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
ANNUAL REPORT

COWELL Cowell e Holdings Inc.
高偉電子控股有限公司

Contents

Annual Report 2016

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. Seong Seokhoon *(Chairman)*
(redesignated on March 1, 2016)
Mr. Kim Kab Cheol
Mr. Kwak Joung Hwan
(Chairman and Chief Executive Officer) —
(resigned on February 29, 2016)

Non-executive Director

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

Independent Non-executive Directors

Mr. Kim Chan Su
Dr. Song Si Young
Mr. Andrew Look *(appointed on March 23, 2017 with effect from April 3, 2017)*
Mr. Kim Ilung *(appointed on May 13, 2016 and resigned on March 23, 2017)*
Mr. Okayama Masanori *(resigned on May 12, 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. Andrew Look *(appointed on March 23, 2017 with effect from April 3, 2017)*
Mr. Kim Ilung *(resigned on March 23, 2017)*
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. Seong Seokhoon
(redesignated as Chairman on March 1, 2016)
Dr. Song Si Young
Mr. Kim Chan Su
Mr. Kwak Joung Hwan *(resigned on February 29, 2016)*

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1 Songbai Road
Huanan Industrial Zone
Liaobu Town
Dongguan City
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3208-9
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
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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
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Hongkong 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
Unit 2402, 24/F., Admiralty Centre I,
18 Harcourt Road, Hong Kong

Chairman's Statement

Dear Shareholders,

I would like to present our key milestones and achievements for the financial year ended December 31, 2016 on behalf of Cowell e Holdings Inc. ("Cowell" or the "Company").

Our strategic objective is to take the lead in the camera module industry. To achieve this objective, we have continued to develop design technology, product development expertise, manufacturing processes and customer services which eventually strengthened business relationships with our major customers.

However, the fiscal year of 2016 was a very challenging year to Cowell. The growth of the global smartphone industry was very slow and the competition in the smartphone market, especially in China, were very fierce. A number of Chinese smartphone makers were quickly gaining market share through the technology enhancement and aggressive overseas marketing activities as well as their low pricing strategy, which substantially impacted our Chip-on-board ("COB") camera module business. For the year ended December 31, 2016, our revenue decreased to US$914.5 million, 6.7% less than that of 2015, and we recorded a net profit of US$28.5million, a 53.0% decrease as compared to the prior year.

In order to cope with changing market landscape, we have focused on developing innovative processing, improving production yield and satisfying customers' requirements. Our efforts in this regard will continue. Furthermore, by mobilizing all our available resources, we will strive to diversify both client and product portfolios in the near future. We are currently expanding our research and development activities to reshape our product roadmap and business direction and to pave the way for our future growth.

The management of Cowell strongly believes that human resources are Cowell's core assets. Therefore, we are making every effort to encourage and nurture the young and talented employees to cultivate their career within the Company for our mutual growth. In the meantime, we will continue to recruit professionals with expertise in camera module solutions and value-added applications to enlighten Cowell's future product strategy. In this regard, the management team will maintain its commitment and execute our strategies for Cowell's continued growth.

Lastly but not the least I am grateful to all our staff and management team for their hard work throughout the year. On behalf of Cowell, I would like to thank all our shareholders for their interest in Cowell and continued support in the future. And as always, my sincere appreciation goes to our Board members for their contribution and invaluable guidance during the year.

Mr. Seong Seokhoon
Chairman

Management Discussion and Analysis

MARKET REVIEW

The growth of the smartphone industry is getting slower and the competition in the market is becoming very fierce. Chinese smartphone brands were able to get more market share from the existing major players including Apple, Samsung Electronics and LG Electronics based on their technical innovation and aggressive overseas marketing efforts, not just based on their usual low pricing strategy. This trend has changed the global smartphone competition landscape. Three major Chinese smartphone brands have already been recognized as a part of the world top 5 smartphone makers.

In addition to the change in the competition landscape, the smartphone market is requiring more sophisticated technological innovation, functions and applications to meet consumers' demand. Dual camera modules are now deemed to be a market standard for the premium phones and 3D camera modules have been often the core agenda of many industry discussions.

Apart from the smartphone industry, electronic automobile device makers also require more camera solutions in their systems to enhance self-driving capability and assist people to drive safely. Therefore, there is no doubt that the demand for camera functions will be increasing since more product innovation both in the smartphone industry and the automobile device industry will include various solutions with camera modules.

The aforementioned market trend has already had a large impact on Cowell's COB camera module business since the Group has not started supplying camera modules to Chinese smartphone makers yet. The management team of the Group is well aware of this trend and has been devoting enormous time and effort to tackle this challenge.

BUSINESS REVIEW

The Group is a major supplier of camera modules for mobile devices. It 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 of 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 of 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 its 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 strong relationships with customers will continue to differentiate it as a provider of high-performance and cost-effective camera modules and optical components, and position it well to take advantage of attractive growth opportunities. The Group operates two production facilities at Hengkeng and Huanan in Dongguan the PRC, where it can take advantage of a high-quality labor force and an extensive infrastructure for its operations, and a strategic location to facilitate the transportation of products to its customers.

For the year ended December 31, 2016, the Group sold approximately 167.9 million units of camera modules and approximately 125.0 million units of optical components, compared to approximately 197.4 million units of camera modules and approximately 183.6 million units of optical components in 2015. Revenue amounted to US$980.2 million in 2015 and US$914.5 million in 2016 and a profit for the year of US$60.7 million in 2015 and US$28.5 million in 2016 was recorded. The Group had total assets of US$562.3 million and total equity of US$297.4 million as of December 31, 2016, compared to total assets of US$452.5 million and total equity of US$285.7 million as of December 31, 2015.

In order to facilitate efficient capital management and demonstrate the management's willingness to share the Group's profit with the shareholders, the Board has proposed the payment of a final dividend of HK7.977 cents per ordinary share for the year ended December 31, 2016.

OUTLOOK AND FUTURE STRATEGIES

The Group intends to continue to provide strong technology and product development expertise, manufacturing execution and customer services in order to strengthen the relationships with its major customers and to grow its business with them. It plans to maximize benefits from key mobile device products introduced by its largest customers and aims to expand its share of their demand for camera modules. The Group is also seeking further penetrate the camera modules market by expanding its product portfolio from primarily fixed-focus camera modules to a variety of high-end camera modules. In addition, it aims to produce higher resolution camera modules the Group believes that it will drive higher profit margins.

Furthermore, the Group intends to closely work with its customers to develop new camera module solutions for the customers' new products. These new camera module solutions may expand the categories which the Group currently does not serve and enable the creation of new market segments. The Group also intends to develop and manufacture components which may be used in camera modules, including advanced IR cut filters, and other optical components which provide synergistic value. In addition, the Group intends to continue to enhance and expand its flip-chip and COB technologies and manufacturing capabilities and production capacity to align its camera module business strategies with its customer requirements. The Group also aims to continuously enhance its operational efficiency by improving its manufacturing technologies and processes, which can lead to increase productivity, higher production yields and reduce costs.

Since December 31, 2015, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of its components and materials. However, the Group's cost of sales for the year ended December 31, 2016 was increased due to a longer than expected lead time to reach the target production yield of new products launched in the fiscal year of 2016. Although the target yields of the new products were reached during the fiscal year of 2016, the overall profitability of the Group has deteriorated. The lengthened lead time to reach the target production yield was mainly due to the substantial resolution upgrade for the new products introduced. The experience and expertise developed in the course of mass production for new products in the fiscal year of 2016 will improve the Group's profitability for the fiscal year of 2017.

The Board awares that its customer and product portfolios are highly concentrated. Therefore, the Board has decided to substantially expand its research and development division to develop new products independently and/or enter into strategic partnerships with companies with different technologies or solutions to create synergy for mutual growth.

FINANCIAL REVIEW

The following table shows the summary of business results for the year ended December 31, 2016:

	For the year ended December 31, Consolidated		
	2016	2015	**Changes**
	(US$ in millions)	(US$ in millions)	%
OPERATING RESULTS			
Revenue	**914.5**	980.2	(6.7%)
Camera modules	**907.8**	967.4	(6.2%)
Optical components	**6.7**	12.8	(47.7%)
Gross profit	**76.1**	136.9	(44.4%)
Gross margin	**8.3%**	14.0%	
Operating profit	**35.4**	78.6	(55.0%)
Operating margin	**3.9%**	8.0%	
Net profit	**28.5**	60.7	(53.0%)
Net margin	**3.1%**	6.2%	
ASSETS & LIABILITIES			
Total assets	**562.3**	452.5	24.3%
Current assets	**426.5**	329.2	29.6%
Non-current assets	**135.8**	123.3	10.1%
Total liabilities	**264.9**	166.9	58.7%
Current liabilities	**264.5**	166.6	58.8%
Non-current libabilities	**0.4**	0.3	33.3%
Total equity	**297.4**	285.6	4.1%
EARNINGS PER SHARE	**$ 0.034**	$ 0.075	(54.7%)

Revenue

The Group reported a total revenue of US$914.5 million in 2016, a 6.7% decrease as compared to that of 2015.

Camera Modules: Camera module revenue for the fiscal year of 2016 was US$907.8 million, a 6.2% decrease from US$967.4 million in 2015 mainly due to an overall 22.6% decrease in sales to LG Electronics and Samsung Electronics which was largely driven by Chinese smartphone makers' gaining market shares.

Optical Components: Optical component revenue for the fiscal year of 2016 was US$6.7 million, a 47.7% decrease from US$12.8 million in 2015 primarily due to the decreased demand in line with slow smartphone industry and DVD market.

Profit and Margin

For the year ended December 31, 2016, the Group has reported gross profit, operating profit and net profit of US$76.1 million, US$35.4 million and US$28.5 million, respectively, as compared to US$136.9 million, US$78.6 million and US$60.7 million, respectively, in the fiscal year of 2015. In terms of margins, the Group's gross margin, operating margin and net margin for the year ended December 31, 2016 were 8.3%, 3.9% and 3.1%, respectively, as compared to 14.0%, 8.0% and 6.2%, respectively, in 2015. Both profits and margins substantially deteriorated in the fiscal year of 2016 mainly due to the decrease in COB sales and unexpected long lead time to reach target production yield for the new camera modules for the main US customer at the beginning stage of mass production.

During the year ended December 31, 2016, the Group did not experience in any significant change of pricing policy for its products and there was no material change in the unit cost of the Group's components and materials. Furthermore, as far as the Directors are aware, for the year ended December 31, 2016, there has been no adverse material change in the Group's operating costs.

Key Financial Ratios

	For the year ended December 31, Consolidated	
	2016	2015
	(US$ in millions)	
KEY FINANCIAL RATIO (%)		
Return on equity	**9.6%**	21.2%
Current ratio (times)	**1.61**	1.98
Quick ratio (times)	**1.39**	1.37
Gearing ratio	**(15.1%)**	(39.7%)
Debt to equity ratio	**(13.1%)**	(28.4%)

Return on Equity

The calculation of return on equity is based on profit for the period divided by capital and reserves and multiplied by 100%.

The Group's return on equity at the end of the fiscal year of 2016 decreased from 21.2% in 2015 to 9.6% in 2016, primarily due to a decrease in profit for the year ended December 31, 2016.

Current Ratio

The calculation of current ratio is based on current assets divided by current liabilities.

The Group's current ratio decreased from 1.98 in 2015 to 1.61 in 2016, primarily due to decrease in inventory and increases in its bank loans and trade and other payables. Its bank loans are not clean/conventional bank loans but a trade receivable financing backed by the trade receivables of its main US customer.

Quick Ratio

The calculation of the quick ratio is based on current assets less inventories divided by current liabilities.

The Group's quick ratio increased from 1.37 in 2015 to 1.39 in 2016, mainly due to increase in the Group's trade and other receivables, which were partially offset by a corresponding increase in the Group's bank loans and trade and other payables.

Gearing Ratio

The calculation of gearing ratio is based on net debt (defined as bank loans less cash and cash equivalents and pledged deposits) divided by the sum of net debt and total equity, and multiplied by 100%.

The Group's gearing ratio increased from -39.7% in 2015 to -15.1% in 2016, primarily due to an increase in its bank loans.

Debt to Equity Ratio

The calculation of debt to equity ratio is based on net debt divided by total equity and multiplied by 100%.

Consistent with its gearing ratio, the Group's debt to equity ratio increased from -28.4% in 2015 to -13.1% in 2016, primarily due to an increase in its bank loans.

Selling and Distribution Expenses

The selling and distribution expenses decrease by 53.6% from US$6.9 million in 2015 to US$3.2 million in 2016. This was mainly attributable to the cancellation of the export administration fee scheme levied by local governments in the PRC during the year. Other than this, there were no other material adverse developments in the selling and distribution expenses in the fiscal year of 2016.

Administrative Expenses

Administrative expenses decreased by 11.5% from US$50.3 million in 2015 to US$44.5 million in 2016. This decrease was primarily attributable to a US$9.6 million decrease in salaries, allowance, social insurance and welfare, excluding the relevant costs included in research and development expense. The research and development expense in the fiscal year of 2016 was increased by about 14.4% to US$16.7 million as compared to US$14.6 million in 2015 in line with new product development projects completed in the fiscal year of 2016 for its main US customer.

Finance Costs

Finance costs decreased by 50.0% from US$1.6 million in 2015 to US$0.8 million in 2016, which was mainly attributable to the improved terms and condition of the trade receivable financing facility with the bank.

Income Tax

The Group's income tax expense decreased by 65.6% from US$16.3 million in 2015 to US$5.6 million in 2016 due mainly to the lowered taxable income as well as Cowell China's, an indirect wholly owned subsidiary of the Company, was certified as a "High-New Technology Enterprise" (the "HNTE") by the PRC government. The local corporate tax rate for the HNTE is 15% instead of the standard corporate tax rate of 25% in the PRC. As a result, the Group's effective tax rate was lowered by 4.9% from 21.2% in 2015 to 16.3% in 2016.

Final Dividends

For the year ended December 31, 2016, the dividends proposed by the Board was HK7.977 cents (equivalent to US 1.028 cents) per share, with a payout ratio of 30.0% of the profit attributable to the Shareholders.

CURRENT ASSETS AND LIABILITIES

As of December 31, 2016, the Group had net current assets of US$162.0 million, compared to net current assets of US$162.7 million as of December 31, 2015, representing a decrease of US$0.7 million. This change was primarily due to an increase in the Group's trade and other payables of US$54.0 million and, an increase in the Group's bank loans of US$48.4 million, which were offset in part by an increase in trade and other receivables of US$125.6 million. The Group's trade and other receivables and trade and other payables increased mainly as a result of increased revenue in the fourth quarter of 2016.

Inventories

The Group's inventory balance decreased by 40.8%, or US$41.3 million, from US$101.3 million as of December 31, 2015 to US$60.0 million as of December 31, 2016, due mainly to an efficient inventory management and relatively improved accuracy in customers' projected orders in the fourth quarter of 2016.

The following table sets forth the Group's average inventory turnover days for the periods indicated:

	As of December 31,	
	2016	2015
Inventory turnover days(1)	**35.1**	36.2

(1) Inventory turnover days were calculated based on the average of the opening and closing inventory balances divided by the cost of sales for the relevant period and multiplied by the number of days in the period.

Trade and Other Receivables

Trade receivables represent outstanding amounts due from the Group's customers for the purchase of its products. Besides trade receivables, the Group's other receivables and prepayments primarily comprise prepayments on the purchase of components and materials, value-added tax refunds due and guarantee deposits for its leases.

The Group's trade and other receivables increased by 119.1%, or US$125.7 million, from US$105.5 million as of December 31, 2015 to US$231.2 million as of December 31, 2016, mainly due to a result of increased revenue in the fourth quarter of 2016.

The table below sets forth an aging analysis of the Group's trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, as of the dates indicated:

	As of December 31,	
	2016	2015
	(US$ in millions)	
Trade receivables		
Within 1 month	**133.8**	51.8
Over 1 to 2 months	**67.4**	31.0
Over 2 to 3 months	**0.4**	0.9
Over 3 months	**0.5**	2.5
Total	**202.1**	86.2

The following table sets forth the turnover days for the Group's trade receivables for the periods indicated:

	Year ended December 31,	
	2016	2015
Trade receivables turnover days[(1)]	**57.5**	54.1

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by turnover for the relevant period multiplied by the number of days in the period.

The Group's average trade receivables turnover days for the year ended December 31, 2016 were higher as compared to the year ended December 31, 2015 due primarily to the increase in the balance of its trade receivables as of December 31, 2016.

Trade and Other Payables

Trade payables represent outstanding amounts due on the Group's purchases of components and materials and equipment from external suppliers. Besides trade payables, the Group's accrued charges and other payables primarily comprise accrued salaries and other remuneration benefits and interest expenses payable.

The Group's trade and other payables increased by 47.1%, or US$54.0 million, from US$114.7 million as of December 31, 2015 to US$168.7 million as of December 31, 2016, primarily due to an increase in the purchased components and materials resulting mainly from the increase of production in the fourth quarter of 2016.

The following table sets forth an aging analysis of the Group's trade payables (which include in trade and other payables) as of the dates indicated:

	As of December 31,	
	2016	2015
	(US$ in millions)	
Trade payables		
Within 1 month	**88.0**	35.0
Over 1 to 3 months	**68.8**	62.4
Over 3 to 6 months	**0.6**	1.3
Total	**157.4**	98.7

The following table sets out the turnover days for the Group's trade payables for the periods indicated:

	Year ended December 31,	
	2016	2015
Trade payables turnover days(1)	**51.1**	53.8

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by turnover for the relevant period multiplied by the number of days in the period.

The Group's average trade payables turnover days for the year ended December 31, 2016 were lower as compared to the year ended December 31, 2015 primarily as a result of the high balance of the Group's trade payables as of December 31, 2016, reflecting the increase in the Group's purchases of components and materials for the production of camera modules in the fourth quarter of 2016.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has a solid financial position and continued to maintain a strong and steady inflow from operating activities. As at December 31, 2016, the Group had US$85.4 million of cash and cash equivalents. The Directors believes that the 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.

Borrowings

As of the close of business on December 31, 2016, the Group had aggregate banking facilities of approximately US$90.0 million, of which US$89.2 million were utilized. Other than this, the Group did not have any other outstanding debt securities, charges, mortgages or other similar indebtedness, hire purchase and finance lease commitments, or guarantees or other material contingent liabilities

Pledge of The Group's Assets

As at December 31, 2016, the Group's pledged deposits included US$3.2 million (December 31, 2015 : US$3.5 million) provided to the local customs authority in the PRC. Details of such pledge is disclosed in note 16 to the consolidated financial statements.

Capital Expenditures and Commitments

The Group's capital expenditures (equivalent to the cash spent for payment for purchases of property, plant and equipment) for the year ended December 31, 2016 amounted to US$43.4 million which was funded through cash flow from operation, compared to US$36.9 million for the year ended December 31, 2015. The Group's capital expenditures in 2016 mainly reflected purchases of additional equipment to produce more advanced Flip-chip camera modules. The Group intends to fund the planned future capital expenditures through a combination of cash flow from operating activities, IPO proceeds and available banking facilities.

The Group's capital commitments that were contracted but not provided as of December 31, 2016 amounted to US$0.8 million, compared to US$3.4 million as of December 31, 2015. Such capital commitments represent commitments arising out of a contractual relationship where the relevant property, plant and equipment were not provided as of the relevant dates.

The Group is the lessee in respect of a number of properties held under operating leases. These leases are non-cancellable for the remaining period from 1 to 18 years, with an option to renew the lease upon expiration. None of the leases include contingent rentals. The table below sets forth the Group's operating lease commitments under these non-cancellable operating leases for factory, office, equipment and vehicles, by lease term, as of the dates indicated:

	As of December 31,	
	2016	2015
	(US$ in millions)	
Within one year	**2.0**	2.1
Between one and five years	**6.2**	6.7
Over five years	**13.8**	16.4
Total	**22.0**	25.2

Contingent Liabilities

As at December 31, 2016, the Group had no significant contingent liabilities except for the guarantees issued by the Company to secure the banking facilities with banks as disclosed in note 25 to the consolidated financial statements.

Interest Coverage Ratio

The interest coverage ratio slightly decreased from 48.7 in 2015 to 43.9 in 2016, primarily due to a decrease in the profit before interest and income taxes, as well as a decrease in average finance costs resulting from a decrease in the Group's average bank loans.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of its assets, liabilities and other commitments can meet funding requirements from time to time.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK

The Group's exposure to credit, liquidity, interest rate and currency risks arises in the normal course of its business. The market risks to which the Group is exposed to, as well as its practices to manage such risks, are as follows:

Credit Risk

The Group's credit risk is primarily attributable to its trade and other receivables, financial assets and deposits with banks. In respect of trade and other receivables, the Group performs individual credit evaluations on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer and the economic environment in which the customer operates. Trade and other receivables are generally due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers. In respect of deposits with banks, the Group only places its deposits with the major financial institutions which the management believes such institutions have a high credit rating.

The Group's exposure to credit risk is influenced primarily by the individual characteristics of each customer, and to a lesser extent, by the default risk of the industry and country in which its customers operate. As of December 31, 2016, 86.1% (2015: 78.5%) of the Group's trade receivables were due from its largest customer, and 100% (2015: 98.1%) of its trade receivables were due from its five largest customers in the aggregate.

