subsidiaries amounting to \$65,000,000 (December 31, 2015: \$105,000,000).

As at the end of the reporting period, the directors do not consider it to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries amounting to \$3,033,000 (December 31, 2015: \$40,822,000).

16 Material related party transactions

The Group entered into the following material related party transactions.

Key management personnel remuneration

All members of key management personnel are the directors of the Company, and their salaries and other short-term benefits for the period are \$609,000 (six months ended June 30, 2015: \$2,017,000).

Consultancy fee payable to a substantial shareholder

In April 2016, the Group entered into a one year consulting agreement at the annual rate of US\$380,000 in respect of consultancy service provided by a substantial shareholder. The amount of consultancy service fee incurred during the six months ended June 30, 2016 is \$74,000. No amounts were outstanding as at June 30, 2016.