YORKEY

Stock Code : 2788

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)

2017
Interim Report

* *For identification purpose only*

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YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.
Interim Report 2017

CORPORATE INFORMATION

Executive Directors

Lai I-Jen
Kurihara Toshihiko

Non-Executive Director

Wu Shu-Ping

Independent Non-Executive Directors

Lin Meng-Tsung
Liu Wei-Li
Wang Yi-Chi

Company Secretary

Wong Tak-Yee

Registered Office

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

Place of Business in Hong Kong

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Goldfield Industrial Centre
1 Sui Wo Road
Shatin
New Territories
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Place of Business in the PRC

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

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

CTBC Bank Co., Ltd.
Bank SinoPac
Ta Chong Bank Ltd.
China Construction Bank
China Merchants Bank

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor,
24 Shedden Road, P.O. Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

2788

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 20, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
4 August, 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	**1.1.2017 to 30.6.2017 *US$'000* (unaudited)**	1.1.2016 to 30.6.2016 *US$'000* (unaudited)
Revenue	*3*	**46,185**	33,111
Cost of goods sold		**(31,179)**	(23,689)
Gross profit		**15,006**	9,422
Other gains and losses		**(3,191)**	1,344
Distribution costs		**(701)**	(647)
Administrative expenses		**(6,497)**	(5,296)
Research and development expenses		**(761)**	(849)
Share of results of an associate		**867**	(992)
Profit before taxation	*4*	**4,723**	2,982
Taxation	*5*	**(1,562)**	(435)
Profit for the period		**3,161**	2,547
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
– exchange differences arising from translation of financial statements of foreign operations		**920**	(671)
– release of exchange reserve upon disposal of a foreign associate		**4,209**	–
Other comprehensive income (expense) for the period		**5,129**	(671)
Total comprehensive income for the period		**8,290**	1,876
Earnings per share			
– Basic	*7*	**US0.38 cent**	US0.31 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	NOTES	30.6.2017 US$'000 (unaudited)	31.12.2016 US$'000 (audited)
Non-current assets			
Investment properties		**6,119**	6,236
Property, plant and equipment	8	**8,724**	9,249
Prepaid lease payments		**208**	206
Deposits paid for acquisition of property, plant and equipment		**1,611**	303
		16,662	15,994
Current assets			
Inventories		**4,149**	4,407
Trade and other receivables	10	**18,646**	17,259
Amounts due from a related company		**23**	21
Bank balances and cash		**115,116**	109,020
		137,934	130,707
Current liabilities			
Trade and other payables	11	**21,685**	21,726
Amounts due to a related company		**9**	–
Payable to a former associate	9	**1,840**	–
Obligation related to interest in an associate	9	**–**	2,719
Dividend payable		**14,302**	–
Taxation payable		**3,919**	3,403
		41,755	27,848
Net current assets		**96,179**	102,859
Total assets less current liabilities		**112,841**	118,853
Capital and reserves			
Share capital		**1,058**	1,058
Reserves		**111,783**	117,795
Total equity		**112,841**	118,853

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (Note a)	Translation reserve US$'000	Statutory surplus reserve fund US$'000 (Note b)	Retained profits US$'000	Total US$'000
At 1 January 2016 (audited)	1,058	62,982	19,350	5,663	2,803	42,782	134,638
Other comprehensive expense for the period	–	–	–	(671)	–	–	(671)
Profit for the period	–	–	–	–	–	2,547	2,547
Total comprehensive (expense) income for the period	–	–	–	(671)	–	2,547	1,876
Transfers	–	–	–	–	94	(94)	–
Dividend recognised as distribution (note 6)	–	–	–	–	–	(14,302)	(14,302)
At 30 June 2016 (unaudited)	1,058	62,982	19,350	4,992	2,897	30,933	122,212
At 1 January 2017 (audited)	**1,058**	**62,982**	**19,350**	**3,220**	**3,148**	**29,095**	**118,853**
Other comprehensive income for the period	**–**	**–**	**–**	**5,129**	**–**	**–**	**5,129**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**3,161**	**3,161**
Total comprehensive income for the period	**–**	**–**	**–**	**5,129**	**–**	**3,161**	**8,290**
Transfers	**–**	**–**	**–**	**–**	**423**	**(423)**	**–**
Dividend recognised as distribution (note 6)	**–**	**–**	**–**	**–**	**–**	**(14,302)**	**(14,302)**
At 30 June 2017 (unaudited)	**1,058**	**62,982**	**19,350**	**8,349**	**3,571**	**17,531**	**112,841**