Liquidity Risk

The Group's policy is to regularly monitor liquidity risk so as to ensure that it maintains sufficient reserves of cash and adequate bank facilities to meet its liquidity requirements in the short and longer term. The Group's bank loans amounting to US$89.2 million (2015: US$40.8 million) as of December 31, 2016 were due, or expected to be due, prior to the second quarter of 2017, and are not clean/conventional bank loans, but a trade receivable financing based on the invoices from the main US customer. The short-term liquidity risk inherent in this contractual loan maturity schedule was reviewed at the time of the loans were drawn and was accounted for in the Group's cash flow forecasts.

Please refer to note 23(b) to the financial statements for further information.

Interest Rate Risk

The Group's interest rate risk arises primarily from its interest-bearing borrowings subject to variable rates, which expose it to cash flow interest rate risk, and those subject to fixed rates, which expose the Group to fair value interest rate risks. As of December 31, 2016, the Group's variable rate borrowings amounted to US$89.2 million (2015 US$40.8 million).

As of December 31, 2016, it is estimated that if interest rates increased generally by 100 basis points, with all the other variables held constant, the Group's profit after tax and retained profits would have decreased by approximately US$0.7 million (2015: US$0.3 million). Other components of the Group's equity would not have been affected by a general increase in interest rates.

Currency Risk

The Group's exposure to currency risk arises primarily through sales and purchases giving rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars (pegged to the U.S. dollar), Renminbi and Korean Won.

The functional currency of the Company and the Group's subsidiaries operating in Hong Kong, the PRC and Korea are U.S. dollars, Hong Kong dollars, Renminbi and Korean Won, respectively. While both the Group's sales of products and purchases of components, materials and equipment are denominated mainly in U.S. dollars, a portion of its purchases, as well as its labor and other operating costs, are denominated in other currencies, including Renminbi and Korean Won. For the year ended December 31, 2016, the Group did not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to us.

As of December 31, 2016, it is estimated that if the exchange rate of the Korean Won against the U.S. dollar had appreciated by 5%, with all the other variables held constant, the Group's profit after tax and retained profits would have increased by approximately US$0.7 million (2015: US$0.8 million).

Please refer to note 23(d) to the consolidated financial statements for further details.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposals of subsidiaries and associated companies of the Company performed by the Group for the year ended December 31, 2016.

HUMAN RESOURCES

The Group employed a total of approximately 5,298 full-time employees as of December 31, 2016 (5,372 as of December 31, 2015). Total staff costs for the year ended December 31, 2016, excluding the Directors' remuneration were approximately US$60.7 million (2015: US$77.7 million).

In particular, professional employment agencies located in Dongguan, the PRC have been involved in hiring most of the Group's factory workers. The Group also provides living, entertainment, dining and training facilities for its employees. The scope of this training includes management skills and technology training, as well as other courses.

The Group has an emolument policy with respect to its long-term incentive schemes. The basis of determining emoluments payable to the Group's directors is made on a discretionary basis with reference to the Company's operating results, individual performance and comparable market statistics. Furthermore, the Board has delegated its remuneration committee to review and make recommendations in respect of the remuneration packages and overall benefits for the Directors and senior management of the Company. The emolument policy of the Group is considered by the remuneration committee on the basis of their merit, qualifications and competence. Details of such bonuses paid to the Group's directors are disclosed in note 7 to the consolidated statements.

Directors and Senior Management

As of the date of this annual report, the Board consists of five Directors including two executive Directors and three independent non-executive Directors. The following sets forth the profile of the Directors and senior management:

Executive Directors

Mr. Kim Kab Cheol, aged 56, is an executive Director of the Company. Mr. Kim is responsible for assisting the chairman in the business operations and responsible for the day-to-day management of our Group. Prior to joining our Group in May 2004 as a plant manager at the Cowell Korea factory located in Dae-Jeon, Korea, he worked at the production, research and development and quality management department at LG Chem Ltd. ("LG Chem"), an integrated chemical company listed on the Korea Exchange (stock code: 051910), as an assistant manager between November 1987 and December 1998. Between January 1999 and April 2004, Mr. Kim worked as a senior manager at the quality management department of Orion Engineered Carbon Co., Ltd., a private company based in Korea which supplies carbon black. Mr. Kim has been a director and chief executive officer of Cowell China since June 2005 and June 2011 respectively. He served as a chief executive officer and a director of Cowell Korea between October 2008 and May 2011. Mr. Kim was appointed as a Director on March 27, 2009 and subsequently re-designated as an executive Director on April 14, 2014. Mr. Kim has also been a director of Cowell Hong Kong since September 2011. Mr. Kim has been redesignated as the chief executive officer of the Company on June 20, 2016. Mr. Kim received a bachelor's degree in chemical engineering from Inha University in Korea in February 1988.

Mr. Seong Seokhoon, aged 53, is an executive Director and the chief financial officer of the Company. Mr. Seong is responsible for supervising the financial operation of the Group. Prior to joining the Group in May 2003 as the chief executive officer of Cowell Korea, Mr. Seong worked at the planning department at LG Chem as an assistant manager between January 1989 and December 1994 and the financial affairs and planning department at Woobang Construction Co., Ltd., a Korean company engaged in the construction business, as a senior manager between January 1995 and February 2001. In the periods between November 2001 and May 2003 and between October 2008 and May 2012, Mr. Seong served as the chief executive officer of DSD Marketing, a marketing agency based in Korea, and from August 2007 to September 2008, he served as a director of Cowell Korea. From May 2003 to September 2008, Mr. Seong served as the chief executive officer of Cowell Korea. He was appointed as the chief financial officer of Cowell China in May 2012 and in December 2012, he was appointed as a director of Cowell Hong Kong. Mr. Seong was appointed as a Director on December 17, 2012. He was re-designated as an executive Director on April 14, 2014 and was appointed the chief financial officer of the Company in October 2014. Mr. Seong has been redesignated as the Company's chairman of the board with effect on March 1, 2016. Mr. Seong received a bachelor's degree in accounting from Kyungpook National University in Korea in February 1989.

Independent non-executive Directors

Mr. Kim Chan Su, aged 49, is an independent non-executive Director. Mr. Kim is responsible for supervising and providing independent judgment to the Board. Mr. Kim has over 20 years' experience in professional accounting and consulting services. Since November 2004, Mr. Kim has been the chief executive officer and representative partner of IL SHIN Corporate Consulting Limited and IL Shin CPA Limited, private companies based in Hong Kong which provide professional tax and accounting advisory services to clients in Hong Kong, China and overseas. From August 2002 to October 2004, Mr. Kim worked at PricewaterhouseCoopers Hong Kong as a representative of the Korean desk in charge of Korean companies' investment in Hong Kong and China. From October 1993 to July 2002, Mr. Kim served as a senior manager at Samil Accounting Corporation in Seoul. From September 2004 to January 2013, Mr. Kim also acted as an independent non-executive director of Forebase International Holdings Limited (formerly known as Kwang Sung Electronics H.K. Co. Limited), which is listed on the Hong Kong Stock Exchange (stock code: 2310). Mr. Kim obtained a bachelor's degree in economics from Yonsei University in Korea in February 1992. Mr. Kim is a certified public accountant in Korea, Hong Kong and the States of Washington of the United States. He is a also member of AICPA and the HKCPA respectively. Mr. Kim was appointed as an independent non-executive Director of the Company on March 10, 2015.

Mr. Andrew Look, aged 52, was appointed as an independent non-executive Director with effect on April 3, 2017. Mr. Look is responsible for supervising and providing independent judgment to the Board. Mr. Look is the founder of Look's Asset Management Limited, a Hong Kong based asset management company licensed by Hong Kong Securities and Futures Commission ("SFC"). Mr. Look was the Head of Hong Kong Research, strategy and product of UBS AG until August 2008. He joined UBS AG in June 2000 after spending 15 years in the banking, property development and fund management industries. Prior to joining UBS AG, Mr. Look was the regional director of PPM Worldwide, the fund management arm of the Prudential Corporation of the United Kingdom, where he managed pension and life insurance funds investing in Asia ex-Japan markets. Mr. Look was rated best Hong Kong strategist and best analyst by Asiamoney in 2001, 2002, 2003, 2005, 2006 and 2007. UBS Hong Kong Research Team was rated best Hong Kong Research by Institutional Investors in 2002, 2003, 2004 and 2005. He is also an independent non-executive director of Ka Shui International Holdings Limited (Stock Code: 822), Hung Fook Tong Group Holdings Limited (Stock Code: 1446), Citic Resources Holdings Limited (Stock Code: 1205) and Union Medical Healthcare Limited (Stock Code: 2138), all listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Look holds a bachelor of commerce degree from the University of Toronto.

Dr. Song Si Young, aged 59, is an independent non-executive Director. Dr. Song is responsible for supervising and providing independent judgment to the Board. Dr. Song has over 20 years' experience in medicine and the healthcare industry. Since March 1993, Dr. Song has been a faculty member of Yonsei University College of Medicine in Korea and he currently serves as a professor in the Department of Internal Medicine. Dr. Song served as an exchange assistant professor at Vanderbilt University College of Medicine in the United States from September 1996 to November 1998. He has also served as the director of the Division of Medical Science Research Affairs and the president of the Industry-Academy Cooperation Foundation of Yonsei University Health System since September 2010 where he was in charge of the management and administration of Yonsei University Health System's research, development and participation in the healthcare industry. Dr. Song has also served as a director of Yonsei Technology Holdings, Inc., a company engaged in the commercialization of Yonsei University's technologies through forming subsidiaries since June 2011, where he is responsible for the operational management of technological holding companies affiliated with the Industry-Academy Cooperation Foundation of Yonsei University. Dr. Song was appointed as an independent non-executive Director of the Company on March 10, 2015.

Dr. Song has provided professional advice to the following companies in connection with the healthcare and medical device manufacturing industries:

Company	Nature of Company	Principal Business	Duration of Tenure
LG Chem Ltd.	listed on the Korea Exchange (stock code: 051910)	manufacture of chemicals	February 2001 to January 2003
LG Life Science Co., Ltd.	listed on the Korea Exchange (stock code: 068870)	research and development of pharmaceuticals	August 2003 to March 2006
IntroMedic Co., Ltd.,	listed on the Korea Exchange (stock code: 150840)	development and manufacture of optical medical device and equipment	January 2007 to present
Hanwha Chemical Corporation	listed on the Korea Exchange (stock code: 009830)	production and sale of organic and inorganic chemicals	June 2006 to May 2007
CJ Co., Ltd.	a private company based in Korea	development of research, business and marketing strategies of healthcare industry	March 2004 to February 2005
M.I. Tech Co., Ltd.	a private company based in Korea	manufacture of non-vascular stents and medical electronic devices	May 2009 to November 2012
various subsidiaries of LG Corp.	listed on the Korea Exchange (stock code: 003550)	healthcare business	January 2011 to June 2011
HooH Healthcare	a private joint venture company between Korean Telecommunication and Yonsei University Health System	healthcare IT service and business strategic development	August 2012 to present
CrystalGenomics, Inc.	listed on the Korea Exchange (stock code: 083790)	structural chemoproteiomics-based drug discovery and development	August 2013 to present

Dr. Song obtained a bachelor's degree in medicine in February 1983 from Yonsei University College of Medicine in Korea. In March 1987 and March 1989, Dr. Song obtained a master's degree and a doctorate degree respectively in medical sciences, both from the Graduate School of Yonsei University.

Save as disclosed above, the Directors (i) have not held any directorships in other listed public companies, whether in Hong Kong or overseas, during the last three years; and (ii) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company. Regarding the Directors' interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance, please refer to the paragraph headed "Directors' and Chief Executive Officers' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its associates corporations" in the Directors' Report section of this report for more details.

SENIOR MANAGEMENT

The senior management team of the Group, in addition to the executive Directors listed above, is as follows:

Mr. Lee Donggoo, aged 44, has been the executive director of Cowell China since September in 2016. Mr. Lee is responsible for overall camera R&D and engineering division of Cowell China. Prior to joining Cowell China in September 2011 as a camera technology and test process manager, Mr. Lee had worked at Samsung Techwin Co., Ltd. and Samsung Electronics Co., Ltd. as a camera system senior engineer from May 2001 to August 2011 and engaged in the satellite image development and sensor modeling of aerospace and photogrammetry, as a research associate at ETRI (Electronics and Telecommunications Research Institute), a national research center based in Korea from March 1999 to April 2001. In December 2012, Mr. Lee was promoted to a director of Cowell China as a R&D head and remained in that position until August 2016. Mr. Lee has around 18 years of experiences in high camera technologies, camcorder development and very valuable insight and technical experiences through lots of global customers.

Mr. Lee received a master's degree of digital photogrammetry in civil engineering from Inha University in Korea in February 2001.

Mr. Kang Byeong Sun, aged 53, joined Cowell China in November 2012 to lead the procurement team. In February 2017, Mr. Kang was appointed as Head of Management Support Division of Cowell China being responsible for procurement, information technology, security, health & safety, and building management. Prior to Joining Cowell China, Mr. Kang had developed his professional career at global companies such as LG Electronics, Inc. ("LG") and a subsidiary of Motorola Solutions, Inc. ("Motorola") in Korea. Mr. Kang had worked for LG for over 12 years and during the last 6 years in LG, he had worked as a purchasing manager. Mr. Kang had moved to Motorola in September 1999 and worked as General Manager of Original Design Manufacturing team till September 2012.

Mr. Kang received a bachelor's degree in electrical engineering from Yonsei University in Korea in February 1987.

Mr. Cho Young Hoon, aged 41, joined Cowell China in July 2013 as a manager of strategic planning division being responsible for supervising daily financial and sales operations of Cowell China. Mr. Cho has promoted to a director of Cowell China in September 2016. Prior to joining Cowell China in July 2013, Mr. Cho had worked at LG Electronics, Inc. as an assistant manager from July 2002 to July 2013 based in Korea engaged in the manufacture and sale of consumer electronics such as mobile phone, TV, Air conditioner.

Mr. Cho received a bachelor's degree in economics from Yonsei University in Korea in February 2002.

Mr. Lee Jun Hwan, aged 41, is responsible for Front of Line production team of Cowell China since Nov 2016. Mr. Lee joined Cowell China in January 2003 as a development team head and transferred to the production team in May 2005. Mr. Lee had led the production team for over 12 years before he took his current role. Prior to joining Cowell China, Mr. Lee had worked as an assistant manager in production technology department of Sehan Electronics Co., Ltd. from March 1997 to September 2000, which manufactures Closed Vision Television ("CCTV") devices. And Mr. Lee had worked as a senior engineer from October 2000 to December 2002 at Ellim Electric Ind., Co., Ltd. which produces CCTV & Surface Mounting Technology.

Mr. Lee received a bachelor's degree in information and communication Technology from Yuhan university.

Mr. Cho Kyu Beom, aged 53, has been the chief executive officer of Cowell Korea since April 2012. Mr. Cho is responsible for supervising the daily operations of Cowell Korea. Prior to joining the Group in July 2002 as a department manager at Cowell China, Mr. Cho worked at LG Chem as an assistant manager from July 1989 to April 1996 and at LG Siltron Incorporated, a private company based in Korea engaged in the manufacture and sale of semiconductor materials such as wafer, as a senior manager from May 1996 to July 2002. In December 2008, Mr. Cho was promoted to be a chief executive officer of Cowell China and remained in that position until April 2011. Mr. Cho has been a director of Cowell Korea since March 2009. Between May 2011 and March 2012, he served as an executive vice president of Cowell Korea and since April 2012, he has been the chief executive officer of Cowell Korea. Mr. Cho received a bachelor's degree in mechanical engineering from Hanyang University in Korea in February 1987.

COMPANY SECRETARY

Ms. Lam Wing Yan, aged 40, is the senior finance manager of Cowell Hong Kong and was appointed as the company secretary of our Company on September 17, 2014. Ms. Lam joined our Group in August 2013 and has been primarily responsible for corporate financial management. She has over 13 years of experience in corporate financial management, accounting and the company secretarial area. Prior to joining our Group, Ms. Lam held various positions, including the senior manager of finance and operations at Iriver Hong Kong Limited, a private company based in Hong Kong and provides, among others, broadcasting equipment and semiconductors and the holding company of which is listed on the Korea Exchange, for approximately 10 years from March 2001 to June 30, 2011. Ms. Lam obtained a master's degree in business administration from the University of South Australia in March 2012. Ms. Lam is a certified public accountant, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Directors' Report

The Board of Directors is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 13 to the consolidated financial statements. 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. Major 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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2016 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 81 to 142.

The Board has recommended the payment of a final dividend of HK7.977 cents (2015: Nil) per ordinary share for the year ended December 31, 2016 to shareholders whose names appear on the register of members of the Company on Thursday, May 25, 2017, subject to the approval of the Shareholders at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Thursday, May 25, 2017. The Company's register of members will be closed from Tuesday, May 23, 2017 to Thursday, May 25, 2017 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited (the "**Share Registrar**"), at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Monday, May 22, 2017. Subject to the approval of the Shareholders at the annual general meeting, dividend will be paid to the Shareholders on or around Wednesday, June 7, 2017.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

For determining the entitlement to attend and vote at the annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from Monday, May 15, 2017 to Wednesday, May 17, 2017, both dates inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, shareholders must complete and lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong

Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, May 12, 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five years ended December 31, 2016 are set out on page 143 of this annual report. That summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 22(c) to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributability of reserves of the Company

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at December 31, 2016, the reserves of the Company available for distribution to the Shareholders amounted to approximately US$44,762,000 (2015: US$44,694,000).

DONATIONS

Charitable donations made by the Group during the year ended December 31, 2016 amounted to US$547,000 (2015: US$29,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

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 year ended December 31, 2016.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Share Option Scheme") was approved for adoption pursuant to written resolution of all of our Shareholders passed on February 4, 2015 for the purpose to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts to promote the interests of the Group.

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined in paragraph "who may join" below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders, and to maintain or attract business relationship with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

The Board is of the view that the Share Option Scheme may provide the Qualified Participants with the opportunity of participating in the growth of the Group by acquiring shares in the Company which may in turn assist in the attraction and retention of the Qualified Participants. To ensure the achievement of the purpose of the Share Option Scheme, its rules do not specify any minimum holding period and/or performance targets as a condition for the exercise of an option but subject to the determination of the Board. The Board is given the authority under the Share Option Scheme rules to determine and state in the offer letter of grant any minimum holding period and/or performance targets as conditions for exercise of an option. In addition, the Board has the authority under the Share Option Scheme rules to determine the basis of eligibility of any Qualified Participant and the grant of an option on a case by case basis as the Board in its sole discretion considers appropriate. Hence, the Board believes that the rules of the Share Option Scheme will serve to achieve its purpose as well as protect the value of the Company.

Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

(i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (together with (i) above, "Eligible Employee");

(iii) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest who is an individual; or

(iv) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest, who the Board considers, in its sole discretion, has contributed or will contribute to the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (collectively, the "Qualified Participant").

Maximum number of Shares in respect of which options may be granted

The maximum number of the Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 5% of the total number of Shares in issue as at the Listing Date (the "Scheme Mandate"), excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company, provided that:

(i) the Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company under the Scheme Mandate as refreshed must not exceed 5% of the total number of Shares in issue as at the date of such shareholder approval. For these purposes, options previously granted under the Share Option Scheme and any other share option schemes of the Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;

(ii) the Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Qualified Participants who are specifically identified before such approval is sought. A circular will be sent by the Company to the Shareholders in accordance with the Listing Rules; and

(iii) the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30 per cent of the Shares in issue from time to time. No options may be granted if such grant will result in this 30 per cent limit being exceeded.

The maximum number of Shares in respect of which options may be granted shall be adjusted in such manner as the auditors of the Company shall certify in writing to the Board to be fair and reasonable in the event of any alteration to the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of the Company but shall not in any event exceed the limits imposed by the Listing Rules.

Maximum entitlement of each Qualified Participant

Unless approved by shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

Acceptance of an offer of options

An offer of the grant of an option shall be made to a Qualified Participant by letter in such form as the Board may from time to time determine, requiring the Qualified Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for such period (not exceeding 30 days, inclusive of, and from, the date of offer) as the Board may determine and notify to the Qualified Participant.

An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favor of the Company of HK$1 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Qualified Participant.

Subscription price

The subscription price shall be a price determined by the Board but in any event shall be at least the highest of:

(i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of offer;

(ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and

(iii) the nominal value of the Shares.

Restriction on the time of grant of options

The Company may not grant any option after inside information has come to its knowledge until it has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange under the Listing Rules) for approving the Company's results for any year, half-year or quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. Without prejudice to the foregoing, no option shall be granted during the period specified in the Listing Rules as being a period during which no option may be granted.

No grant of options shall be made to a Qualified Participant who is a Director during a period in which the Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or the Company's own equivalent code.

Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable (except for the transmission of an option on the death of any grantee to a person who of succession is entitled to the option). No grantee shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt to do so (except that the grantee may nominate a nominee, of which the grantee is the sole beneficial owner, in whose name the Shares issued pursuant to the Share Option Scheme may be registered provided that evidence of such trust arrangement between the grantee and the nominee has been provided to the satisfaction of the Board).

Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

Under the share option scheme adopted by the Company on February 4, 2015, the Company has granted share options (the "Option") to certain eligible persons (the "Grantees") for a total of 14,500,000 ordinary shares of US$0.004 each in the share capital of the Company. Details of the Share Options granted are set out below:

Share Option 1

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

Share Option 2

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

Share Option 3

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

Movement of the Option granted under the Share Option Scheme during the year ended December 31, 2016 are listed below:

Movement of the Options

	Number of the Options										
	As at January 1, 2016	Date of Grant April 21, 2016	Date of Grant June 20, 2016	Cancelled	Lapsed	As at December 31, 2016	Exercise Price (HK$)	Closing price of the securities immediately before the Date of Grant (HK$)	Date of Grant	Vesting Period	Exercisable Period
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
Continuous contract employee	8,400,000	–	–	(3,400,000)	–	5,000,000	3.76	3.78	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
Lee Sun Yong	–	1,500,000	–	(1,500,000)	–	–	3.57	3.38	April 21, 2016	April 22, 2016 to 28 February 2017	March 1, 2017 to April 20, 2026
Continuous contract employee	–	–	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	1,500,000	400,000	(4,900,000)	–	9,400,000					

Other details of Options granted by the Company are set out in note 20 to the accounts.

SUBSIDIARIES

Details of the Company's subsidiaries as at December 31, 2016 are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2016, the percentage of the Group's revenue attributable to the Group's largest customers and the five largest customers in aggregate were 85.3% and 99.6% (2015: 82.3% and 99.5% respectively) respectively.

During the year ended December 31, 2016, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were 43.5% and 68.0% (2015: 38.1% and 69.1% respectively) respectively.

During the year ended December 31, 2016, none of the Directors or any of their associates or any shareholders which to the best knowledge of the Directors, who own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers.

RETIREMENT BENEFIT SCHEMES

The Group participated in various retirement benefit schemes in accordance with relevant rules and regulations in the PRC, Hong Kong and Korea. Particulars of the retirement benefit schemes are set out in note 19 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the remuneration of each Director for the year ended December 31, 2016 are set out in note 7 to the consolidated financial statements of this annual report.

The remuneration of members of the senior management by band for the year ended December 31, 2016 is set out below:

Remuneration Bands:	2016 Number of individuals	2015 Number of individuals
HK$1 (US$0.129)–HK$1,000,000 (US$129,000)	2	2
HK$1,000,001 (US$129,000)–HK$1,500,000 (US$193,000)	2	—
HK$1,500,001 (US$193,000)–HK$2,000,000 (US$258,000)	—	1
HK$2,000,001 (US$258,000)–HK$2,500,000 (US$322,000)	1	—

DIRECTORS

The Directors during the 2016 financial year and up to the date of this annual report are:

Executive Directors

Mr. Kim Kab Cheol
Mr. Seong Seokhoon *(Chairman) (redesignated on March 1, 2016)*
Mr. Kwak Joung Hwan *(Chairman and Chief Executive Officer) (resigned on February 29, 2016)*

Non-executive Director

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

Independent non-executive Directors

Mr. Kim Chan Su
Dr. Song Si Young
Mr. Andrew Look *(appointed on March 23, 2017 with effect from April 3, 2017)*
Mr. Kim Ilung *(appointed on May 13, 2016 and resigned on March 23, 2017)*
Mr. Okayama Masanori *(resigned on May 12, 2016)*

In the forthcoming annual general meeting of the Company, Mr. Kim Kab Cheol, Mr. Kim Chan Su and Mr. Andrew Look will retire as Directors in accordance with Article 16.18 of the Articles of Association and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2016.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the contracts described under the paragraph headed "Connected Transactions and Continuing Connected Transactions" below and note 26 to the consolidated financial statements, no contracts of significance in relation to the Group's business or for the provision of services to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2016 or at any time during 2016.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No transaction, arrangement or contract of significance has been entered into among the Company or any of its subsidiaries and the controlling shareholders during the year ended December 31, 2016.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions

As of the Listing Date, the Group has the following continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules:-

Framework agreement on the supply of camera module parts with Bai Shi:

Agreement date	Name of counterparty	Term of agreement	2016 Annual cap *(US$'000)*	Amount for the year *(US$'000)*
March 10, 2015	Bai Shi (as supplier); and Cowell Hong Kong (as the purchaser)	March 31, 2015 to December 31, 2016 (and will be automatically extended for a further period of three years)	4,200	117

Mr. Lee Nam Oh (a brother-in-law of the substantial shareholder, Mr. Kwak Joung Hwan) owns the entire equity interests in Bai Shi and hence Bai Shi is an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Kwak and a connected person of the Group. Details of the terms of the framework purchase agreement with Bai Shi and the transactions contemplated thereunder were set out in the Prospectus.

Based on the agreement with Bai Shi, the business relationship with Bai Shi was terminated in January 2017.

Annual review of the continuing connected transactions

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

a. in the ordinary and usual course of business of the Group;

b. on normal commercial terms or terms better to the Group than terms available to or from, as appropriate, independent third parties; and

c. according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 31 to 32 of this annual report in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 26 to the consolidated financial statements.

DEED OF NON-COMPETITION

Pursuant to a deed of non-competition dated March 10, 2015 (the "Deed of Non-competition") entered into among Mr. Kwak Joung Hwan and Hahn & Co. Eye (the "Covenantors") and the Company, the Covenantors have given certain non-competition undertakings in favour of the Company. Please refer to the Prospectus for details of the terms of the Deed of Non-competition. Since Hahn & Co. Eye has ceased to be a controlling shareholder (as defined in the Listing Rules) of the Company immediately following the completion of the Global Offering, Hahn & Co. Eye has not been subject to the Deed of Non-competition from the Listing Date.

The independent non-executive Directors have conducted its annual review and confirmed that Mr. Kwak Joung Hwan has fully complied with the Deed of Non-competition for the year ended December 31, 2016. Going forward, the independent non-executive Directors will continue to review, on an annual basis, Mr. Kwak Joung Hwan's compliance with the Deed of Non-competition (in particular, the right of first refusal relating to any business opportunity) and Mr. Kwak will provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition in its next annual report or by way of announcement to the public.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2016, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND CHIEF EXECUTIVE OFFICERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2016, so far as is known to the Directors, none of the Directors or the chief executive officers 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 SFO, or (ii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at December 31, 2016, the following persons had interests or short positions in our Shares or relevant Shares which were required to be disclosed to us 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 & Co. Eye	Beneficial interest	88,159,400	10.60
Hahn & Company 1 Private Equity Fund ("Hahn & Co. PEF")(2)	Interests in controlled corporation	88,159,400	10.60
Hahn & Company LLC ("Hahn & Co. LLC")(3)	Interests in controlled corporation	88,159,400	10.60

Notes:

(1) Ms. Yang Won Sun is the spouse of Mr. Kwak. 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.

The interest of the substantial shareholders in the Options are detailed in the "Share Option Scheme" section.

Save as disclosed above as at December 31, 2016, the Directors were not aware of any person (other than the Directors or chief executive and substantial shareholders of the Company the interests of which were disclosed above) who had an interest or short position in the securities of the Company that were required to be entered in the register of the Company pursuant to section 336 of the SFO as at December 31, 2016.

STATUS OF USE OF PROCEEDS

The aggregate net proceeds from the Global Offering was approximately US$37.8 million and the Company planned to use the proceeds, as indicated in the Prospectus, in the following manner:

1. Approximately 66% of the net proceeds for the enhancement of production capacity for fixed-focus camera modules and the manufacturing facilities for high-end camera modules;

2. Approximately 13% of the net proceeds for the enhancement of existing production lines for high-end COB camera modules;

3. Approximately 12% of the net proceeds for the repayment of a term bank loan; and

4. Approximately 9% of the net proceeds for working capital and other general corporate purposes.

During the year ended December 31, 2016, all net proceeds were utilized in accordance with the original plan except part of the planned spending for the enhancement of existing production lines for high-end COB camera modules which has been delayed. Out of US$4.9 million (or approximately 13% of the net proceeds) allocated for the enhancement of existing production lines for high-end camera modules which was expected to use in 2015 and 2016, US$1.3 million (being approximately 3.5% of the net proceeds), was used during the year ended December 31, 2015 and further US$0.8 million (being approximately 2.2% of the net proceeds) was used during the year ended December 31, 2016. The remaining has been scheduled to be used in 2017. The delaying usage of the investment for high-end COB camera modules was mainly due to our major customer's phasing out COB camera modules and decrease in COB sales to other customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, from the Listing Date up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

EVENTS AFTER THE FINANCIAL YEAR ENDED DECEMBER 31, 2016

Mr. Kim Ilung has resigned as independent non-executive director on March 23, 2017 due to his personal reason. And Mr. Andrew Look was appointed as a new independent non-executive director by the board on March 23, 2017, with effect from April 3, 2017.

Save as disclosed above, there were no significant events affecting the Company nor any of its subsidiaries after the financial year ended December 31, 2016 requiring disclosure in this report.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 38 to 80 of this annual report.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed together with the management and KPMG, the Company's auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2016.

AUDITOR

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

ENVIRONMENTAL POLICIES

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended December 31, 2016, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by our Group that have a significant impact on the business and operations of the Group.

FINANCIAL KEY PERFORMANCE INDICATORS

For the year ended December 31, 2016, the Group's total revenue decreased by 6.7% to US$914.5 million (2015: US$980.2 million). Profit for this year decreased by 53.0% to US$28.5 million (2015: US$60.7 million). Net profit margin was 3.1% (2015: 6.2%) for the year ended December 31, 2016. Earnings per share were US$0.034 (2015: US$0.075). The Board has proposed a final dividend of approximately HK7.977 cents (equivalent to US1.028 cents) per ordinary share for the year ended December 31, 2016.

Overall revenue decrease was mainly due to fierce competition in the smartphone market, especially in China, and slow smartphone industry in general. The smartphone competition landscape has substantially changed in 2016 as Chinese smartphone makers were quickly growing their market share. The revenue growth of Chinese smartphone makers were driven by not just low pricing strategy, but technology enhancement and aggressive overseas marketing strategy.

The Group financial position still remained solid. Despite main customer's substantial production cut in the first half of 2016, the Group was able to generate positive operating cashflows for the year ended December 31, 2016 which amounted to US$17.6 million (2015: US$76.1 million). The decrease in operating cash inflow in 2016 as compared to that 2015 was mainly due decreased operating profit and increased trade receivable.

Average inventory turnover days of the Group were 35.1 days for 2016, lower than the 36.2 days for 2015. The decrease in inventory turnover days for the year 2016 was due mainly to an efficient inventory management and relatively improved accuracy of customers' projected ordered in the fourth quarter of 2016. Average turnover days of trade receivables increased to 57.5 days for the year ended December 31, 2016 as compared to 54.1 days for the year ended December 31, 2015 which was due primarily to a result of increased revenue in the fourth quarter of 2016. Average trade payable turnover days were 51.8 days for the year ended December 31, 2016 as compared to 53.8 days for the year ended December 31, 2015 which was primarily a result of the high balance of the Group's trade payables as of December 31, 2016, reflecting the increase in the Group's purchases of components and materials for the production of camera modules in the fourth quarter of 2016.

KEY RELATIONSHIPS

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members.

In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted the Share Option Scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing relationships with a number of our suppliers and take a great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

We are committed to offer quality services to our customers. We also stay connected with our customers and keep them updated of our latest business developments.

Details of principal risks are set out in corporate governance report and detail of future development is set out in management discussion and analysis.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

On behalf of the Board
Cowell e Holdings Inc.
Seong Seokhoon
Chairman

Hong Kong, March 23, 2017

Corporate Governance Report

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of Shareholders and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices. The CG Code has been applicable to the Company with effect from the Listing Date. Throughout the period from the Listing Date up to the publication date of this annual report, the Company has complied with all applicable code provisions of the CG Code, with the exception that the roles of Chairman and Chief Executive of the Group were both vested in Mr. Kwak Joung Hwan prior to March 1, 2016, details of which are disclosed in the paragraph headed "Chairman and Chief Executive" below.

SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' dealings in the securities of the Company.

The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code throughout the period from the Listing Date to the publication date of this annual 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.

Board Composition

The Board is structured with a view to ensuring that it is of high caliber and has a balance of skills and experience appropriate for the needs of the Company's business. The Board currently comprises four members, consisting of two executive Directors and two independent non-executive Directors as set out below.

Executive Directors
Mr. Seong Seokhoon *(Chairman) (redesignated on March 1, 2016)*
Mr. Kim Kab Cheol
Mr. Kwak Joung Hwan *(Chairman and Chief Executive Officer) (resigned on February 29, 2016)*

Non-executive Directors
Mr. Kim Jae Min *(resigned on May 12, 2016)*

Independent non-executive Directors
Mr. Kim Chan Su
Dr. Song Si Young
Mr. Andrew Look *(appointed on March 23, 2017 with effect from April 3, 2017)*
Mr. Kim Ilung *(appointed on May 13, 2016 and resigned on March 23, 2017)*
Mr. Okayama Masanori *(resigned on May 12, 2016)*

Further description of the biographical details and backgrounds of the Board members are set out under the section headed "Directors and Senior Management" in this annual report. A list of the Directors is available on the designated website of the Hong Kong Stock Exchange and the website of the Company.

There is no financial, business, family or other material or relevant relationships among the Directors.

Non-executive Director

Under the Articles of Association, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Retiring Directors shall be eligible for re-election at the annual general meeting at which he retires.

Independent Non-executive Directors

Mr. Andrew Look ("Mr. Look") was appointed as independent non-executive Director on March 23, 2017. Following the resignation of Mr. Kim Ilung and prior to the appointment of Mr. Look to take effect on April 3, 2017, the Company has only two independent non-executive Directors, namely Mr. Kim Chan Su and Dr. Song Si Young, and the Audit Committee comprises only two members, namely Mr. Kim Chan Su and Dr. Song Si Young, and therefore does not meet the requirements under rules 3.10(1) and 3.21 of the Listing Rules, which requires every issuer to have at least three independent non-executive directors and the audit committee of every issuer to comprise a minimum of three members respectively. Upon the appointment of Mr. Look with effect from April 3, 2017, the Company will have three Independent non-executive Directors and the Audit Committee will comprise of three members and therefore the Company will be in compliance with the requirements under rules 3.10(1) and 3.21 of the Listing Rules.

Independent non-executive Directors play an important role in the Board by bringing independent judgment and advice and through scrutiny of the Company's performance. Since the Listing Date and up to the publication date of this annual report, save as disclosed above, the Company has been in compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing the appropriate professional qualifications or accounting or related financial management expertise. The Company has also complied with Rule 3.10A of the Listing Rules which requires that independent non-executive Directors appointed must represent at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his or her independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers each of them to be independent with reference to the criteria set out in Rule 3.13 of the Listing Rules.

The Board will continue to review and consider whether there are any circumstances that are likely to affect the independence of the independent non-executive Directors.

CHAIRMAN AND CHIEF EXECUTIVE

Pursuant to Code Provision A.2.1 of the CG Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, until February 29, 2016, the Company did not have a separate chairman and chief executive and Mr. Kwak Joung Hwan had been performing these two roles at the same time. The Board had considered that having Mr. Kwak acting as both the chairman of the Board and the Company's chief executive officer would provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. The Board had taken into account Mr. Kwak's extensive experience in the industry, personal profile and critical role in the Group and its historical development.

Upon Mr. Kwak Joung Hwan's resignation from all his positions with the Company on February 29, 2016, Mr. Seong Seokhoon has been redesignated as the Company's chairman of the board with effect on March 1, 2016 and Mr. Lee Sun Yong was newly appointed as the Company's chief executive officer. However, due to his personal re reasons, Mr. Lee Sun Yong resigned as the chief executive officer of the Company on June 20, 2016. Immediately after Mr. Lee's resignation, the board has appointed Mr. Kim Kab Cheol as the Company's chief executive officer with effect from June 20, 2016.

Save as disclosed above, the Directors consider that the Company has fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 during the year ended December 31, 2016.

APPOINTMENT, RETIREMENT AND RE-ELECTION OF DIRECTORS

The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting of the Company, one-third of the current Directors should retire from office by rotation, provided that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

The nomination committee of the Company (the "Nomination Committee") is responsible for reviewing the Board's structure, size and composition and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning of Directors.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors have been provided with relevant training to ensure that they fully understand their responsibilities, duties and obligations as directors of a listed company.

Pursuant to the Code Provision A.6.5, the Company has received from the below directors, being all Directors at the year ended date, a record of the training they received for the year 2016.

Directors	Reading materials	Attend Seminars/ conference/ workshops
Executive Directors		
Seong Seokhoon	√	√
Kim Kab Cheol	√	√
Independent Non-Executive Directors		
Kim Chan Su	√	√
Song Si Young	√	√
Kim Ilung	√	√

The Directors will continue to be updated by the Company on any changes or developments affecting their obligations as directors of a listed company.

BOARD MEETINGS

Notice of regular Board meetings is given to each Director at least 14 days before the meeting. The agenda and the relevant board papers are circulated to each Director at least three days before regular Board meetings to enable them to make informed decisions at the meeting.

ATTENDANCE RECORDS OF BOARD MEETINGS

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximately quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Other Board meetings will be held if necessary.

Details of Directors' attendance records in 2016 are set out below:

	Meetings Attended/Held				
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**2015 AGM**
Executive Directors					
Seong Seokhoon	7/7	N/A	5/5	2/3	1/1
Kim Kab Cheol	7/7	N/A	N/A	N/A	0/1
Independent Non-Executive Directors					
Kim Chan Su	7/7	4/4	5/5	3/3	1/1
Song Si Young	4/7	3/4	4/5	2/3	0/1
Kim Ilung	4/7	3/4	N/A	N/A	N/A

The date of each meeting is decided in advance to enable the Directors to attend the meeting. Draft notice and agenda were sent to all Directors at least 3 days prior to the meeting. Management also supplies the Board and its Committees with sufficient information and explanations so as to enable them to make an informed assessment of financial and other information out before the Board and its Committee for approval. Management is also invited to join Board Meetings where appropriate.

If a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter. The interest Director shall abstain from voting when appropriate.

PERMITTED INDEMNITY PROVISION

The Articles of Associations provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

BOARD COMMITTEES

The Board has established three Board committees to oversee particular aspects of the Company's affairs, namely the Audit Committee, the remuneration committee of the Company (the "Remuneration Committee") and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. The independent non-executive Directors, as members of the various Board committees, bring their range of experiences and expertise and provide objective perspectives to them. The Board has provided the Board committees with sufficient resources to discharge their duties, and the Board committees may seek independent professional advice as and when required at the Company's expense.

Audit Committee

The Audit Committee comprises three members, all of whom are independent non-executive Directors. It is currently chaired by Mr. Kim Chan Su (independent non-executive Director), and its other members are Dr. Song Si Young (independent non-executive Director) and Mr. Andrew Look (newly appointed as independent non-executive Director with effect from April 3, 2017).

The primary functions of the Audit Committee include the following:

- making recommendations to the Board on the appointment, reappointment and removal of external auditors, and to approve remuneration and terms of such engagement;

- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- discussing with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

- developing and implementing policy on engaging external auditors to supply non-audit services;

- monitoring the integrity of the Company's financial statements and annual report and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and to review significant financial reporting opinions contained in them;

- reviewing the Company's financial controls, internal control and risk management systems and discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system;

- considering major investigation findings on internal control matters as delegated by the Board or on the Audit Committee's own initiative, as well as management's response to these findings; and

- reviewing the Group's financial and accounting policies and practices.

The written terms of reference of the Audit Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Audit Committee holds at least two meetings each year from 2015 onwards. The Audit Committee held four meetings during the financial year of 2016.

Remuneration Committee

The Remuneration Committee comprises three members. It is currently chaired by Dr. Song Si Young (independent non-executive Director), and its other members are Mr. Kim Chan Su (independent non-executive Director) and Mr. Seong Seokhoon (executive Director). It has an overall majority of independent non-executive Directors.

The primary functions of the Remuneration Committee include the following:

- reviewing and making decisions in respect of the remuneration packages and overall benefits for the Directors and senior management of the Company based on the Board's delegation given on April 15, 2015;
- making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making decisions on the remuneration packages of individual executive directors based on the Board's delegation given on April 15, 2015;
- making recommendations to the Board on the remuneration of non-executive directors; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The written terms of reference of the Remuneration Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Remuneration Committee holds at least one meeting each year from 2015 onwards.

Nomination Committee

The Nomination Committee comprises three members. It is currently chaired by Mr. Seong Seokhoon (executive Director), and its other members are Dr. Song Si Young (independent non-executive Director) and Mr. Kim Chan Su (independent non-executive Director). It has an overall majority of independent non-executive Directors.

The primary functions of the Nomination Committee include the following:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors;

- making recommendations to the Board on the appointment or reappointment of Directors and succession plan for Directors; and

- reviewing the board diversity policy regularly.

The Nomination Committee has a board diversity policy under which, with the assistance of the Nomination Committee, the Company will implement its Board members selection process by referring to various factors, including but not limited to gender, age, cultural and educational background, professional expertise, independence, skills, knowledge and length of service. Decision shall ultimately be made based on the merits of and contribution to be made by the candidate.

The written terms of reference of the Nomination Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Nomination Committee will hold at least one meeting each year from 2015 onwards.

CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions have been reserved to the Board. The primary governance functions include:

- developing and reviewing the Company's policies and practices on corporate governance;

- reviewing and monitoring training and continuous professional development of Directors and senior management;

- reviewing and monitoring the Company's compliance with the CG Code and other legal and regulatory requirements;

- developing, reviewing and monitoring any code of conduct and compliance manual applicable to Directors and employees of the Company; and

- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2016, presenting a balanced, clear and comprehensive assessment of the Company's performance, position and Prospects, and for ensuring that the financial report are prepared in accordance with applicable statutory requirements and accounting standards. To the best knowledge, information and belief of the Directors, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The management of the Company has provided the Board with such explanation and information necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Internal Control

The Board acknowledges that it is its responsibility to maintain an adequate internal control system to safeguard Shareholders' investment and the Company's assets, and to review the effectiveness of such system on an annual basis, including considering the adequacy of resources, staff qualifications and experience, training programs for staff and budget of the Group's accounting and financial reporting function.