Notes:

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	1.1.2017 to 30.6.2017	1.1.2016 to 30.6.2016
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**7,259**	3,250
Investing activities		
Purchase of property, plant and equipment	**(152)**	(110)
Deposit paid for acquisition of property, plant and equipment	**(1,953)**	–
Other investing activities	**672**	358
Net cash (used in) from investing activities	**(1,433)**	248
Net increase in cash and cash equivalents	**5,826**	3,498
Cash and cash equivalents at 1st January	**109,020**	123,812
Effect of foreign exchange rate changes	**270**	(286)
Cash and cash equivalents at 30 June, representing bank balances and cash	**115,116**	127,024

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. GENERAL

The Company is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016. In addition, the Group has applied the following accounting policy for interest in an associate during the current interim period:

Interest in an associate

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with Hong Kong Accounting Standard 39 "Financial instruments: Recognition and measurement". The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

3. OPERATING SEGMENT

Operating segment

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

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

Other segment information

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	1.1.2017 to 30.6.2017	1.1.2016 to 30.6.2016	**30.6.2017**	31.12.2016
	US$'000	*US$'000*	***US$'000***	*US$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(audited)
Japan	**27,038**	19,485	**–**	–
PRC	**13,856**	10,759	**16,662**	15,994
Others	**5,291**	2,867	**–**	–
	46,185	33,111	**16,662**	15,994

3. OPERATING SEGMENT – CONTINUED

Other segment information – continued

Information about major customers

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

	1.1.2017 to 30.6.2017 ***US$'000*** **(unaudited)**	1.1.2016 to 30.6.2016 *US$'000* (unaudited)
Customer A	**6,684**	3,900
Customer B	**6,261**	3,622
Customer C	**4,941**	5,291

Revenue from major products

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

	1.1.2017 to 30.6.2017 ***US$'000*** **(unaudited)**	1.1.2016 to 30.6.2016 *US$'000* (unaudited)
Components of optical and opto-electronic products		
– cameras, action cameras and copiers	**32,451**	25,529
– surveillance cameras and projectors	**6,074**	3,907
– others	**7,660**	3,675
	46,185	33,111

4. PROFIT BEFORE TAXATION

	1.1.2017 to 30.6.2017 ***US$'000*** **(unaudited)**	1.1.2016 to 30.6.2016 *US$'000* (unaudited)
Profit before taxation has been arrived at after charging:		
Allowance for obsolete inventories (included in cost of goods sold)	**–**	87
Amortisation of land use rights	**3**	3
Cost of inventories recognised as expense	**31,188**	23,689
Depreciation on investment properties	**117**	51
Depreciation on property, plant and equipment	**1,325**	1,679
Exchange loss, net	**905**	–
Loss on disposal of property, plant and equipment	**117**	19
Loss on disposal of an associate (included in other gains and losses)	**4,209**	–
and after crediting:		
Exchange gain, net	**–**	753
Interest income (included in other gains and losses)	**672**	358
Property rental income before deduction of negligible outgoings (included in other gains and losses)	**248**	139
Reversal of allowance for bad and doubtful debts (included in other gains and losses)	**98**	94
Reversal of allowance for obsolete inventories (included in cost of goods sold)	**9**	–