The Audit Committee and the Board has conducted a review of the effectiveness of the internal control system of the Group and considers the internal control system to be effective and adequate.

Auditor's Remuneration

For the year ended December 31, 2016, the total remuneration paid or payable to the Company's auditors for audit services amounted to US$0.3 million.

COMPANY SECRETARY

Ms. Lam Wing Yan is the Company's company secretary, and she is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

The Company will provide funds for Ms. Lam Wing Yan for her to take not less than 15 hours of appropriate continuous professional training in each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 12.3 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of two or more Shareholders holding, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing and deposited at the principal office of the Company in Hong Kong and the business to be dealt with shall be specified in such requisition. Such meeting shall be held within the further 21 days after such requisition being proceeded within 21 days of its deposition in the manner as described above. If within 21 days of such deposit, the Board fails to proceed to convene such meeting within a further 21 days, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner on or before the expiration of 3 months from the date of the deposit of requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Constitutional Documents

Pursuant to a special resolution of the Shareholders passed on March 10, 2015, the Amended and Restated Memorandum and Articles of Association were adopted with effect from the Listing Date, copies of which are available on both the websites of the Hong Kong Stock Exchange and the Company.

Communication with Shareholders and investor relations

The Board recognizes that it is accountable to its stakeholders, and values the importance of communications with Shareholders. The Company is dedicated to maintaining an open dialogue with its Shareholders, and it will continually improve its communications with Shareholders to obtain their feedback.

The Company has established a shareholder communication policy to ensure effective communication with its Shareholders. The Company's corporate website also serves as a channel for Shareholders to access information about the Group. The Group's key corporate governance policies and documents, including the terms of reference of the various Board committees, as well as all communications for Shareholders including the Group's financial reports and announcements, are available on the website.

Shareholders are welcome to send their request for general meeting, proposed resolutions or enquiries to the Board to the primary contact person of the Company as follows:

Cowell e Holdings Inc.
Suite 3208-9
32/F Tower 6
The Gateway
9 Canton Road
Tsimshatsui
Kowloon
Hong Kong
Attention: Ms. Lam Wing Yan
Email: carol@cowell.com.hk

RISK MANAGEMENT

The Company is committed to the management of risk as an integral part of its operations, focusing on strategies to minimize risks to its mission and objectives. In order to manage and control these identified risks as well as unexpected risks, the Company has designed and developed risk management framework and tools. Applying newly designed risk management framework and tools, the Company has made proper assessment of the risks and manage the risks within the boundary of the Board of the Company's risk appetite.

1. Principle Risks

The Board has firstly defined principal risks that the Company has to confront with in order to achieve its strategic objectives.

The principle risks that the Board has identified, risk mitigating strategies, key risk indicators ("KRI") and changes in the nature and/or extent of principle risks in 2016 as opposed to the fiscal year of 2015 are illustrated below:

1. STRATEGIC RISKS

Risk Description	Current Situation/ Risk Mitigating Strategy	Key Risk Indicators (KRI)	CHANGES IN 2016
1.1 Single Customer Concentration Risk: The Company currently sells a substantial portion of its camera modules and optical components to a limited number of customers. The Company's dependence on these customers may cause material fluctuations or declines in revenue.	**1. Current Situation** – The growth of Smartphone business is slowing globally – Experienced major US customer's order cut in the first half of 2016 **2. Risk Mitigating Strategy** – Short Term: Improving production yield for pricing competitiveness and customer satisfaction – Medium Term: Diversifying product offerings and improving product portfolio focusing on high-end products for the existing customers – Long Term: Expanding customer base by diversifying products and/or exploring into new product areas	# of days that the production yield is lower than management's comfort zone	Resolution upgrade for new product lowered production yield during the early stage of mass production which negatively impacted on margin
1.2 Technology Risk: The Company's continued success depends on its ability to respond to technological upgrades demanded by major customers, which requires talented engineers. The Company's failure to further refine its technology and retain talented engineers could weaken its product competitiveness which may result in lower sales and market share.	**1. Current Situation** – Highly talented engineers are scarce resource and maintaining talent pool is challenging in the industry with relatively high turnover **2. Risk Mitigating Strategy** – Enhancing automation – Hiring & retaining talented engineers by offering attractive compensation package and implementing fair performance evaluation system – Competition is manageable: high entry barrier led by significant investment requirement, long payback period and technology	Retention ratio of the talented engineer pool	Made progress in production line automation and maintain talent pool retention ratio within the management's comfort zone

2. LEGAL & REGULATORY RISKS

Risk Description	Current Situation/ Risk Mitigating Strategy	Key Risk Indicators (KRI)	CHANGES IN 2016
2.1 Legal & Compliance Risk Non-compliance with Hong Kong Listing Rules and local regulations where we operate (Cayman, China, Hong Kong and Korea) may result in adverse publicity and potentially significant monetary damages and fines.	**1. Current Situation** – No violation or breach of Hong Kong Listing Rules and/or local regulations and laws where we operate (Cayman/China/Hong Kong and Korea) has ever been reported **2. Risk Mitigating Strategy** – Hiring external legal & compliance advisor for consultation – Conducting internal audit – Implementing risk management and internal control systems	1. # of critical findings during monthly internal audit 2. # of enquiries, guidance or warnings from the Authority	Intensifying regulatory requirements for risk management & internal control and ESG (Environmental, Social Responsibility and Governance) requirements
2.2 Risk from mis-handling customers' confidential information: The Company has signed Non-Disclosure Agreements ("NDA") with all major customers and any breach of the NDAs may cause serious financial penalties.	**1. Current Situation** – No breach of NDAs has been escalated to major customers – No inside information disclosure case has been reported **2. Risk Mitigating Strategy** – Reinforcing the inside information handling policy – Strengthen the level of security – Executing internal audit processes – Providing training on inside information handling policy to all employees	# of security rule violation and the amount of financial loss caused by the violation	NDA and Inside Information related training has been conducted for all employees in 2016 and the attendance was over 83%

3. OPERATIONAL RISKS

Risk Description	Current Situation/ Risk Mitigating Strategy	Key Risk Indicators (KRI)	CHANGES IN 2016
3.1 Production & Operational Risks: Securing sufficient factory labor in a timely manner is critical for production plan and execution. Work stoppages and other labor-related issues may adversely affect our operation.	**1. Current Situation** – Efficiently managed production in line with production plan by sourcing sufficient labor in a timely manner despite the seasonality of Chinese labor market in Dongguan and high turnover **2. Risk Mitigating Strategy** – Expanding work force recruiting channel – Production line automation – Encouraging skillful team leaders and line managers to stay longer with the Company under special care program	# of days with production shortage against production plan	Production plan was well executed with no adverse Change

4. FINANCIAL RISKS

Risk Description	Current Situation/ Risk Mitigating Strategy	Key Risk Indicators (KRI)	CHANGES IN 2016
4.1 Foreign Exchange Risk: Mismatching currencies in sales and procurements contracts may adversely affect the Company's financial results.	**1. Current Situation** – Efficiently managing foreign exchange risk by maintaining US$ as core currency for both sales and procurements **2. Risk Mitigating Strategy** – Maximizing natural hedging position by matching currencies in sales and procurements contracts	Natural hedging position (Total procurement amount settled in US$ / Total sales settled in US$)	1. Maintained the natural hedging position within the management's comfort zone 2. About 7% CNY depreciation in 2016 had positive impact on 2016 financial results

Risk level gets higher   Risk level gets lower   Risk level remains unchanged

2. Philosophy & Objectives of The Company's Risk Management System

Managing risk is an ongoing process in the presence of uncertainties and should involve employees at all levels. Therefore, risk management cannot be practically performed on a standalone basis. All employees are required to be responsible and accountable for managing risk in so far as is reasonably practicable within their area of responsibility. The principles and practices of sound risk management must be fully integrated into all business units' normal management strategy, planning and operational processes. Reflecting this philosophy, the Company has prepared and implemented its prudent risk management system.

The objectives of the Company's risk management system are to:

- outline its systematic approach to risk management to achieve strategic and operational objectives of the Company;
- improve decision-making, accountability and outcomes through the effective use of risk management;
- integrate risk management into daily operations; and
- reduce the potential financial loss, protect the brand and reputation and optimize performance in a controlled manner when opportunities arise.

3. Risk Appetite

In pursuit of its strategic objectives, the Board and the management of the Company is willing to undertake risks only if they shall not jeopardize:

- the relationship with major customers;
- health and safety of stakeholders including employees, suppliers, customers, etc.;
- the viability of the Company due to intractable financial loss;
- environment of the community and nation;
- the Company's reputation and brand name; and
- business license due to breach of regulations and laws where the Company operates

4. Risk Taxonomy

At the highest level, the risks that the Company may have to confront with in order to achieve its strategic objectives can fall into the following risk categories:

- Strategic Risks: relating to the Group's business model and strategy such as demand shortfall, customer retention, pricing pressure, industry or sector downturn and failure to achieve technology upgrades;
- Operational Risks: risks that can be typically managed from within the business such as cost overrun, operating controls, poor capacity management, supply chain issues, employee issues including fraud, bribery and corruption and raw material prices;
- Financial Risks: the risks relating to inadequate liquidity management and unfavorable changes in the financial market such as interest rates and foreign exchange; and
- Compliance/Regulatory risks: relating to legal, regulatory and stakeholders considerations

5. Risk Management Process

The Company adopts an integrated and structured approach to risk management, which consists of 4 steps to follow.

A. Risk Identification

Day-to-day risk management resides with the individual business units; therefore, departmental manager of each business units is accountable for the identification of the risks and their assessments as well as their bottom-up reporting in order to achieve strategic and operational objectives.

B. *Mitigation Control and Assurance Activities*

Every risk identified must be carefully evaluated and all the root causes of the identified risk should be assessed in order to find mitigating factors of the risk and ways to monitor and control the risk in an effective manner. The internal audit, as the 3rd line of defense explained in the section 7.A., will need to carry out analysis and independent appraisal of the mitigation control and assurance activities.

C. *Accountabilities*

Actively managing risks is the key duty of the risk owner/departmental manager in the Company. Departmental managers will assist risk owners in measuring, controlling, monitoring and reporting risks and they have both the right and obligation to contribute to risk management.

D. *Reporting*

All critical risks identified and any new/emerging risks to be identified by any individual department will be registered and reported to Group Risk Management Committee ("GRMC"). The risk management team of the Company (the "Risk Management Team") can facilitate and assist the relevant staff/department to register the risks and consolidate all the risks registered based on the pre-defined risk taxonomy and report it to GRMC on a regular basis.

6. Risk Governance Structure

The effectiveness of risk management is unavoidably linked to management competence, commitment and integrity, all of which forms the basis of sound corporate governance. Corporate governance provides a systematic framework within which each management group can discharge their duties in managing the business.

A. *The Board of Directors*

The Board is responsible for:

- evaluating and determining the risks it is willing to take in achieving the company's strategic objectives;
- overseeing the Company's risk management and internal control systems on an ongoing basis;
- reviewing the effectiveness of the risk management and internal control systems which need to be conducted at least annually; and
- reporting to shareholders that it has done so in its Corporate Governance Report

B. *Audit Committee*

The audit committee of the Company (the "Audit Committee") is responsible for:

- reviewing the Company's financial controls, risk management and internal control systems;
- discussing the risk management and internal control systems with GRMC to ensure that GRMC has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the issuer's accounting and financial reporting function;
- considering major investigation findings on risk management and internal control matters as delegated by the Board; and
- ensuring co-ordination between the internal and external auditors

C. *Group Rick Management Committee ("GRMC")*

GRMC is responsible for:

- assisting the Board to identify and evaluate risks with which the Company is facing;
- designing, implementing and monitoring the risk management and internal control systems;
- reviewing the identified risks on a regular basis and taking actions to alleviate the level of the identified risks; and
- assessing the effectiveness of the risk management and internal control systems on a quarterly basis and reporting it to the Audit Committee and the Board

D. *Risk Management Team*

Risk Management Team is responsible for:

- updating the risk management policy and formalizing it by having it approved by the Audit Committee and the Board;
- updating the inside information handling policy and formalizing it by having it approved by the Audit Committee and the Board;
- implementing the risk management and internal control systems and processes and providing a risk management and internal control system training to all employees on a regular basis;
- ensuring all office employees attend the training at least once a year;

- facilitating the registration of all identified risks and new/emerging risks to be identified by any employee and reporting it to GRMC; and

- preparing and facilitating GRMC meeting on a monthly basis for the seamless flow and maximum outcome of the meeting

E. Internal Audit Team

Internal Audit Team of the Company (the "Internal Audit Team") is responsible for:

- carrying out the internal audit function for members of the Company;

- updating the internal audit policy when it is needed;

- conducting the analysis and independent appraisal of the adequacy and effectiveness of the workflow and work manual of members of the Company;

- pointing out noncompliance works of the member of the Company being audited and instructing them to make remedy actions within the set timeframe; and

- reporting to GRMC findings of the audit and the effectiveness of internal control measures.

F. Senior Management

Senior management of the Company is responsible for:

- providing direction and guidance within their areas of accountability so that subordinates best utilize their abilities in the preservation of the Company's resources;

- promoting, sponsoring and coordinating the development of a risk management culture within the organization;

- guiding the inclusion of risk management in all strategic and operational decision making; and

- possessing a clear profile of major risks within their area of control incorporating both opportunities and negative risks

G. Line Management

Line management of the Company is responsible for the adoption of risk management practices and will be directly responsible for the results of risk management activities, relevant to their area of responsibility. As part of the annual planning cycle all responsible managers will be required to consider and document existing risks and their impact on proposed plans. Any new emerging risks identified due to changes in the business environment must also be documented. Risk records must be maintained up-to-date on an on-going basis to reflect any changes which may occur.

H. All Employees

All employees of the Company are responsible for:

- acting at all times in a manner which does not place at risk the health and safety of themselves or any other person in the workplace;

- providing direction and training to persons for whom they have a supervisory responsibility or duty of care relating to health and safety; and

- identifying areas where risk management practices should be adopted and are to advise their supervisors accordingly

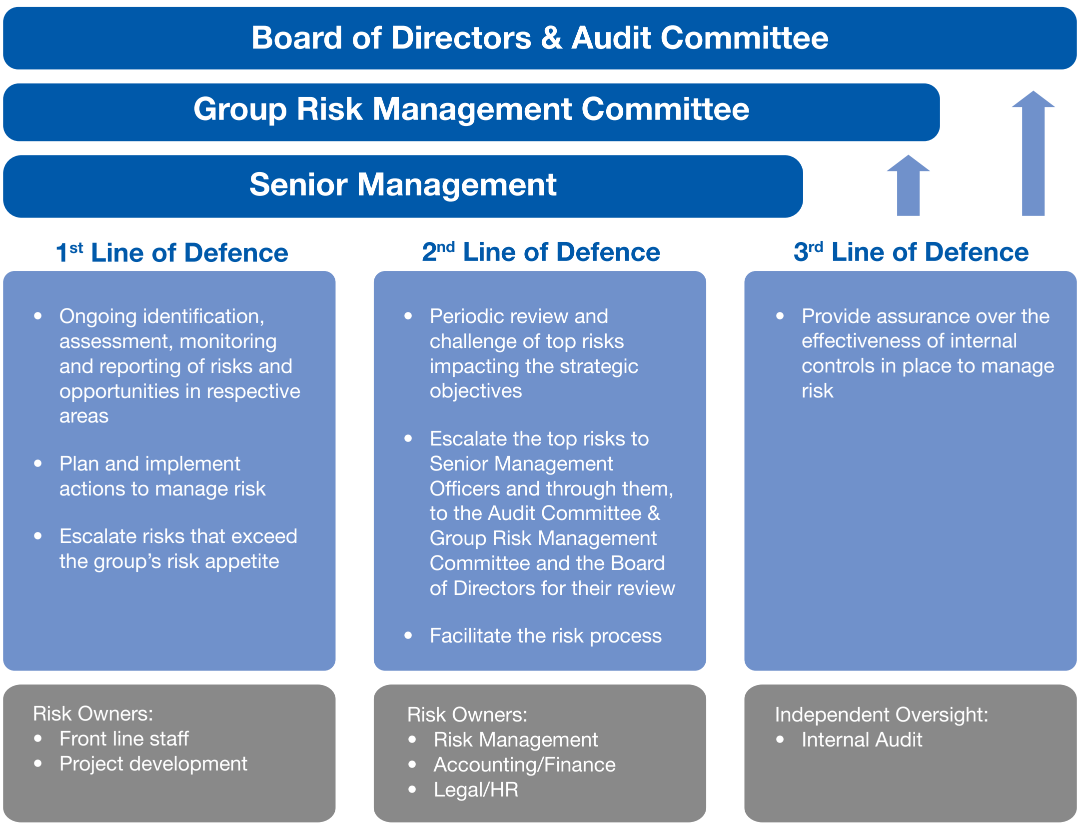
7. Risk Management Framework

There are a number of different types of risks, which the Company must take and manage in order to achieve its strategic objectives. The Board and senior management must identify these risks and discuss about the mitigating factors to manage the overall risk level and find ways to monitor the risks ensuring they stay within the Company's risk appetite.

In order to be more systematic to manage these risks, the following risk management framework has been adopted:

A. Three Lines of Defense Model

Risks are inherent in every corner of our businesses, and it is important to have a culture involving all levels of employee and a systematic approach to identify and assess risks such that they can be reduced, eliminated or avoided. In order to create risk conscious culture within the organization and manage risks systematically, three lines of defense model has been adopted. The following illustration and table show the definition of each line of defense and its role:



B. *Risk Rating Methodology*

In order to measure our risk appetite, all the identified principal risks and new risks to be identified will need to be rated based on the significance of the risk and the likelihood of occurrence.

Table 1 Significance of the Risk

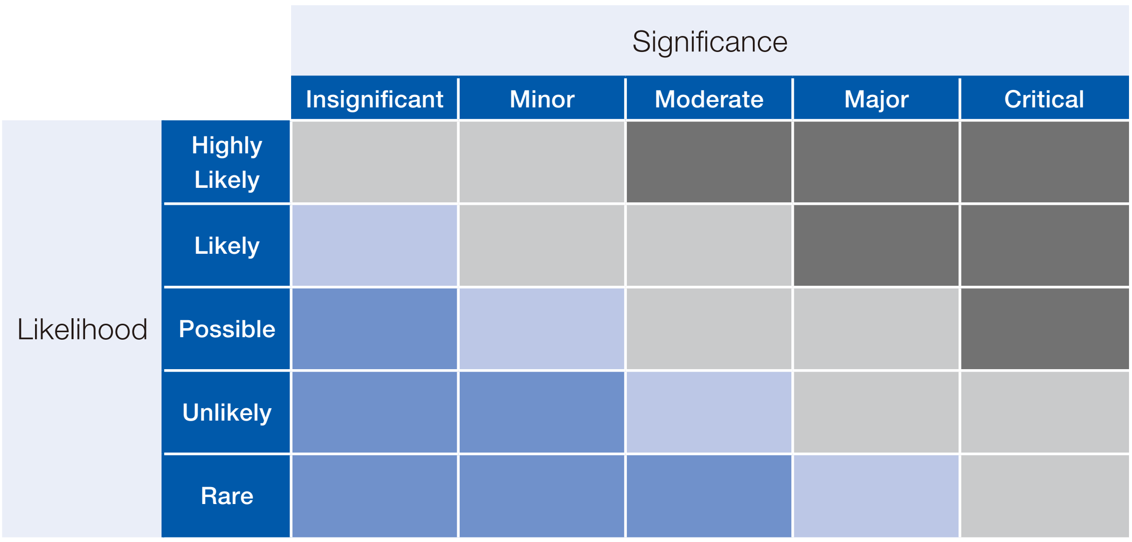
Risk Rating Dimension	Insignificant(1)	Minor(2)	Moderate(3)	Major(4)	Critical(5)
Financial	Financial demage of event less than HK$1 million	Financial demage of event between HK$1 million and HK$5 million	Financial demage of event between HK$5 million and HK$10 million	Financial demage of event between HK$10 million and HK$15 million	Financial demage of event more than HK$15 million
Reputational	Internal corrective action without any negative media focus	No negative media focus and/or concerns raised by one stakeholder	Short-term (less than a week) negative media focus and/or significant concerns raised by more than one stakeholders	Long-term (more than a week) negative media focus and/or sustained concerns raised by more than one stakeholders	Stakeholders lose confidence in the organization in the longterm, permanent withdrawal of support by several stakeholders
Opeational	Corrective action within a day without disruption of operation	Corrective action within a week without disruption of operation	An incidence with the potential to lead to disruption of operation for a day	An incidence with the potential to lead to disruption of operation for more than a week	An incidence with the potential to lead to disruption of operation for more than a month
Regulatory	Internal corrective action without any operational disruption	Guidance from the authority	Warnings from the authority	Monetary penalty	Civil/criminal liabilities

Table 2 Likelihood of Occurrence

Rating	Description
Highly Likely	Highly likely to occur in all circumstances (weekly)
Likely	Likely to occur in most circumstances (monthly)
Possible	Possible to occur at some stage (quarterly)
Unlikely	Unlikely to occur in most circumstances (1–3 years)
Rare	May only occur in exceptional circumstances (3–10 years)

Every identified risk will be mapped out based on the result of risk ratings using the above risk parameters. The significance of the risk will be evaluated in four different areas such as financial risk, reputational risk, operational risk and regulatory risk and the rating of the most relevant risk area will be selected, which will represent the significance of the risk. And after measuring the likelihood of occurrence, the risk can be marked in the risk map for monitoring and controlling purposes.

Picture 1 Risk map



Any risk located outside of the dark grey area can be defined as the risk within our risk appetite. And any risk located in the dark grey area will be continuously monitored and the Company will make every effort to bring it down to the risk appetite area.

8. Risk Management Training

The Risk Management Team is responsible for the development and provision of risk management awareness training as well as specific training programs throughout the Company. This training is to address the needs of all employees including senior management.

9. Risk Management Periodic Review

The Risk Management Team will support the management through periodic independent review of risk management practices and procedures to provide assurance on their efficiency and relevance to the GRMC and Audit Committee.

INTERNAL AUDIT

Internal audit is an integral part of internal control along with risk management system. The mission of the Internal Audit Team is to provide independent and objective reviews and assessments of the business activities, operations, financial systems and internal accounting controls of the Company. The Internal Audit Team accomplishes its mission through the conduct of operational, financial and performance audits, selected as the result of a risk identification and assessment process. The resulting schedule of audits is reviewed and approved by the Audit Committee and the GRMC of the Company.

1. Objective

The Internal Audit Team conducts independent reviews and appraisals of the work procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that the Company's resources are used efficiently and effectively while helping the Company achieve its mission, as directed by the Board. It is the intention of the Internal Audit Team to perform this service with professional care and with minimal disruption to daily operations.

2. Responsibility and Authority

The Internal Audit function was established at the direction of the Board and derives its authority directly from the Audit Committee. The Internal Audit Team reports to the GRMC on a monthly basis and to the Audit Committee on a quarterly basis. Internal audit staff is authorized to conduct a comprehensive internal audit program within the Company and is responsible for keeping the Audit Committee and GRMC informed of unusual transactions or other matters of significance.

3. Independence

In order to maintain independence and objectivity, the internal audit function has no direct responsibility or any authority over the activities or operations that are subject to review, nor should the Internal Audit Team develop or install procedures, prepare records or engage in activities that would normally be subject to review. However, the Internal Audit Team may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

4. Objectivity

Internal audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with the predefined work procedures. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to chairman of the Board, Audit Committee, GRMC and senior management of the Company.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures and/or their effectiveness and efficiency in achieving organizational objectives. The Internal Audit Team may also recommend cost effective courses of action for management to consider in improving efficiencies that have been identified during an audit.

5. Audit Process

Although every audit project is unique, the audit process is similar for most engagements and usually consists of nine stages. Through these stages the Internal Audit Team will determine ways to minimize risks and increase efficiencies within the area.

A. Plan:

The Internal Audit Team will develop an audit plan based on a review of all pertinent information.

B. Notify:

The Internal Audit Team will schedule a meeting with the unit manager and the senior managers of the process to be audited. Identify the scope and objectives of the audit, how long it is expected to last and what the responsibilities for all parties are in the audit process. Any factors that may impact the audit should be raised at this time. Factors include vacations, fiscal year end reporting requirements, etc.

C. Test:

Testing will include interviews with the staff, review of procedures and risk manuals, assessing the adequacy of internal controls.

D. Communicate:

Keep the department that is undergoing the audit updated on the status of the audit on a regular basis especially if there are any findings. There may be instances where the findings can be addressed immediately.

E. Draft:

The report draft will include the audit scope and objectives, summary and opinion, findings and audit recommendations.

F. Management Response:

Management will receive the audit draft to confirm the facts and respond to the audit recommendations. Their response should assign the responsibility and have a specific target date of completion for the corrective actions. The time window for the management response will be 21 calendar days.

G. Review:

The final version of the audit will be reviewed and all issues resolved by the Internal Audit Team.

H. Distribute:

The report is then released to the Audit Committee and GRMC as part of the agenda at the periodic meetings as requested.

I. Verify:

The Internal Audit Team will normally conduct a follow up on the management responses to the audit Findings and Recommendations within a reasonable time frame. This subsequent review will be discussed with the involved management and the comments published. The comments may also be released to the Audit Committee and GRMC as part of the agenda at the periodic meetings.

6. Prioritization of the Audit

The below are three factors adopted for the prioritization of processes for auditing:

A. **Financial Factor:** The significance of a process will be evaluated based on the amount of monetary impact of the process.

B. **Operational Factor:** The criticality of the process, when it has ERRORS or IRREGULARITIES, will be determined by time to be required for the corrective action.

C. **Regulatory Factor:** The rating of this category will be determined by the level of action from the authority.

And the risk parameters of each category are illustrated in the following Table:

Risk Rating Dimension	Insignificant (Ratings 1)	Moderate (Ratings 2)	Critical (Ratings 3)
Financial	Financial damage of event less than HK$500,000	Financial damage of event between HK$500,000 and HK$1,000,000	Financial damage of event more than HK$1,000,000
Operational	Corrective action within a week without disruption of operation	An incidence with the potential to lead to disruption of operation for more than a week	An incidence with the potential to lead to disruption of operation for more than a month
Regulatory	Internal corrective action without any warning from the authority	Warnings from the authority and/or monetary penalties	Monetary penalties and/or Civil/criminal liabilities

The prioritization of the process for auditing will be determined by the rating of the most relevant factors indicated above.

INTERNAL CONTROL FOR THE HANDLING INSIDE INFORMATION

The Board and the management of the Company are well aware of the following statutory duties relating to the handling of inside information:

- The Company must have procedures for the secure handling of inside information;
- A list of persons who are given access to inside information must be kept and the list must be continuously updated;
- Persons who are given access to inside information shall be made aware of the duties and responsibilities that this entails, as well as the criminal liability involved; and
- The Company must be able to provide documentary evidence to the Securities and Futures Commission in Hong Kong that persons who are given access to inside information are aware of their duties.

1. Applicability

These inside information handling procedures apply to all employees and elected officers (directors, elected auditor and corporate secretary) of the Company and its subsidiaries and to joint ventures in which the Group is a partner. The persons in charge of business areas in the Company shall ensure that employees and elected officers of the Company's subsidiaries receive necessary information about and training in use of these instructions. Responsibility at the Company lies with the heads of the various departments. The individual department heads shall assist in providing practical training.

2. The Duties and Responsibilities of a person with Receipt of Inside Information

Each employee and elected officer who receives inside information regarding the Group's financial instruments shall act in accordance with the prohibitions and duties that are described in further detail below.

A. Prohibition of misuse of inside information

No person must subscribe for, purchase, sell or exchange financial instruments issued by the Company if he or she has inside information regarding the Group's financial instruments. This prohibition applies to every natural and legal person, indirect and direct trading, and trading both for own account and for a third party's account, irrespective of form of settlement. The prohibition also applies to incitement to trade, i.e. persons who have inside information regarding the Group's financial instruments are not permitted to give other persons advice or in any way influence other persons to carry out, or refrain from carrying out, such transactions. This applies correspondingly to the entry into, purchase, sale or exchange of options or forward/futures contracts or similar rights (including financial derivatives) related to such financial instruments or to incitement to carry out such transactions.

The prohibition applies only to trades that can be characterized as misuse of inside information. Whether or not the trade constitutes misuse must be assessed in each individual case.

B. Duty of confidentiality

Inside information is confidential information, and shall not be given to or in other ways made available to an unauthorized person. The information may only be communicated or made available to another person if the recipient has a relevant, well-founded need for the information, assessed on the basis of the Company's interests. A strict "need to know" principle applies, i.e. as few people as possible shall have access to the information, as late as is practically possible.

Any person who communicates inside information or makes such information available to another person has an independent responsibility for ensuring that the person who is given access to the information is simultaneously made aware of the duties and responsibilities entailed by the receipt of such information, including the duty of confidentiality, the duty of proper handling of the information, the duty not to misuse it, and the criminal liability that attaches to the misuse or unwarranted distribution of such information. The above applies regardless of whether the recipient is an employee, an elected officer or an external advisor or a business connection.

C. Duty of information in connection with the communication of inside information

If inside information is communicated or made available to another person, the person responsible for maintaining the insider list and/or the Investor Relations Department shall be notified immediately, and if possible, before the information is communicated. Compliance with this duty of information is essential if the Company is to be able to fulfil its statutory duty to maintain an insider list, and to ensure that the persons who are given access to inside information are aware of the responsibility that this entails.

The person responsible for maintaining the insider list shall immediately put the person in question on the list of persons who have access to inside information. The insider list maintainer shall at the latest at the same time make sure that the recipient has been made aware of the duties and responsibilities that such access entails, and the criminal liability that attaches to misuse or unlawful use of such information.

D. Duty to ensure proper handling of inside information and to secure information

Any person who has inside information has a duty, in handling such information, to exercise due care in order to ensure that inside information does not come into the possession of unauthorized persons or is misused.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. Introduction

The section was prepared with reference to the Environmental, Social and Governance ("ESG") Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and other relevant rules and regulations such as Labor Law of PRC, China Occupational Health and Safety Regulations, China Environmental Protection Act., etc.

The Group is committed to the highest standards of environmental and social responsibility and ethical behavior, which has been embedded into the Company's main operational principles. The Company's commitment in the ESG areas has been well recognized by its main US customer.

In order to pursue and assess its compliance with these principles internally, the Company has formed Environmental, Social Responsibility & Governance Working Group ("ESG Working Group") under Group Risk Management Committee ("GRMC") which directly reports to the Audit Committee. The member of ESG Working Group includes individuals who are directly responsible for each ESG areas. Main duties of ESG Working Group are as follows:

A. To set up and maintain policies for environmental and social responsibility;

B. To comply with the relevant laws and regulations that have a significant impact on the Company;

C. To identify potential issues relating to environmental and social responsibility;

D. To prioritize the identified issues to be managed;

E. To develop ways to monitor the identified issues and keep tracking KPIs ('Key Performance Indicators') of the issues;

F. To make recommendations on the ESG strategies to GRMC;

G. To implement the ESG strategies adopted by GRMC; and

H. To make monthly ESG report to GRMC

The regular ESG Working Group meeting is held on a monthly basis and the identified issues are discussed and proper action plans are set up to follow up. In addition, in accordance with the latest requirements under the ESG Guide, ESG Working Group provides guidance and training on all aspects of policies and strategies in respect of the Company's environmental, social and governance management as well as their relevance to the Company's operations.

As an ideal proxy for the ESG practices of the Company's camera module manufacturing operation, the following entities were selected for inclusion in this ESG section of the 2016 annual report due to its significant contributions to the Company:

❖ Dongguan Cowell Optic Electronics Limited ("Cowell China")

❖ Flip Chip camera module Factory operated by Cowell China ("FC Factory")

This report consists of 2 main sections: Environmental Protection and Social Responsibility.

2. Environmental Protection

Cowell China undertakes environmental protection seriously since it believes that protecting environment effort critically relates to the sustainability of its operation. Cowell China has initiated and implemented a number of measures to reduce carbon emission and solid wastes, improve energy efficiency and conserve water resources. Thanks to its effort in complying with the environmental laws and regulations in force in China and its well defined internal policies and procedures, Cowell China has been successfully re-accredited the certification of ISO 14001: 2004 Environmental Management System. During the certification process, Cowell China has sufficiently demonstrated the followings:


Certificate of Registration

Dongguan Cowell Optic Electronics Ltd

ISO14001: 2004

Manufacture of optical products, photovoltaic application products and camera


环境管理体系认证证书

东莞高伟光学电子有限公司

ISO14001：2004

- The Company's compliance with mandatory requirement of the environmental standard; and
- The effectiveness of the Company's environmental management system in operation

In the fiscal year of 2016, Cowell China was not aware of any material non-compliance with the relevant environmental laws and regulations that would have a significant impact on the Company.

2.A. Emissions

FC Factory has effectively managed emissions of relevant greenhouse gases, waste water and hazardous and non-hazardous wastes. Main types of emissions discharged by FC Factory are as follows:

- Greenhouse gases
- Waste water
- Hazardous waste: Waste lubricant from power generators (HW08), epoxy (HW13), fluorescent lamp (HW29), solvent (HW42) and cleaning cloth (HW49)

- Non-hazardous waste: Food waste, household garbage, plastic packaging materials and boxes

The above hazardous waste are categorized based on Corrosivity (C), Toxicity (T), Ignitability (I) and Infectivity (In) in reference to national catalogue of Hazardous Wastes formulated in accordance with the Laws of the PRC.

Greenhouse Gases

The main sources of the emitted gases are from the power generators for the failure of electrical power supply, Liquefied Natural Gas ("LNG") boilers for heating and transportation provided to employees of Cowell China. The emission from the power generator facilities is minimal since the facilities are only utilized when there is any electrical power blackout. Normally these facilities are running only 10 minutes per week for testing. Also LNG boilers are very environment friendly.

Greenhouse gas emissions are measured regularly by converting total consumption of electricity, diesel, LNG and car fuel using Intergovernmental Panel on Climate Change ("IPCC") conversion factors. Based on this methodology, FC Factory's total emission in the fiscal year of 2016 was shown in the following table:

Table 1

Item	FY 2016	IPCC Conversion Factor	Greenhouse Gas (tCO^2)
Electricity (kwh)	45,746,400	0.00047	21,501
LNG (m^3)	452,830	0.0022	996
Car Fuel (Litter)	134,933	0.00208	281
Diesel (Litter)	65,070	0.00258	168
TOTAL EMISSION			**22,946**

Air Emission

Complying with the law on the prevention and control of atmospheric pollution in China, air emission inspection for NO_X, SO_2 and dust level in the contents of emission has been conducted annually and all items have been recorded sufficiently within the tolerance level of the authority.

The following table shows the results of the test:

Table 2 Inspection result for LNG boiler

ITEM	UNIT	TOLERANCE	RESULT	STATUS
NO_X	mg/m^3	200	25	PASS
SO_2	mg/m^3	50	15	PASS
DUST	mg/m^3	30	10.2	PASS

Table 3 Inspection result for power generator:

ITEM	UNIT	TOLERANCE	RESULT	STATUS
NO_X	mg/m³	120	22	PASS
SO_2	mg/m³	500	37	PASS
DUST	mg/m³	120	15.8	PASS

Waste Water

In respect of sewage treatment, FC Factory has strictly complied with the related national laws and regulations of The Ministry of Environmental Protection of the PRC (MEP).

The discharged water of FC Factory have been annually inspected by the authority and no item in the inspection has ever exceeded MEP standards. The following table shows the results of inspection in 2016:

Table 4

	Inspection Items				
	PH	COD mg/L	BOD mg/L	T-N mg/L	petroleum mg/L
MEP Standard	6.00–9.00	30	6.0	1.50	0.50
FC Factory	7.43	18	3.6	0.86	0.04

PH: Potential of Hydrogen
COD: Chemical Oxygen Demand
BOD: Biochemical Oxygen Demand
T-N: Total Nitrogen

Total discharged water from FC Factory was measured by a water gauge. And TABLE 5 shows the amount of discharged water in the fiscal year of 2016.

Table 5 Total Discharged Water

EMISSIONS	FY 2016
DISCHARGED WATER (M^3)	468

Hazardous & Non-Hazardous Waste

A list of hazardous and non-hazardous wastes from FC Factory with its usage and total emitted amounts in the fiscal year of 2016 are summarized in the following table:

Table 6 2016 Total Emission of Hazardous and Non-Hazardous Wastes

EMISSIONS	FY 2016	USAGE
HAZARDOUS WASTE		
Waste Lubricant (kg)	1,050	Power generating
Waste Chemical (kg)	2,510	Cleaning (alcohol, acetone and solvent)
Waste Fluorescent Lamp (kg)	262	Lighting
Waste Epoxy (kg)	938	Production processing
Waste Cleaning Cloth (kg)	4,030	Cleaning using chemicals
NON-HAZARDOUS WASTE		
Waste paper, boxes & packaging materials (ton)	760	Canteen / household / packaging

In addition, the following table illustrates how each of the emitted hazardous and non-hazardous wastes are handled:

Table 7 Hazardous and Non-Hazardous Waste Treatment

		FC FACTORY		WASTE TREATMENT COMPANIES		
NO	TYPE	USAGE	TREATMENT	COLLECTION	TREATMENT	END PROCESS
1	NON-HAZARDOUS WASTE	HOUSEHOLD GARBAGE & PACKAGING WASTE (BOX & PLASTIC PACKAGING MATERIALS)	GENERAL WASTE STORAGE AREA	URBAN HOUSEHOLD GARBAGE PROCESSING CENTER	FILTERING & SORTING (RECYCLE & NON-RECYCLE WASTE)	* RECYCLABLE WASTE-RECYCLE * NON-RECYCLABLE WASTE-INCINERATION AND LANDFILL
2	FOOD WASTE	FOOD WASTE FROM CANTEEN	WASTE FOOD STORAGE	PIG FARM	FILTERING & SORTING	FEED FOR PIG FARMING
3	HAZARDOUS WASTE	ALCOHOL, ASETONE & SOLVENT (HW42) FOR CLEANING	COLLECTING WASTE CHEMICALS IN 5 LITER CONTAINER EVERY 6 MONTHS & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA	EVERY 2 MONTHS BY PROFESSIONAL HAZARDOUS WASTE TREATMENT COMPANY	TREATMENT FOR RECYCLING	RESALE
4	HAZARDOUS WASTE	WASTE LUBRICANT FROM POWER GENERATORS (HW08)	COLLECTING WASTE LUBRICANT IN 20 LITER CONTAINER EVERY 6 MONTHS & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA	EVERY 6 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	TREATMENT FOR RECYCLING	RESALE

NO	TYPE	USAGE (FC FACTORY)	TREATMENT (FC FACTORY)	COLLECTION (WASTE TREATMENT COMPANIES)	TREATMENT (WASTE TREATMENT COMPANIES)	END PROCESS (WASTE TREATMENT COMPANIES)
5	HAZARDOUS WASTE	WASTT EPOXY (HW13) FROM PRODUCTION	DESIGNATED HAZARDOUS WASTE STORAGE AREA	EVERY 2 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	FILTERING	INCINERATION
6	HAZARDOUS WASTE	WASTE CLOTH AFTER CLEANING USING CHEMICALS	DESIGNATED HAZARDOUS WASTE STORAGE AREA	EVERY 2 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	FILTERING	INCINERATION

Majority of wastes including both hazardous and non-hazardous wastes are being filtered, sorted and processed for recycling as much as possible and the final residual wastes are incinerated by the authorized waste treatment companies.

2.B. Use Of Resources

The main natural resources required for FC Factory are electricity, water, LNG and nitrogen gas ("N_2"). During the fiscal year of 2016, total consumption of the main natural resources are provided in TABLE 8.

Table 8 Total Consumption of Natural Resources

USE OF NATURAL RESOURCES	FY 2016 CONSUMPTION
ELECTRICITY (kwh)	45,746,400
WATER (M^3)	313,453
LNG (M^3)	452,830
N2 (Ton)	2,590

Electricity is required for the operation of FC Factory and water is mainly consumed for the followings:

1) Ultrasonic cleaning processes for components;

2) Cooling compressors;

3) Greening;

4) Sprinkling for dust control; and

5) Other usage (cleaning, drinking and washing etc.)

LNG is used for heating and cooking, and N_2 is required for particle control when the processed materials need to be transported from one process to the next.

Packaging Material Consumption

The packaging materials consumed by FC Factory during the fiscal year of 2016 were mainly packaging trays and carton boxes. These are in line with main US customer's standard packaging requirement. The total weight of trays and carton boxes used for the shipments of camera modules in the fiscal year of 2016 were approximately 340.2 tons and 105.3 tons, respectively. Each carton box takes up to 60 trays.