5. TAXATION

	1.1.2017 to 30.6.2017 ***US$'000*** **(unaudited)**	1.1.2016 to 30.6.2016 *US$'000* (unaudited)
The tax charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the period	**1,523**	435
Underprovision in prior years	**39**	–
	1,562	435

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

6. DIVIDENDS

	1.1.2017 to 30.6.2017 ***US$'000*** **(unaudited)**	1.1.2016 to 30.6.2016 *US$'000* (unaudited)
Dividends recognised as distribution during the period:		
Final dividend for 2016 of HK3.5 cents (equivalent to US0.451 cent) (2016: final dividend for 2015 of HK3.5 cents; equivalent to US0.451 cent) per share	**3,708**	3,708
Special dividend for 2016 of HK10 cents (equivalent to US1.29 cents) (2016: special dividend for 2015 of HK10 cents; equivalent to US1.29 cents) per share	**10,594**	10,594
	14,302	14,302
Dividend proposed:		
Interim dividend for 2017 of HK3.5 cents (equivalent to US0.45 cent) (2016: HK3.5 cents; equivalent to US0.451 cent) per share proposed	**3,697**	3,708

On 4 August 2017, the directors declared an interim dividend for the six months ended 30 June 2017 of HK3.5 cents (equivalent to US0.45 cent) per share based on 821,102,000 shares in issue as at the date of issuance of these condensed consolidated financial statements.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2017 is based on the consolidated profit for the period attributable to owners of the Company of US$3,161,000 (US$2,547,000 for the six months ended 30 June 2016) and on 821,102,000 shares (821,102,000 shares for the six months ended 30 June 2016) in issue during the period.

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

8. PROPERTY, PLANT AND EQUIPMENT

The Group acquired plant and equipment with an estimated useful life of 5 to 10 years amounting to US$705,000 for the six months ended 30 June 2017 (US$291,000 for the six months ended 30 June 2016).

9. PAYABLE TO A FORMER ASSOCIATE/OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE

	30.6.2017	31.12.2016
	US$'000	*US$'000*
	(unaudited)	(audited)
Cost of investment, unlisted	**13,893**	13,893
Share of post-acquisition losses	**(11,524)**	(12,391)
Currency realignment	**(4,209)**	(4,221)
	(1,840)	(2,719)
Reclassified to payable to a former associate	**1,840**	–
	–	(2,719)

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

The Group was able to exercise significant influence over PYBL because it had the power to appoint one out of the three directors of PYBL under the provisions stated in the Articles of Association of PYBL as at 31 December 2016.

PYBL has been incurring losses. In December 2016, the Company commenced discussion with the other shareholder of PYBL to liquidate PYBL in accordance with the provisions of the agreement entered into in 2011 when PYBL was set up (the "Agreement").

In the opinion of the directors, the Group ceased to have significant influence on PYBL upon the appointment of a liquidator on 23 May 2017. Accordingly, the Group ceased to share the results of PYBL on 23 May 2017 and accounted for as a disposal of the entire 49% equity interest in PYBL, resulting in a loss on disposal of approximately US$4,209,000 during the period.

On 29 June 2017, the Company entered into a dissolution agreement with the other shareholder, pursuant to which the Agreement was terminated on 16 June 2017 and it is agreed that the future costs incurred in relation to the liquidation of PYBL that the Company will bear is restricted to an amount equivalent to approximately US$193,000, which has been provided and included in "other payables and accruals" in note 11.

9. PAYABLE TO A FORMER ASSOCIATE/OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE – CONTINUED

The financial statements of PYBL for the period from 1 January 2017 to 23 May 2017 and for the year ended 31 December 2016 prepared in accordance with HKFRSs (the "PYBL Financial Statements"), based on which the Group has equity accounted for, have not been prepared on a going concern basis, but have taken into consideration of the intention of both shareholders of PYBL to take up certain assets of PYBL at an agreed price to set off loan, if any, advanced to PYBL. During the six months ended 30 June 2017, the Group paid a deposit of a sum of approximately US$1,255,000 to PYBL which was included in the "deposits paid for acquisition of property, plant and equipment" in the condensed consolidated statement of financial position.