2.C. The Environmental and Natural Resources

Proper usage of natural resources with care relates to not only environmental protection, but also health and safety of employees of Cowell China. For effective and efficient consumption of natural resources, Cowell China has prepared and implemented internal policies listed below:

- LNG user manual and policy
- N_2 user manual and policy
- Water user manual and policy
- Electricity safety user manual and policy
- Uninterrupted Power Supply ("UPS") policy
- Power generator user manual and policy
- Lighting and illumination policy

In addition, Cowell China has constantly explored to find ways to optimize the utilization of resources and reduce wastes. To achieve this mission, the Company has formed a task force team ("TFT") within the organization. TFT has come up with various ideas and many of them have been already materialized. The followings are ideas and projects in consideration of:

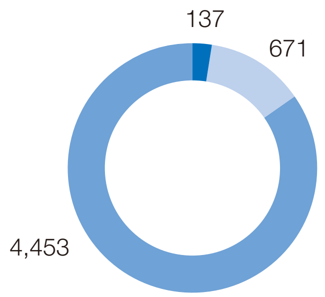
- replacing fluorescent light lamps with LED lamps to save electricity and reduce hazardous waste
- reengineering processes to reduce N_2 consumption
- replacing a big bus with a small van and optimizing shuttle schedule to save fuel and reduce emission

3. Social Responsibility

3.A. *Employment*

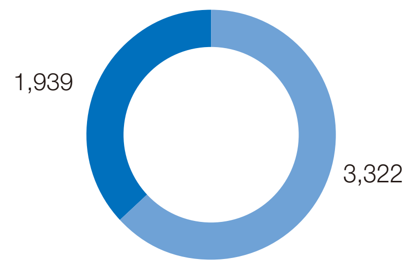
All employees of Cowell China are full time employees and well diversified in terms of gender, age group and geographical region. The detailed breakdown of our employee by region, gender and age group as follows:

Number of Employees by Region



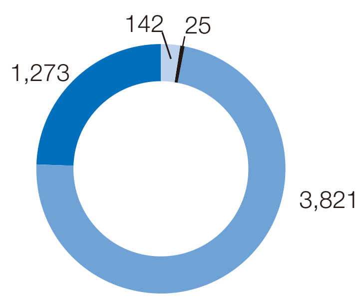
2.6% Korea
12.8% Guangdong
84.6% Other regions in China

Number of Employees by Gender



63.1% Male
36.9% Female

Number of Employees by Age Group



72.6% Below 30
24.2% Below 40
2.7% Below 50
0.5% 50 & above

The management of Cowell China believes that our employees are one of the most valuable assets to the company and essential to the company's operations. In order to make Cowell China friendly and fair working environment, the company has adopted the following principles as its core human resources ("HR") policy:

Anti-discrimination in recruitment and promotion

To complying with China Labor Law, Chapter 2, Cowell China prohibits any discrimination against any employees based on age, disability, ethnicity, gender, marital status, national origin, political affiliation, race, religion, sexual orientation, gender identity, labor union membership, or any other status protected by national law, in hiring and other employment practices. Therefore, during the recruitment process, no personal question relating to the above is allowed to ask. Furthermore, Cowell China does not require pregnancy or medical examinations unless it is required by applicable laws or prudent for workplace safety. It is also clearly stated in the policy that any grievances in good faith will not be retaliated against or punished.

Compensation and Benefits

All employees of Cowell China receive, at least, the legally required minimum wages and benefits. In addition, they can enjoy reasonable annual leave periods and time off for legally recognized holidays. Cowell China compensates employees for overtime hours in accordance with the relevant labor law in the mainland China. The detail pay structure and pay periods are clearly communicated to all employees and accurate wages are paid in a timely manner.

Working hours

Cowell China strives to create and maintain a work-life balanced working environment with reasonable working hours and rest periods for all employees. All employees are offered a range of allowances and bonuses such as compensation for working during weekend, overtime, night shift allowance as well as year-end bonuses. Cowell China's labor policies are set to adhere to legislation within respective labor laws in China.

Other Benefits and Welfare

Cowell China promotes employees' collaborative spirit and nurtures their work-life balance by sponsoring a number of cultural and sporting activities on a regular basis. The followings are such regular activities that are organized by either the management of Cowell China or employees themselves:

1. Bi-weekly badminton workout
2. Weekly basketball competition
3. Monthly mountain tracking
4. Monthly birthday get-together
5. Annual sports day
6. Dragon boat festival

3.B. Health and Safety

Occupational Health, Safety and Hazard Prevention

The management of Cowell China pays much attention to employees' health, safety and well-being since it is inarguably important to the Company's sustainable operation. The Company is making every effort to provide and maintain a safe working environment and integrate appropriate health and safety management practices into its operation. In any case, if the employees of Cowell China observe unsafe or find unhealthy working conditions, they can report this to the management of Cowell China following well established internal escalation procedures. Once it is escalated, proper actions will follow seamlessly.

As a part of the internal standard procedures, Environmental, Health & Safety Team ("EHST") and Labor Team perform the following actions:

1. Providing employees with appropriate personal protective equipment and giving them instructions and manual how to properly use the equipment;

2. Training employees to adhere to Cowell China's health and safety policy; and

3. Conducting fire drills on a semi-annual basis (day & night fire drills at the production, office and residential areas within FC Factory)

Furthermore, Cowell China has formed a group of professionals from General Affairs, Labor, Construction, HR and EHST, which conducts and promotes 'Health & Safety Day' for the employees' health and safety awareness on a monthly basis. During 'Health & Safety Day', the team checks its surroundings and eliminates potential occupational health and safety hazards.

The method used to measure occupational health and safety is as follows:

- Average number of accidents per every 1000 employees per year = Number of accident / Total number of workers X 1000

This will be regularly measured and provided in the ESG report for the fiscal year of 2017.

Also any health and safety incidents occurred or reported will be investigated and the follow-up corrective action will be conducted. All these activities are reported to GRMC.

Emergency Prevention and Readiness

Potential emergency situations are carefully examined and assessed. And for each case, proper emergency plans and escape procedures are developed and implemented to minimize any human injury and environmental and property damage. These procedures are regularly trained and exercised for the readiness.

3.C. *Development and Training*

Recruiting and maintaining skilled employees and cultivating loyalty to the Company are pivotal to both the success of the Company and the employees' career development. Training will help employees improve their work performance, which will eventually increase their loyalty to the Company. Therefore, Cowell China has developed a series of training specific to the needs and requirements of the work and tailored for the roles and responsibilities of the position. Most of trainings are done by internal staffs, but if necessary for the effectiveness of the training, outside professionals are hired to conduct the training as well.

The following table shows a summary of regular trainings for factory employees in the fiscal year of 2016:

Table 9 Regular trainings for factory employees

Target Audience	Training Subjects	# of Attendees	Training Hours	Frequency (or when)
Newly hired operators	**Orientation:** 1. Company Introduction; 2. Code of Conduct; 3. Health & Safety; 4. Manufacturing Processes; 5. Terminology; 6. Tool Manual; 7. Safety Gear Manual; 8. Clean Room Rules; 9. Employment Contract; 10. Team Roles & Responsibilities	Male: 5,574 Female: 2,735	2 days (8 hours per day)	1st and 2nd day of employment
Leader/Line Manager/ rocessing Manager	1. Roles & Responsibilities; 2. Code of Conduct; 3. Corporate Social Responsibility; 4. Working Attitude; 5. Chemical Handling Instruction; 6. Organization Behavior; 7. People Management; 8. Interpersonal Skill; 9. Improving Productivity; 10. Leader's Role & Team Spirit	Male: 79 Female: 64	8 hours	Semi-annually
Leader/Line Manage/ Processing Manager	1. Floor Management; 2. Code of Conduct; 3. Corporate Social Responsibility; 4. Health & Safety; 5. Leadership skill; 6. Interpersonal Skill; 7. Corporate Communication; 8. Leader's Role & Team Spirit	Male: 136 Female: 119	8 hours	Annually (usually in September)

3.D. Labor Standards

Anti-harassment and Abuse

Cowell China has strived to make friendly workplace without in any form of harassment and abuse including, but not limited to verbal abuse and harassment, psychological harassment, mental and physical coercion, and sexual harassment. To create this working environment, a regular training on an annual basis has been provided to all employees including the newly hired.

Prevention of Involuntary Labor

Persons can have an opportunity to work for Cowell China only when they want to work voluntarily. Any form of slave, forced, bonded, indentured, or prison labor will not be recruited based on the internal policy. In any case, Cowell China will not forcibly withhold employee's original government-issued identification and travel documents. The relevant conditions of employment will be clearly explained to all employees in their own language.

Prevention of Underage Labor

The minimum legal age applicable to Cowell China's employment is 18 years old. Anyone younger than 18 years old will not be allowed to work for the Company. In order to prevent hiring any underage workers, a number of strict measures have been placed. The following procedures are the synopsis of the policy:

1. All applicants for employment must present valid identification documents;

2. All applicants for employment must be interviewed by three interviewers; and

3. All documents provided and the results of the interviews will be carefully reviewed by both HR manager and team head of the hiring department.

In addition to the above procedures, internal escalation procedure for any unauthorized underage employment has also been set up. Any unauthorized underage workers can be anonymously escalated to the management. Furthermore, regarding this particular aspect, quarterly review is conducted for the floor workers at the production site.

3.E. Supply Chain Management

Cowell China respects the partnership with suppliers and desires to enhance its relationship for the sustainable and mutual growth with integrity. In order to achieve this goal, the Company has integrated social responsibility into supply chain management, which extensively covers various areas including production management, quality control, environmental governance and labor practice. The Company keeps exchanging dialogue with suppliers in routine work, physical visits, field review, supplier meetings and conferences, etc.

"Cowell Suppliers Day", the annual supplier's conference, is one of most important communication methods that Cowell China has adopted for many years. During the annual suppliers' conference, the Company shared with suppliers not only the Company's business snapshot and outlook, but also Cowell's Supplier Code of Conduct specifying business ethics, fair treatment, environmental protection, no harmful substances use, prohibition of underage labor, health and safety of workers, etc. At the annual suppliers' conference held on 28th July, 2016, the list of excellent suppliers of 2016 was announced and a number of suppliers were recognized with Supplier Excellent Awards.

This event really helps suppliers understand Cowell China's ESG requirement.

Suppliers' ESG Requirements

Cowell China encourages suppliers to adopt ESG principles, especially in the areas of labor and human rights, health and safety, business ethics and environmental and social responsibility. The Company carefully selects its suppliers based on the above principles and any violations of these principles may jeopardize overall business relationship with the Company. Cowell China's standard purchase agreement includes supplier's social responsibility which specifies ESG requirements such as environmental protection, fair treatment for employment, health and safety of workers and business ethics.

Supplier Selection Process

When Cowell China needs to select a new supplier, it strictly follows procedures and on-site visit is one of critical steps in selecting new suppliers.

The procurement team examines the qualification of potential suppliers in a stringent manner. Before sending out a request for proposal ("RFP") to potential suppliers, the followings are carefully reviewed:

1. Financial condition of the supplier

2. Shipping track record

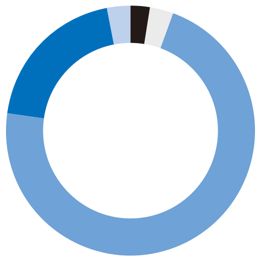
3. Product quality assurance

Based on the outcome of the above review, multiple suppliers are shortlisted for the RFP. Pricing competitiveness and ESG cooperation will be core criteria for the selection of suppliers.

The following shows geographical diversification of Cowell China's suppliers in 2016:

Supplier Location		# of Suppliers
China	North China	338
	Middle China	44
	South China	15
	West China	3
Korea		110
Japan		17
Hongkong		15
Taiwan		6
USA		5
Singapore		3
Germany		2
Macau		1

Geographical Diversification of Suppliers



Suppliers of Cowell China are well diversified in terms of geographical region, but majority of suppliers are located in South China.

3.F. *Product Responsiblity*

Cowell China's continued effort in improving quality management system has been recognized by successful renewal of ISO 9001: 2008. This ISO 9001: 2008 was based on the following eight quality management principles which would further help Cowell China improve its performance:

1. Customer focus: fulfillment of customer needs

2. Leadership: unity of purpose and direction

3. Involvement of people: employees' involvement in achieving the organization's objectives

4. Process approach: resources and activities managed as processes

5. System management: systemized approach for the effectiveness and efficiency

6. Continual improvement: adopting system as a part of everyday culture for improvement

7. Fact based decision-making: making decisions based on the logical and intuitive analysis of data and factual information

8. Mutual benefit: enhancing relationship with suppliers for mutual benefit and value


Certificate of Registration

Dongguan Cowell Optic Electronics Ltd

ISO9001: 2008

manufacture of optical products, photovoltaic application products and camera


质量管理体系认证证书

东莞高伟光学电子有限公司

ISO9001：2008

In fact, all manufacturing processes are carefully designed and validated by long experienced engineers. Production activities are performed in Class 10 clean room environment to satisfy our client's stringent requirements for the quality of products. After every step of the production, the outcome produced are carefully examined and tested based on the well-defined testing procedures. Even then, in order to strengthen quality assurance program, a proper customer return product procedure has been set up. The main purpose of this procedure is to efficiently handling the returned products from the customer due to not only product quality issues, but also any relevant re-work, re-inspection or re-test procedures prior to shipment back to the customer.

Health and Safety

FC Factory was established exclusively to serve our major US customer who has extensive control over sourcing raw materials. Furthermore, all new product development projects are carried out jointly with the customer. In other words, the customer involves in the whole processes from sourcing raw materials to designing manufacturing processes and, at all time, stringent health and safety requirements are applied and regularly and jointly monitored by both Cowell China's product development team and engineers from the customer. Therefore, recalls for the safety and health reasons is not relevant to FC Factory.

Protecting Intellectual Property Rights & Privacy Policies

In accordance with the non-disclosure agreement ("NDA") agreed with the customer, all activities within FC Factory have been treated in a highly confidential manner and the whole property of FC Factory is secured as the restricted area where only authorized persons can enter. Any violation of NDA requirement is regularly reviewed by both internal audit team and legal team and the outcome of the regular review is reported to GRMC on a monthly basis, which determines further escalation to the Audit Committee or the board of directors. Even without any escalation case, quarterly GRMC report specifying this matter is made to the Audit Committee as a regular process. In the fiscal year of 2016, there has been no violation reported to GRMC.

Quality Assurance Process and Recall Procedures

Cowell China's Return Material Authorization ("RMA") system has two basic categories. One is Incoming Quality Control ("IQC") reject/Field Failure returns/Production fallouts (Quality), which encompasses product returned for technical reasons such as electrical rejections and / or functional failures, cosmetic and mechanical. Rework, retest, and sorting fees related to the quality defect is included in this category. The other is Administrative Returns (Non Quality), which encompasses all products returned for non-technical reasons. Examples are shipment error and freight fees, price reduction, customer requested changes and other administrative issues in nature.

For quality related returns, Cowell Quality Assurance ("QA") manager or representative confirms the customer complaint and communicates recommendations to Cowell China's quality engineering manager, director, supply chain, sales team and procurement team as needed. And a corrective & preventive action report is created to follow up in accordance with the procedures. If any quality issue at the customer's end is suspected, customer's quality representative will conduct the validation process prior to further actions.

3.G. Anti-Corruption

The Prevention of Bribery Ordinance in Hong Kong and relevant laws and regulations on anti-corruption and bribery in China are a part of core principles of Cowell China's Code of Conduct. The core principles of anti-corruption policy are well communicated with all Cowell China employees through a regular training. Cowell China's anti-corruption policy prohibits any and all form of corruption, extortion and embezzlement. In particular, employees of Cowell China shall in no event bribe foreign civil servants in any transactions and shall comply with laws that prohibit promising or giving bribes or any act of expressing intention to give either directly or indirectly to foreign civil servants regarding business affairs for the purpose of achieving unlawful profit in international commercial any transactions.

The followings are Cowell China's corruption prevention practices:

1. No monetary or valuable gift should be given or received;

2. A pre-approval must be sought when any employee of Cowell China needs to take part in activities including meals with suppliers or any relevant party outside of the company;

3. No employee of Cowell China is allowed to use the Company's business opportunities for personal interest or benefit; and

4. All employees of Cowell China must attend "Anti-Corruption" training annually.

Furthermore, a suitable whistleblowing policy has been adopted by the management, which enables employees and other stakeholders to escalate any suspected misconduct or malpractice within Cowell China without any retribution.

3.H. *Community Investment*

Cowell China, since its inception in 2002, has grown its business substantially. The management of the Company has recognized that such success and growth could not have been achieved without support from people, local community where the company operates and the government. As a token of appreciation and for the sustainable growth, Cowell China has shown its commitment to the community in form of voluntary participation in community services and monetary sponsorship or charitable donations caring for people in need as well as supporting educational and environmental protection activities.

The areas of our focus in this aspect are as follows:

1. Fighting Poverty

2. Helping young people's education

3. Caring the elderly

4. Protecting environment

5. Supporting community development

In the fiscal year of 2016, the Company has sponsored or donated to:

1.	Heng Keng village initiative "Helping the elderly":	RMB 151,940 (US$ 22,956)
2.	Dongguan city government's "Fighting Poverty Campaign":	RMB 50,000 (US$ 7,554)
3.	Korean Chamber of Commerce:	RMB 180,000 (US$ 27,195)
4.	Guangzhou Korean School for poor students:	RMB 3,000,000 (US$ 453,254)
5.	Hong Kong Korean Resident Association:	HK$ 200,000 (US$ 25,773)
6.	MIRAL Welfare Foundation (for physically disabled children):	KRW 12,000,000 (US$ 10,340)

* 2016 average foreign exchange rate (HK$/US$=7.76; KRW/US$=1160.50; RMB/US$=6.6188)

Independent Auditor's Report

Independent auditor's report to the shareholders of Cowell e Holdings Inc.

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Cowell e Holding Inc. ("the Company") and its subsidiaries ("the Group") set out on pages 86 to 142, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis of opinion

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

Key audit matters

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

Revenue recognition

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

The key audit matter	How the matter was addressed in our audit
Revenue mainly comprises sales of camera modules and optical components to customers. The Group enters into a framework sale and purchase agreement with each major customer and manufactures and sells its products in accordance with the terms of separate purchase orders. For the majority of the Group's sales, once the products are delivered to the location designated by the customer (either the shipping port or the destination port), the risks and rewards of ownership of the goods are considered to have been transferred to the customer and revenue is recognised accordingly. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • evaluating the design, implementation and operating effectiveness of management's key internal controls which govern revenue recognition; • inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework sale and purchase agreement by inspecting the relevant underlying shipping documents which indicated the date of delivery of the goods to the location designated by the customer; • obtaining confirmations from key customers of the Group's sales transactions with them during the year, enquiring of management the reasons for reconciling items identified in the returned confirmations and comparing details of the reconciling items with relevant underlying documentation; • inspecting a sample of credit notes issued after the financial year end and evaluating whether the related adjustments to revenue had been recognised in the appropriate financial period; • inspecting all manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Ka Nang.

KPMG

Certified Public Accountants

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

March 23, 2017

Consolidated Statement of Profit or Loss

For the year ended December 31, 2016
(Expressed in United States dollars)

	Note	2016 $'000	2015 $'000
Revenue	3	**914,545**	980,203
Cost of sales		**(838,399)**	(843,315)
Gross profit		**76,146**	136,888
Other revenue	4	**2,709**	2,321
Other net income	4	**4,281**	149
Selling and distribution expenses		**(3,236)**	(6,870)
Administrative expenses		**(44,484)**	(50,333)
Listing expenses		**–**	(3,512)
Profit from operations		**35,416**	78,643
Finance costs	5(a)	**(806)**	(1,615)
Donation		**(547)**	(29)
Profit before taxation	5	**34,063**	76,999
Income tax	6	**(5,568)**	(16,319)
Profit for the year		**28,495**	60,680
Earnings per share	10		
Basic		**$ 0.034**	$ 0.075
Diluted		**$ 0.034**	$ 0.075

The notes on pages 91 to 142 form part of these consolidated financial statements. Details of dividends payable to equity shareholder of the Company attributable to the profit for the year are set out in note 22(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2016
(Expressed in United States dollars)

	Note	2016 $'000	2015 $'000
Profit for the year		**28,495**	60,680
Other comprehensive income for the year (after tax adjustments):	9		
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements		**(17,901)**	(14,076)
Items that will not be reclassified to profit or loss			
Remeasurement of net defined benefit liability		**(18)**	103
		(17,919)	(13,973)
Total comprehensive income for the year		**10,576**	46,707

The notes on pages 91 to 142 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at December 31, 2016
(Expressed in United States dollars)

	Note	2016 $'000	2015 $'000
Non-current assets			
Property, plant and equipment	11	123,316	112,780
Intangible assets	12	5,591	2,560
Other receivables	15(d)	6,556	7,644
Deferred tax assets	21(b)	329	323
		135,792	123,307
Current assets			
Inventories	14	60,026	101,280
Trade and other receivables	15	231,158	105,546
Current tax recoverable	21(a)	6,981	353
Pledged deposits	16(a)	3,193	28,498
Bank deposits	16(b)	39,675	14,505
Cash and cash equivalents	16(b)	85,435	79,056
		426,468	329,238
Current liabilities			
Trade and other payables	17	168,693	114,662
Bank loans	18	89,249	40,822
Current tax payable	21(a)	6,567	11,102
		264,509	166,586
Net current assets		161,959	162,652
Total assets less current liabilities		297,751	285,959
Non-current liabilities			
Net defined benefit retirement obligation	19	178	209
Deferred tax liabilities	21(b)	210	95
		388	304
NET ASSETS		297,363	285,655
CAPITAL AND RESERVES			
Share capital	22(c)	3,326	3,326
Reserves		294,037	282,329
TOTAL EQUITY		297,363	285,655

Approved and authorised for issue by the board of directors on March 23, 2017

Mr. Kim Kab Cheol
Director

Mr. Seong Seokhoon
Director

The notes on pages 91 to 142 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016
(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 2015:										
Profit for the year	–	–	–	–	–	–	–	–	60,680	60,680
Other comprehensive income	–	–	–	–	–	–	–	(14,076)	103	(13,973)
Total comprehensive income	–	–	–	–	–	–	–	(14,076)	60,783	46,707
Transfer from retained profits	–	–	–	–	–	2,015	–	–	(2,015)	–
Issuance of new shares, net of relevant expenses (note 22(c)(i))	333	43,867	–	–	–	–	–	–	–	44,200
Contribution by a shareholder (note 22(c)(i))	–	–	2,040	–	–	–	–	–	–	2,040
Equity settled share-based transactions	–	–	276	–	–	–	–	–	–	276
Transfer upon disposal	–	–	–	–	–	–	(1,030)	–	1,030	–
	333	43,867	2,316	–	–	2,015	(1,030)	–	(985)	46,516
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 2016:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**28,495**	**28,495**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,901)**	**(18)**	**(17,919)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,901)**	**28,477**	**10,576**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**603**	**–**	**–**	**(603)**	**–**
Equity settled share-based transactions	**–**	**–**	**1,132**	**–**	**–**	**–**	**–**	**–**	**–**	**1,132**
	–	**–**	**1,132**	**–**	**–**	**603**	**–**	**–**	**(603)**	**1,132**
Balance at December 31, 2016	**3,326**	**66,398**	**3,448**	**7**	**762**	**8,125**	**–**	**(23,679)**	**238,976**	**297,363**

The notes on pages 91 to 142 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended December 31, 2016
(Expressed in United States dollars)

	Note	2016 $'000	2015 $'000
Operating activities			
Cash generated from operations	*16(c)*	**17,612**	76,053
Tax paid			
— Hong Kong Profits Tax paid		**(10,817)**	(4,541)
— Overseas tax paid		**(5,476)**	(10,477)
Net cash generated from operating activities		**1,319**	61,035
Investing activities			
Payment for purchase of property, plant and equipment		**(39,701)**	(36,492)
Proceeds from sale of property, plant and equipment		**1**	—
Compensation received for loss of property, plant and equipment		**1,071**	—
Proceeds from sale of investment property		**—**	2,950
Payment for purchase of intangible assets		**(3,734)**	(389)
Interest received		**488**	447
Increase in bank deposits		**(25,170)**	(14,505)
Net cash used in investing activities		**(67,045)**	(47,989)
Financing activities			
Proceeds from bank loans		**713,542**	914,465
Repayment of bank loans		**(665,115)**	(965,582)
Interest paid		**(806)**	(1,615)
Decrease/(increase) in pledged deposits		**25,305**	(9,372)
Proceeds from issuance of new shares, net of relevant expenses		**—**	44,200
Contribution by a shareholder		**—**	2,040
Net cash generated from/(used in) financing activities		**72,926**	(15,864)
Net increase/(decrease) in cash and cash equivalents		**7,200**	(2,818)
Cash and cash equivalents at January 1	*16(b)*	**79,056**	82,224
Effect of foreign exchange rate changes		**(821)**	(350)
Cash and cash equivalents at December 31	*16(b)*	**85,435**	79,056

The notes on pages 91 to 142 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and related interpretations, promulgated by the International Accounting Standards Board (“IASB”). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain employee benefits are stated at their fair value as explained in the accounting policies set out below.

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

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

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

(c) 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. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

1 Significant accounting policies (continued)

(d) Subsidiaries

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

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

(e) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(r)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

1 Significant accounting policies (continued)

(f) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)), with the exception of construction in progress which is stated at cost less any impairment losses (see note 1(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

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

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

— Leasehold improvements	Shorter of the terms of leases or 20 years
— Plant and machinery	8–10 years
— Equipment, furniture and fixtures	3–5 years
— Motor vehicles	3–5 years

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

(g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Development costs	5 years
— Software	5 to 10 years

Both the period and method of amortisation are reviewed annually.

1 Significant accounting policies (continued)

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(e)); and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(e)).

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Impairment of receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

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

— property, plant and equipment;

— intangible assets; and

— investments in subsidiaries in the Company's statement of financial position.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) ***Impairment of other assets*** (continued)

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

1 Significant accounting policies (continued)

(j) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 Significant accounting policies (continued)

(o) Employee benefits

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

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

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "selling and distribution expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

1 Significant accounting policies (continued)

(o) Employee benefits (continued)

(iii) Share-based payments

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

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

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

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

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

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

1 Significant accounting policies (continued)

(p) Income tax (continued)

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

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(e), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(q) Provisions and contingent liabilities

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

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

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises or consumed by customers, depending on sales terms, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Compensation income

Compensation income is recognised when the right to receive payment is established.

(v) Subsidy income

Subsidies are recognised initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Subsidies that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently are recognised in profit or loss over the useful life of the assets by way of reduced depreciation expense.

1 Significant accounting policies (continued)

(s) Translation of foreign currencies

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

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

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

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

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 Significant accounting policies (continued)

(u) Related parties

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

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

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

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

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

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

(6) The entity is controlled or jointly controlled by a person identified in (i).

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

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

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

(v) Segment reporting

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

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

2 Accounting judgements and estimates

Note 19 contains information about the assumptions and their risk factors relating to defined benefit retirement obligations. Other key areas of estimation uncertainty are as follows:

(a) Impairment of property, plant and equipment and intangible assets

If the circumstances indicate that the carrying values of these assets may not be recoverable, the assets may be considered "impaired" and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. Under IAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. However, actual sales volume, selling prices and operating costs may be different from assumptions which may result in a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of property, plant and equipment and intangible assets are disclosed in notes 11 and 12 respectively.

(b) Impairment of receivables

Receivables that are measured at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recorded. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is a change in the objective evidence of impairment in relation to the debtors, the actual impairment loss would be higher or lower than the allowance for doubtful debts recognised in the financial statements.

(c) Useful lives of other property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for the property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and, management experience and judgement. Based on this review, a write down of inventories will be made when the estimated net realisable value of inventories decline below their carrying amounts. Due to changes in technological environment, actual saleability of goods may be different from estimation and the statement of profit or loss in future accounting periods could be affected by differences in this estimation.

3 Revenue and segment reporting

(a) Revenue

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 year ended December 31, 2016. Revenues from sales to these customers, arose in the camera module segment, during the reporting period are set out below.

	2016 $'000	2015 $'000
Largest customer	**780,221**	806,576
— Percentage of total revenue	**85%**	82%
Second largest customer	**104,704**	136,722
— Percentage of total revenue	**11%**	14%

Details of concentrations of credit risk arising from these customers are set out in note 23(a).

(b) Segment reporting

The Group manages its businesses by division, which is 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 presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Camera module: this segment is involved in the design, development, manufacture and sale of camera modules for mobile devices and home appliances. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in the People's Republic of China ("PRC") and sold to customers mainly located in the PRC and the Republic of Korea ("Korea").

— Optical components: this segment is involved in the design, development, manufacture and sale of optical components for optical disk drivers. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Korea.

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is profit before tax. To arrive at segment profit, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

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 years ended December 31, 2016 and 2015 is set out below.

	Camera module	
	2016	2015
	$'000	$'000
Revenue from external customers	**907,871**	967,353
Reportable segment revenue	**907,871**	967,353
Segment profit	**38,509**	84,580
Bank interest income	**485**	442
Finance costs	**(800)**	(1,599)
Depreciation and amortisation	**(18,192)**	(13,962)
Additions to non-current segment assets	**43,042**	36,563

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(i) ***Segment results*** (continued)

	Optical components	
	2016	2015
	$'000	$'000
Revenue from external customers	**6,674**	12,850
Reportable segment revenue	**6,674**	12,850
Segment (loss)/profit	**(3,021)**	409
Bank interest income	**3**	5
Finance costs	**(6)**	(16)
Depreciation and amortisation	**(985)**	(1,195)
Additions to non-current segment assets	**393**	318

	Total	
	2016	2015
	$'000	$'000
Revenue from external customers	**914,545**	980,203
Reportable segment revenue	**914,545**	980,203
Segment profit	**35,488**	84,989
Bank interest income	**488**	447
Finance costs	**(806)**	(1,615)
Depreciation and amortisation	**(19,177)**	(15,157)
Additions to non-current segment assets	**43,435**	36,881

(ii) ***Reconciliations of reportable segment revenues and profit or loss***

	2016	2015
	$'000	$'000
Revenue		
Reportable segment revenue and consolidated revenue	**914,545**	980,203
Profit		
Reportable segment profit	**35,488**	84,989
Unallocated head office and corporate expenses	**(1,425)**	(7,990)
Consolidated profit before taxation	**34,063**	76,999

Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		Specified non-current assets	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Hong Kong	**809,529**	843,458	**24**	32
PRC	**—**	—	**128,136**	114,351
Korea	**105,016**	136,745	**747**	957
	914,545	980,203	**128,907**	115,340

4 Other revenue and other net income

	2016	2015
	$'000	$'000
(a) Other revenue		
Bank interest income	**488**	447
Compensation income	**518**	—
Rental income		
— Investment property	**—**	126
— Other	**174**	214
Government subsidy	**1,402**	1,363
Others	**127**	171
	2,709	2,321
(b) Other net income		
Net loss on disposal of plant and equipment	**(661)**	(4,833)
Net loss on disposal of investment property	**—**	(379)
Net foreign exchange gain	**4,946**	5,378
Others	**(4)**	(17)
	4,281	149

5 Profit before taxation

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

		2016 $'000	2015 $'000
(a)	**Finance costs**		
	Interest on bank borrowings	806	1,615
(b)	**Staff costs # ***		
	Contributions to defined contribution retirement plan	4,864	5,622
	Expenses recognised in respect of defined benefit retirement plans (note 19(a)(v))	121	181
	Equity-settled share-based payment expenses (note 20)	1,132	276
	Salaries, wages and other benefits	55,953	75,969
		62,070	82,048

Staff costs also include directors' remuneration disclosed in note 7.

		2016 $'000	2015 $'000
(c)	**Other items**		
	Amortisation (note 12)	518	379
	Depreciation # (note 11)	18,659	14,778
	Impairment loss/(reversal of impairment loss) of trade receivables (note 15(b))	285	(4)
	Auditors' remuneration	323	282
	Operating lease charges: minimum lease payments in respect of property rentals #	3,628	3,373
	Rentals income from investment property less direct outgoings of $Nil (2015: $55,000)	–	(71)
	Research and development costs other than depreciation *	15,655	13,669
	Cost of inventories # (note 14(b))	838,399	843,315

\# Cost of inventories includes $53,922,000 (2015: $66,794,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

* Research and development costs other than depreciation includes $8,728,000 (2015:$5,492,000) relating to staff costs, which amounts are also included in the respective total amounts disclosed separately in note 5(b).

6 Income tax in the consolidated statement of profit or loss

(a) Income tax in the consolidated statement of profit or loss represents:

	2016 $'000	2015 $'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**1,346**	7,977
Over-provision in respect of prior years	**(69)**	(53)
	1,277	7,924
Current tax — Overseas		
Provision for the year	**4,127**	9,470
Under/(over)-provision in respect of prior years	**52**	(84)
	4,179	9,386
Deferred tax		
Origination and reversal of temporary differences	**150**	(991)
Change in tax rate	**(38)**	—
	112	(991)
	5,568	16,319

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 for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

Pursuant to the Administrative Measures for Recognition of High-New Technology Enterprise ("HNTE") jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation, Dongguan Cowell Optic Electronics Co., Ltd. ("Cowell DG"), an indirect wholly owned subsidiary of the Company, was certified as a HNTE. According to the provisions of Article 28 "Corporate Income Tax Law of the People's Republic of China", the effective Corporate Income Tax ("CIT") rate for 2016 till 2018 will be subject to a reduced tax rate of 15%.

The CIT rate applicable to Cowell DG is 25% for the year ended December 31, 2015.

Under the tax law in Korea, the statutory corporate tax rate applicable to the subsidiary in Korea is 10% for assessable income below Korean Won ("KRW") 200 million, 20% for assessable income between KRW200 million and KRW20 billion and 22% for assessable income above KRW20 billion for the years presented.

6 Income tax in the consolidated statement of profit or loss (continued)

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

	2016 $'000	2015 $'000
Profit before taxation	**34,063**	76,999
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**5,060**	16,156
Tax effect of non-deductible expenses	**920**	416
Tax effect of non-taxable income	**(257)**	(113)
Over-provision in prior years	**(17)**	(137)
Others	**(100)**	(3)
Effect of deferred tax balances at January 1 resulting from a change in tax rate	**(38)**	—
Actual tax expense	**5,568**	16,319

7 Directors' emoluments

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

	Directors' fees $'000	Discretionary bonuses $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note 2) $'000	2016 Total $'000
Chairman							
Seong Seokhoon (redesignated as chairman on March 1, 2016)	–	81	162	–	243	135	378
Kwak Joung Hwan (resigned on February 29, 2016)	–	–	200	1	201	–	201
Executive directors							
Kim Kab Cheol	–	85	195	–	280	404	684
Non-executive directors							
Kim Jae Min (resigned on May 12, 2016)	–	–	–	–	–	–	–
Independent non-executive directors							
Okayama Masanori (resigned on May 12, 2016)	–	–	18	–	18	–	18
Kim Chan Su	–	–	28		28	–	28
Song Si Young	–	–	30		30	–	30
Kim Ilung (appointed on May 13, 2016) (note 1)	–	–	–	–	–	–	–
	–	166	633	1	800	539	1,339

7 Directors' emoluments (continued)

	Directors' fees $'000	Discretionary bonuses $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note 2) $'000	2015 Total $'000
Chairman							
Kwak Joung Hwan	–	2,261	1,200	7	3,468	–	3,468
Executive directors							
Kim Kab Cheol	–	151	223	–	374	66	440
Seong Seokhoon	–	149	200	–	349	21	370
Non-executive directors							
Kim Jae Min	–	–	–	–	–	–	–
Yoon Yeo Eul (resigned on August 31, 2015)	–	–	–	–	–	–	–
Lee Dong Chun (resigned on August 31, 2015)	–	–	–	–	–	–	–
Independent non-executive directors							
Okayama Masanori	–	–	50	–	50	–	50
Kim Chan Su (appointed on March 10, 2015)	–	–	16	–	16	–	16
Song Si Young (appointed on March 10, 2015)	–	–	24	–	24	–	24
	–	2,561	1,713	7	4,281	87	4,368

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Note: 1. Mr Kim Ilung waived his entitlements to his emoluments.
2. These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(o)(iii).

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2015: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	2016 $'000	2015 $'000
Salaries and other emoluments	394	450
Contributions to retirement benefit scheme	54	16
	448	466

The emoluments of the two (2015: two) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK$1,000,001 (equivalent to $129,000) to HK$1,500,000 (equivalent to $193,000)	1	—
HK$1,500,001 (equivalent to $193,000) to HK$2,000,000 (equivalent to $258,000)	—	2
HK$2,000,001 (equivalent to $258,000) to HK$2,500,000 (equivalent to $322,000)	1	—

9 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2016			2015		
	Before tax amount $'000	Tax expense $'000	Net-of-tax amount $'000	Before tax amount $'000	Tax expense $'000	Net-of-tax amount $'000
Exchange differences on translation of financial statements	(17,901)	—	(17,901)	(14,076)	—	(14,076)
Remeasurement of net defined benefit liability	(23)	5	(18)	132	(29)	103
Other comprehensive income	(17,924)	5	(17,919)	(13,944)	(29)	(13,973)

10 Earnings per share

(a) Basis earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $28,495,000 (2015: $60,680,000) and the weighted average number of 831,519,000 ordinary shares (2015: 811,232,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2016 $'000	2015 $'000
Issued ordinary shares at January 1	831,519	748,319
Effect of share issue (note 22(c))	–	62,913
Weighted average number of ordinary shares at December 31	831,519	811,232

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $28,495,000 (2015: $60,680,000) and the weighted average number of ordinary shares of 831,519,000 shares (2015: 811,786,000 shares), calculated as follows:

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

	2016 $'000	2015 $'000
Weighted average number of ordinary shares at December 31	831,519	811,232
Effect of deemed issued of shares under the Company's share option scheme for nil consideration (note 20)	–	554
Weighted average number of ordinary shares (diluted) at December 31	831,519	811,786

11 Investment property and other property, plant and equipment

Reconciliation of carrying amount

	Leasehold improvements $'000	Plant and machinery $'000	Equipment, furniture and fixtures $'000	Motor vehicles $'000	Construction in progress $'000	Sub-total $'000	Investment property $'000	Total $'000
Cost or valuation:								
At January 1, 2015	42,667	91,849	20,298	520	125	155,459	3,427	158,886
Exchange adjustments	(2,622)	(6,779)	(1,102)	(30)	(5)	(10,538)	(98)	(10,636)
Additions	3,600	29,005	1,242	–	2,645	36,492	–	36,492
Disposals	–	(12,854)	(2,539)	–	–	(15,393)	(3,329)	(18,722)
Transfers	–	2,702	–	–	(2,702)	–	–	–
At December 31, 2015 and January 1, 2016	**43,645**	**103,923**	**17,899**	**(490)**	**63**	**166,020**	**–**	**166,020**
Exchange adjustments	**(2,958)**	**(8,582)**	**(1,479)**	**(31)**	**(3)**	**(13,053)**	**–**	**(13,053)**
Additions	**2,280**	**27,952**	**8,493**	**–**	**976**	**39,701**	**–**	**39,701**
Disposals	**–**	**(2,743)**	**(740)**	**–**	**–**	**3,483**	**–**	**(3,483)**
Transfers	**–**	**998**	**–**	**–**	**(998)**	**–**	**–**	**–**
At December 31, 2016	**42,967**	**121,548**	**24,173**	**459**	**38**	**189,185**	**–**	**189,185**
Accumulated depreciation:								
At January 1, 2015	5,099	36,746	10,068	293	–	52,206	–	52,206
Exchange adjustments	(392)	(2,173)	(598)	(21)	–	(3,184)	–	(3,184)
Change for the year	2,193	9,557	2,941	87	–	14,778	–	14,778
Written back on disposals	–	(8,217)	(2,343)	–	–	(10,560)	–	(10,560)
At December 31, 2015 and January 1, 2016	**6,900**	**35,913**	**10,068**	**359**	**–**	**53,240**	**–**	**53,240**
Exchange adjustments	**(607)**	**(2,762)**	**(761)**	**(27)**	**–**	**(4,157)**	**–**	**(4,157)**
Charge for the year	**2,260**	**12,941**	**3,385**	**73**	**–**	**18,659**	**–**	**18,659**
Written back on disposals	**–**	**(1,329)**	**(544)**	**–**	**–**	**(1,873)**	**–**	**(1,873)**
At December 31, 2016	**8,553**	**44,763**	**12,148**	**405**	**–**	**65,869**	**–**	**65,869**
Net book value:								
At December 31, 2015	36,745	68,010	7,831	131	63	112,780	–	112,780
At December 31, 2016	**34,414**	**76,785**	**12,025**	**54**	**38**	**123,316**	**–**	**123,316**

The Group's property, plant and equipment with carrying value of $1,403,000 were pledged to a bank to secure banking facilities granted to the Group (note 18) at December 31, 2015. No property, plant and equipment were pledged as at December 31, 2016.

A customer has provided machinery to the Group for production ot goods to that customer. The original acquisition costs of machinery borne by the customer amounted to $116,618,000 (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.

12 Intangible assets

	Development costs $'000	Software $'000	Total $'000
Cost:			
At January 1, 2015	79	2,907	2,986
Exchange adjustments	(5)	(21)	(26)
Additions	—	389	389
At December 31, 2015 and January 1, 2016	**74**	**3,275**	**3,349**
Exchange adjustments	**(3)**	**(194)**	**(197)**
Additions	**—**	**3,734**	**3,734**
At December 31, 2016	**71**	**6,815**	**6,886**
Accumulated amortisation:			
At January 1, 2015	63	354	417
Exchange adjustments	(4)	(3)	(7)
Charge for the year	15	364	379
At December 31, 2015 and January 1, 2016	**74**	**715**	**789**
Exchange adjustments	**(3)**	**(9)**	**(12)**
Charge for the year	**—**	**518**	**518**
At December 31, 2016	**71**	**1,224**	**1,295**
Net book value:			
At December 31, 2016	**—**	**5,591**	**5,591**
At December 31, 2015	—	2,560	2,560

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

13 Investments in subsidiaries

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

			Proportion of ownership interest			
Name of company	**Place of incorporation/ registration and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Cowell Optic Electronics Limited	Hong Kong	100 shares	100%	100%	–	Trading of camera module and optical products
Dongguan Cowell Optic Electronics Co., Ltd. ("Cowell DG")(*)	PRC	$253,764,390	100%	–	100%	Manufacture of camera module and optical products
Cowell Electronics Co., Ltd	Korea	KRW1,934,540,000	100%	100%	–	Trading of camera module and optical products

* Registered under the laws of the PRC as wholly foreign owned enterprise.

14 Inventories

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

	2016 $'000	2015 $'000
Raw materials	**21,170**	25,302
Work in progress	**15,110**	4,458
Finished goods	**23,746**	71,520
	60,026	101,280

14 Inventories (continued)

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 $'000	2015 $'000
Carrying amount of inventories sold	**837,683**	842,976
Write-down of inventories	**1,036**	816
Reversal of write-down of inventories	**(320)**	(477)
	838,399	843,315

The reversal of write-down of inventories arose upon sales of inventories, the value of which was written-down in prior years.

15 Trade and other receivables

	2016 $'000	2015 $'000
Trade receivables	**202,383**	86,208
Less: allowance for doubtful debts (note 15(b))	**(289)**	(4)
	202,094	86,204
Other receivables and prepayments	**29,064**	19,342
	231,158	105,546

All of the trade and other receivables are expected to be recovered or recognised as expense within one year. Certain of the trade receivables were pledged to banks to secure banking facilities granted to the Group (note 18).

15 Trade and other receivables (continued)

(a) Ageing analysis

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:

	2016 $'000	2015 $'000
Within 1 month	**133,790**	51,817
Over 1 to 2 months	**67,382**	30,987
Over 2 to 3 months	**391**	911
Over 3 months	**531**	2,489
	202,094	86,204

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2016 $'000	2015 $'000
At January 1	**4**	8
Reversal of impairment loss	**(4)**	(4)
Impairment loss recognised	**289**	—
At December 31	**289**	4

At December 31, 2016, trade receivables of $578,000 (2015: $4,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $289,000 (2015: $4,000) were recognised.