As at 23 May 2017 and 31 December 2016, the Group's share of losses had exceeded the Group's net investment in PYBL and liabilities were recognised which represented the Group's share of further losses to the extent the Group has contractual obligation to make payment to PYBL in accordance with the Agreement up to 23 May 2017.

10. TRADE AND OTHER RECEIVABLES

	30.6.2017	31.12.2016
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables		
– companies controlled by shareholders of the Company which have significant influence over the Company	**2**	137
– others	**18,248**	16,790
	18,250	16,927
Less: Allowance for doubtful debts	**(146)**	(244)
	18,104	16,683
Other receivables	**542**	576
	18,646	17,259

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

10. TRADE AND OTHER RECEIVABLES – CONTINUED

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

	30.6.2017	31.12.2016
	US$'000	*US$'000*
	(unaudited)	(audited)
Age		
0 to 60 days	**14,261**	13,243
61 to 90 days	**3,338**	2,414
91 to 120 days	**451**	826
121 to 180 days	**53**	126
181 to 365 days	**1**	74
	18,104	16,683

11. TRADE AND OTHER PAYABLES

	30.6.2017	31.12.2016
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables		
– companies controlled by shareholders of the Company which have significant influence over the Company	**1,837**	1,330
– others	**12,083**	13,338
	13,920	14,668
Payroll and welfare payables	**3,264**	2,552
Other payables and accruals (note)	**4,501**	4,506
	21,685	21,726

Note: Balance included accruals for the liquidation cost of PYBL amounting to approximately US$193,000 (31 December 2016: nil) (see note 9) and accruals for rental expense payable to a related company amounting to US$99,000 (31 December 2016: US$89,000).

11. TRADE AND OTHER PAYABLES – CONTINUED

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

	30.6.2017	31.12.2016
	US$'000	*US$'000*
	(unaudited)	(audited)
Age		
0 to 60 days	**10,795**	11,288
61 to 90 days	**1,909**	1,779
91 to 180 days	**1,023**	1,412
181 to 365 days	**193**	189
	13,920	14,668

12. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in the condensed consolidated statement of financial position and notes 9, 10 and 11, the Group has the following transactions with related parties during the period:

Nature of transactions	**1.1.2017 to 30.6.2017**	1.1.2016 to 30.6.2016
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Revenue:		
Sales of goods	**356**	37
Property rental income	**129**	139
Cost and expenses:		
Purchases of raw materials	**61**	61
Processing charges paid	**2,371**	1,809
Rental paid	**552**	585

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

13. CAPITAL COMMITMENTS

	30.6.2017	31.12.2016
	US$'000	*US$'000*
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**92**	405

14. OTHER MATTERS

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

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

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

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

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

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

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

14. OTHER MATTERS – CONTINUED

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

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

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

As against the Company, the MMT also ordered that:

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

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

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

The Company continued enquiring with the SFC in relation to effecting payment of the Fine and had asked the SFC to provide estimates as to the amounts of the Government's Costs and SFC's Costs for the purpose of seeking to agree such costs. At the date the consolidated financial statements for the year ended 31 December 2016 were approved, the SFC had not provided the requested estimates nor had the MMT determined what were the appropriate sums the Company was required to pay by way of the Government's Costs and the SFC's Costs. Based on the best estimate of the management of the Group, an aggregate provision of US$387,000 with regard to (i) the Fine of HK$1 million (approximately US$129,000) and (ii) the Government's Costs and the SFC's Costs were made as at 31 December 2016.