15 Trade and other receivables (continued)

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2016 $'000	2015 $'000
Neither past due nor impaired	**136,291**	77,419
Less than 1 month past due	**65,410**	6,712
1 to 3 months past due	**103**	1,474
More than 3 months but less than 12 months past due	**1**	599
	65,514	8,785
	201,805	86,204

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(d) Non-current other receivables represented deposits and prepayments for property rental and purchase of property, plant and equipment and intangible assets.

16 Cash and cash equivalents and pledged deposits

(a) Pledged deposits

At December 31, 2016, the Group's pledged deposits included $3,193,000 (2015: $3,498,000) provided to local customs authority in the PRC. The remaining balance at December 31, 2015 represents deposits pledged to secure the Group's banking facilities, details of which are set out in note 18.

16 Cash and cash equivalents and pledged deposits (continued)

(b) Cash and cash equivalents and bank deposits:

	2016 $'000	2015 $'000
Bank deposits within three months to maturity when placed	7,523	5,833
Cash at bank and on hand	77,912	73,223
Cash and cash equivalents in the consolidated cash flow statement	85,435	79,056
Bank deposits with more than three months to maturity when placed	39,675	14,505

Included in the above are $47,953,000 (2015: $32,197,000), which are placed at banks which have general security over the bank accounts with them for banking facilities granted to the Group.

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

	Note	2016 $'000	2015 $'000
Profit before taxation		34,063	76,999
Adjustments for:			
Interest income	4(a)	(488)	(447)
Compensation income	4(a)	(518)	—
Net loss on disposal of plant and equipment	4(b)	661	4,833
Net loss on disposal of investment property	4(b)	—	379
Finance costs	5(a)	806	1,615
Equity settled share-based payment	5(b)	1,132	276
Amortisation	5(c)	518	379
Depreciation	5(c)	18,659	14,778
Foreign exchange gain		(7,928)	(6,583)
Changes in working capital:			
Decrease/(increase) in inventories		41,254	(35,278)
(Increase)/decrease in trade and other receivables		(124,524)	114,634
Increase/(decrease) in trade and other payables		54,031	(95,084)
Decrease in defined benefit obligations		(54)	(448)
Cash generated from operations		17,612	76,053

17 Trade and other payables

	2016 $'000	2015 $'000
Trade payables	**157,462**	98,699
Accrued charges and other payables	**11,231**	15,963
	168,693	114,662

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	2016 $'000	2015 $'000
Within 1 month	**88,010**	35,019
Over 1 to 3 months	**68,821**	62,404
Over 3 to 6 months	**631**	1,276
	157,462	98,699

18 Bank loans

	2016 $'000	2015 $'000
Current — Within 1 year or on demand (secured)	**89,249**	40,822

At December 31, 2016, the banking facilities of the Group were secured by trade receivables, plant and equipment and pledged deposits, the carrying amounts of which were $113,223,000 (2015: $67,656,000), $Nil (2015: $1,403,000) and $Nil (2015: $25,000,000) respectively. Such banking facilities amounted to $90,000,000 (2015: $105,000,000). The facilities were utilised to the extent of $89,249,000 (2015: $40,822,000). Certain bank loans were also secured by corporate guarantee given by the Company.

In 2015, certain banking facilities of the Group are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk and covenants are set out in notes 23(b) and 22(e), respectively. As at December 31, 2015, none of the covenants relating to drawn down facilities had been breached. As at December 31, 2016, none of the Group's banking facilities are subject to the fulfillment of covenants.

19 Employees retirement schemes

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan for Korean employees working in Korea which covers 0.4% (2015: 0.5%) of the Group's employees. The plan is administered by a trustee, who is independent, with its assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The independent actuarial valuation of the plan at December 31, 2016 was prepared by qualified actuaries of Aon Hewitt Korea, who are Associates of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 74% (2015: 73%) covered by the plan assets held by the trustees at December 31, 2016.

The plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2016 $'000	2015 $'000
Present value of wholly or partly funded by obligation	691	773
Fair value of plan assets	(513)	(564)
	178	209

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay $34,000 in contributions to the defined benefit retirement plan in 2017.

(ii) Plan assets

As at December 31, 2015 and 2016, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.

19 Employees retirement schemes (continued)

(a) Defined benefit retirement plan (continued)

(iii) Movements in the present value of the defined benefit obligation

	2016 $'000	2015 $'000
At January 1	**773**	917
Remeasurements:		
— Actuarial losses arising from changes in demographic assumptions	**—**	19
— Actuarial losses/(gains) arising from experience	**16**	(199)
— Actuarial losses arising from changes in financial assumptions	**1**	48
	17	(132)
Benefits paid by the plan	**(212)**	(142)
Current service cost	**115**	155
Interest cost	**20**	30
Exchange difference	**(22)**	(55)
At December 31	**691**	773

The weighted average duration of the defined benefit obligation is 13.0 years (2015: 14.3 years).

(iv) Movements in plan assets

	2016 $'000	2015 $'000
At January 1	**564**	128
Group's contributions paid to the plan	**169**	598
Benefits paid by the plan	**(212)**	(142)
Interest income	**14**	4
Return on plan assets, excluding interest income	**(6)**	—
Exchange difference	**(16)**	(24)
At December 31	**513**	564

19 Employees retirement schemes (continued)

(a) Defined benefit retirement plan (continued)

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 $'000	2015 $'000
Current service cost	115	155
Net interest on net defined benefit liability	6	26
Total amount recognised in profit or loss	121	181
Actuarial losses/(gains)	17	(132)
Return on plan assets, excluding interest income	6	—
Total amounts recognised in other comprehensive income	23	(132)
Total defined benefits costs	144	49

The current service cost and the net interest on net defined benefit liability are recognised in administrative expenses in the consolidated statement of profit or loss.

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2016	2015
Discount rate	2.88%	2.89%
Future salary increases	5.00%	5.00%

The below analysis shows how the defined benefit obligation would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

	Increase in 1%		Decrease in 1%	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Discount rate	(94)	(97)	116	119
Future salary increases	111	115	(92)	(95)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(Expressed in United States dollars unless otherwise indicated)

19 Employees retirement schemes (continued)

(b) Defined contribution retirement plan

The subsidiary in Hong Kong also operates in a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

Cowell DG participates in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred. The Group is required to contribute 16.5%–17.0% (2015: 16.8%) of employees' remuneration to these schemes during the year.

20 Equity settled share-based transactions

The Company has a share option scheme which was adopted on February 4, 2015 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HK$1 to subscribe for shares of the Company. The options vest after 0.86 to 3 years from the date of grant and are then exercisable within a period of 7 to 9.14 years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— on October 30, 2015	4,000,000	2.17 years from the date of grant	10 years
Options granted to employees:			
— on October 30, 2015	8,600,000	2.17 years from the date of grant	10 years
— on April 21, 2016	1,500,000	0.86 year from the date of grant	10 years
— on June 20, 2016	400,000	3 years from the date of grant	10 years
Total share options granted	14,500,000		

20 Equity settled share-based transactions (continued)

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

	2016		2015	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period	HK$3.76	12,400	—	—
Granted during the period	HK$3.45	1,900	HK$3.76	12,600
Cancelled during the period	HK$3.74	(4,900)	HK$3.76	(200)
Outstanding at the end of the period	HK$3.74	9,400	HK$3.76	12,400
Exercisable at the end of the period	—	—	—	—

The options outstanding at December 31, 2016 had a weighted average exercise price of $0.48 (2015: $0.48) and a weighted average remaining contractual life of 8.85 years (2015: 9.83 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

Fair value of share options and assumptions

	2016	2015
Fair value at measurement date	HK$1.71–HK$1.86	HK$2.20
Share price	HK$2.83–HK$3.28	HK$3.75
Exercise price	HK$2.92–HK$3.57	HK$3.76
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	85.26%	77.76%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	10 years	10 years
Expected dividends	—	—
Risk-free interest rate (based on yields of Hong Kong government bonds and treasury bills)	1.312%	1.505%

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

21 Income tax in the consolidated statement of financial position

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

	2016 $'000	2015 $'000
Provision for Hong Kong Profits Tax for the year	1,346	7,977
Provisional Profits Tax paid	(7,924)	(5,028)
	(6,578)	2,949
Provision for tax outside Hong Kong	6,164	7,800
	(414)	10,749
Representing:		
Tax recoverable	(6,981)	(353)
Tax payable	6,567	11,102
	(414)	10,749

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

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

	Depreciation allowances in excess of the related depreciation $'000	Defined benefit retirement plan liability $'000	Provisions $'000	Revaluation of investment property $'000	Unrealised profits $'000	Others $'000	Total $'000
At January 1, 2015	552	(189)	(155)	479	46	5	738
(Credited)/charged to profit or loss (note 6(a))	(497)	(6)	60	(465)	(189)	106	(991)
Charged to reserves (note 9)	–	29	–	–	–	–	29
Exchange adjustments	1	11	2	(14)	–	(4)	(4)
At December 31, 2015 and January 1, 2016	56	(155)	(93)	–	(143)	107	(228)
Charged/(credited) to profit or loss (note 6(a))	194	4	32	–	(124)	6	112
Credited to reserves (note 9)	–	(5)	–	–	–	–	(5)
Exchange adjustments	–	5	–	–	–	(3)	2
At December 31, 2016	250	(151)	(61)	–	(267)	110	(119)

21 Income tax in the consolidated statement of financial position (continued)

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

(ii) Reconciliation to the consolidated statement of financial position

	2016 $'000	2015 $'000
Net deferred tax asset recognised in the consolidated statement of financial position	(329)	(323)
Net deferred tax liability recognised in the consolidated statement of financial position	210	95
	(119)	(228)

(c) Deferred tax liabilities not recognised

Under the CIT and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from PRC-resident enterprises, such as the Company's PRC subsidiary. Undistributed earnings prior to January 1, 2008 are exempt from such withholding tax. Under the China-Hong Kong Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%. The Group has determined that it qualifies for the 5% withholding tax rate.

As at December 31, 2016, temporary differences relating to the undistributed profits of the Group's PRC subsidiary amounted to $81,249,000 (2015: $75,222,000). Deferred tax liabilities of $4,062,000 (2015: $3,761,000) have not been recognised in respect of these undistributed profits as the Company controls the dividend policy of the subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

22 Capital and reserves

(a) Movements in components of equity

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

Company

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Capital redemption reserve $'000	Other reserve $'000	Accumulated losses $'000	Total $'000
At January 1, 2016	*27*	2,993	22,531	–	7	707	(16,455)	9,783
Changes in equity for 2016:								
Loss for the year and total comprehensive income		–	–	–	–	–	(8,272)	(8,272)
Issuance of new shares, net of relevant expenses	*22(c)(i)*	333	43,867	–	–	–	–	44,200
Contribution by a shareholder	*22(c)(i)*	–	–	2,040	–	–	–	2,040
Equity settled share-based transactions		–	–	276	–	–	–	276
At December 31, 2015 and January 1, 2016		**3,326**	**66,398**	**2,316**	**7**	**707**	**(24,727)**	**48,027**
Changes in equity for 2016:								
Loss for the year and total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(1,064)**	**(1,064)**
Equity settled share-based transactions		**–**	**–**	**1,132**	**–**	**–**	**–**	**1,132**
At December 31, 2016	*27*	**3,326**	**66,398**	**3,448**	**7**	**707**	**(25,791)**	**48,095**

22 Capital and reserves (continued)

(b) Dividends

Dividends payable to equity shareholders of the company attributable to the year

	2016 $'000	2015 $'000
Final dividend proposed after the end of the reporting period of HK7.977 cents per ordinary share (2015: Nil)	**8,548**	—

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(c) Share capital

(i) Authorised and issued share capital

	2016 Number of shares '000	2016 Amount $'000	2015 Number of shares '000	2015 Amount $'000
Authorised:				
Ordinary shares of $0.004 each	**10,000,000**	**40,000**	10,000,000	40,000
Ordinary shares, issued and fully paid:				
At January 1	**831,519**	**3,326**	748,319	2,993
Issuance of new shares (note)	**—**	**—**	83,200	333
At December 31	**831,519**	**3,326**	831,519	3,326

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

22 Capital and reserves (continued)

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium, capital reserve and the capital redemption reserve of the Group and the Company is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

The capital reserve comprises the following:

— The portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(o)(iii); and

— The contribution from one of the substantial shareholders of $2,040,000 to compensate part of the listing expenses incurred in 2015.

(iii) Other reserve

The Company's other reserve represents the fair value of the estimated number of unexercised share options granted to directors and employees of the Group in 2010. The share options were cancelled without any exercise in 2012.

The Group's other reserve comprises the Company's other reserve and the difference between the consideration paid by the Company to acquire non-controlling interests in Cowell Electronics Co., Ltd. and its carrying amount on the date of acquisition in 2012.

(iv) General reserve fund

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiary of the Group is required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's authorised capital. This fund can be used to make good losses and to convert into paid-up capital.

(v) Property revaluation reserve

The fair value reserve of the Group comprises the revaluation gain upon transfer of a property from property, plant and equipment to investment property.

(vi) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than United States dollars. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

22 Capital and reserves (continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt plus unaccrued proposed dividend as total debt less cash and cash equivalents, bank deposits and pledged deposits.

The Group's strategy was to maintain a relatively low net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

	2016 **$'000**	2015 $'000
Bank loans (note 18)	**89,249**	40,822
Add: Proposed dividend	**8,548**	—
Less: Cash and cash equivalents	**(85,435)**	(79,056)
Bank deposits	**(39,675)**	(14,505)
Pledged deposits	**(3,193)**	(28,498)
Adjusted net cash	**(30,506)**	(81,237)
Total equity	**297,363**	285,655
Less: Proposed dividends	**(8,548)**	—
Adjusted capital	**288,815**	285,655
Adjusted net debt-to-capital ratio	**N/A**	N/A

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 18, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

23 Financial risk management and fair values

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

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

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy of monitoring the exposures to these credit risks on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing.

Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. In respect of deposits with banks, the Group only places deposits with major financial institutions which the Group's management believes are of high credit rating.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 86.1% (2015: 78.5%) of the trade receivables was due from the Group's largest customer, and 100.0% (2015: 98.1%) of trade receivables were due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, after deducting any impairment provisions. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

23 Financial risk management and fair values (continued)

(b) Liquidity risk

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

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	2016	
	Contractual undiscounted cash outflow Within 1 year or on demand $'000	**Carrying amount $'000**
Trade and other payables	**168,693**	**168,693**
Bank loans	**89,249**	**89,249**
	257,942	**257,942**

	2015	
	Contractual undiscounted cash outflow Within 1 year or on demand $'000	Carrying amount $'000
Trade and other payables	114,662	114,662
Bank loans	40,822	40,822
	155,484	155,484

As shown in the above analysis, bank loans of the Group amounting to $89,249,000 (2015: $40,822,000) were due to be repaid during 2016. The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

23 Financial risk management and fair values (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

	2016		2015	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Variable rate borrowings:				
Bank loans	**1.32**	**89,249**	1.32	40,822

(ii) Sensitivity analysis

At December 31, 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately $745,000 (2015: $341,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

23 Financial risk management and fair values (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HK$") and KRW.

As the HK$ is pegged to the US$, the Group does not expect any significant movements in the US$/HK$ exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations.

(i) Exposure to currency risk

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

	Exposure to foreign currencies (expressed in US$)					
	2016			2015		
	US$	**KRW**	**HK$**	US$	KRW	HK$
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Trade and other receivables	**203,332**	**—**	**—**	86,884	—	—
Bank deposits	**—**	**14,675**	**—**	—	14,505	—
Cash and cash equivalents	**61,512**	**—**	**16,839**	52,618	558	17,301
Trade and other payables	**(151,811)**	**—**	**—**	(95,619)	(82)	—
Bank loans	**(89,249)**	**—**	**—**	(40,822)	—	—
Net exposure arising from recognised assets and liabilities	**23,784**	**14,675**	**16,839**	3,061	14,981	17,301

23 Financial risk management and fair values (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

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

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000
KRW	**5%**	**734**	5%	750
	(5)%	**(734)**	(5)%	(750)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

(e) Fair values

The directors consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at the end of the reporting period.

24 Commitments

(a) Capital commitments outstanding at December 31, 2016 not provided for in the financial statements were as follows:

	2016 $'000	2015 $'000
Contracted for	**844**	3,352

(b) At December 31, 2016, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2016 $'000	2015 $'000
Within 1 year	**2,026**	2,141
After 1 year but within 5 years	**6,152**	6,764
After 5 years	**13,826**	16,351
	22,004	25,256

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to eighteen years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

25 Contingent liabilities

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to bank to secure banking facilities granted by banks to certain subsidiaries amounting to $90,000,000 (2015: $105,000,000). The Company did not recognise any deferred income in respect of the guarantees as the fair values could not be reliably measured and its transaction price was $Nil. Accordingly, the guarantees have not been accounted for as financial liabilities and measured at fair value.

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 $89,249,000 (2015: $40,822,000).

26 Material related party transactions

(a) Key management personnel remuneration

All members of key management personnel are the directors of the Company, and their remuneration is disclosed in note 7.

(b) 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 year ended December 31, 2016 is $264,000 (2015: $Nil). No amounts were outstanding as at December 31, 2016.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of note 26(b) above constitutes connected transactions as defined in Chapter 14A of the Listing Rules. However the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

27 Company-level statement of financial position

	2016 $'000	2015 $'000
Non-current assets		
Intangible assets	1,852	2,186
Investments in subsidiaries	844	844
	2,696	3,030
Current assets		
Other receivables	245	65
Pledged deposits	–	25,000
Bank deposits	39,675	14,505
Cash and cash equivalents	17,532	18,269
	57,452	57,839
Current liability		
Other payables	12,053	12,842
Net current assets	45,399	44,997
Total assets less current liabilities	48,095	48,027
NET ASSETS	48,095	48,027

27 Company-level statement of financial position (continued)

	2016 $'000	2015 $'000
CAPITAL AND RESERVES		
Share capital	**3,326**	3,326
Reserves	**44,769**	44,701
TOTAL EQUITY	**48,095**	48,027

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	January 1, 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	January 1, 2017
IFRS 9, *Financial instruments*	January 1, 2018
IFRS 15, *Revenue from contracts with customers*	January 1, 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	January 1, 2018
IFRS 16, *Leases*	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31 2016 (continued)

IFRS 16, Leases

As disclosed in note 1(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 24(b), at December 31, 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to $22,004,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of January 1, 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being January 1, 2018.

Five-Year Financial Summary

	2012 (in US$000)	2013 (in US$000)	2014 (in US$000)	2015 (in US$000)	**2016 (in US$000)**
Revenue	527,502	813,936	886,467	980,203	**914,545**
Gross profit	42,503	103,247	112,103	136,888	**76,146**
Gross profit margin	8.1%	12.7%	12.6%	14.0%	**8.3%**
Operating profit	24,722	68,985	70,686	78,614	**35,416**
Operating margin	4.7%	8.5%	8.0%	8.0%	**3.8%**
Profit attributable to equity holders of the Company	13,183	50,242	53,244	60,680	**28,495**
Bank balance and cash	13,606	45,220	82,224	79,056	**85,435**
Borrowings	144,114	123,809	91,939	40,822	**89,249**
Total assets	380,467	400,223	505,851	452,545	**565,542**
Total liabilities	294,078	260,360	313,419	166,890	**268,179**
Total equity	86,389	139,863	192,432	285,655	**297,363**

Note: The figures for the years ended December 31, 2012 and 2013 are extracted from the Prospectus.

Definitions

"Articles of Association"	the articles of association of the Company (as amended from time to time), conditionally adopted on March 10, 2015
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Bai Shi"	Bai Shi Electronics Limited (百世電子有限公司), a limited liability company incorporated in Hong Kong on June 11, 2008, which is wholly owned by Mr. Lee Nam Oh (a brother-in-law of the substantial shareholder, Mr. Kwak Joung Hwan)
"Board"	the board of Directors
"Company"	Cowell e Holdings Inc., an exempted company incorporated in the Cayman Islands with limited liability on November 28, 2006
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Cowell China" or "Dongguan Cowell"	Dongguan Cowell Optic Electronics Co., Ltd. (東莞高偉光學電子有限公司), a wholly foreign-owned enterprise incorporated in the PRC on February 5, 2002, which is a wholly owned subsidiary of Cowell Hong Kong
"Cowell Hong Kong"	Cowell Optic Electronics Limited (高偉光學電子有限公司), a limited liability company incorporated in Hong Kong on March 6, 2002, which is a wholly owned subsidiary of the Company
"Cowell Korea"	Cowell Electronics Co., Ltd. (formerly known as Cowell World Optic Co., Ltd. and World Optic Co., Ltd.), a stock corporation incorporated under the laws of Korea on January 29, 1997, which is a wholly owned subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Global Offering"	has the meaning ascribed to it in the Prospectus
"Group"	the Company and its subsidiaries
"Hahn & Co. Eye"	Hahn & Company Eye Holdings Co., Ltd., a company incorporated in Korea on July 15, 2011
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Date"	March 31, 2015, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"PRC"	People's Republic of China
"Prospectus"	the prospectus of the Company dated March 19, 2015
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holder(s) of Shares
"Shares"	ordinary share(s) of US$0.004 each in the share capital of the Company
"US$"	U.S. dollars, the lawful currency of the United States of America