During the period, the Group paid the Fine of HK$1 million (approximately US$129,000), Government's costs of HK$142,000 (approximately US$18,000) and SFC's cost of HK$919,000 (approximately US$118,000) and the overprovided provision of US$122,000 was reversed at 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Important

The interim results for the six months ended 30 June 2017 (the "**Period**") set out in this interim report are unaudited but have been reviewed based on the Hong Kong Financial Reporting Standards. As financial results are subject to fluctuations and affected by a number of factors, the Group's financial results for any period should not be taken as indicative of any expected performance of the Group for any future period.

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

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

Operational and Financial Review

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

Reviewing the first half of the year 2017, comparing to the impacts of the Japan Kumamoto Earthquake on some of the Group's Japanese customers since May 2016 in the previous corresponding period, these customers have shaken off the impacts of the earthquake and resumed normal demand levels. As a result, revenue of the Group during the Period increased as compared to the previous corresponding period. In addition, the Group continued its efforts in product diversification and actively developed components for surveillance cameras, action cameras, healthcare instruments, beauty treatment instruments, advanced TVs and related in-vehicle products, etc. The percentage contribution of DSCs to the Group's revenue was 58.2% (excluding action cameras). The Group will continue to focus its efforts on product diversification to increase its competitiveness.

With the efforts of the management, for the six months ended 30 June 2017, the Group recorded revenue of US$46,185,000, representing an increase of approximately 39.5% as compared with US$33,111,000 in the previous corresponding period. During the Period, net profit amounted to US$3,161,000, representing an increase of approximately 24.1% as compared with US$2,547,000 in the previous corresponding period. The variance in net profit of the Group is due to multiple factors, which mainly include: (1) the increase in revenue mainly due to the fact that some of the Group's Japanese customers have shaken off the impacts of the Earthquake and resumed normal demand levels, the Group's implementation of product diversification, and growth of revenue from components for advanced TVs and surveillance cameras during the Period; (2) gross profit margin during the Period was 32.5%, representing an increase as compared with 28.5% for the previous corresponding period, which was attributable to the economies of scale and effective cost control; (3) the related losses arising upon disposal of PYBL during the Period (please refer to the paragraph headed "Payable to a Former Associate/Obligation related to Interest in an Associate" on pages 24 to 25 in this interim report for details); (4) exchange loss arising from the appreciation of Renminbi against the United States dollars, resulting in the increase in operating expenses as compared with the previous corresponding period; and (5) increase in income tax expense.

Despite the increase in revenue and gross profit, the net profit margin for the Period was 6.8%, which was slightly below that in the previous corresponding period, i.e. 7.7%, as a result of factors including the related losses arising from the disposal of PYBL, increase in operating expenses and increase in income tax expense.

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

Revenue

The Group's revenue for the six months ended 30 June 2017 was approximately US$46,185,000, representing an increase of approximately 39.5% as compared to US$33,111,000 for the previous corresponding period. Such increase was mainly due to the growth in revenue from components for DSCs, action cameras, advanced TVs and surveillance cameras.

The Group's revenue for the Period was mainly derived from the sales of components for DSCs and its percentage contribution to the Group's revenue was approximately 58.2% (excluding action cameras). Since some customers have changed to adopt the centralised purchasing strategy, the Group strived to secure orders by capitalising on its strengths in technology, quality and service. In view of the increasing popularity of sports, which drives the development of outdoor action cameras, the Group has also actively devoted its efforts to this area. Following the Japan Kumamoto Earthquake, some of the Group's Japanese customers have resumed production since the third quarter of last year. Accordingly, revenue derived from the sales of cameras for the six months ended 30 June 2017 increased as compared to that in the previous corresponding period. In addition, the Group has made use of the advanced technology to provide one-stop service and actively strived to secure product orders other than DSCs to achieve product diversification. Accordingly, revenue from components for advanced TVs and surveillance cameras during the Period has increased.

Gross Profit

The Group's gross profit for the Period was approximately US$15,006,000 and the gross profit margin was approximately 32.5% (for the first half of 2016: gross profit of US$9,422,000 and gross profit margin of 28.5%), representing an increase as compared to those in the previous corresponding period. The increase in gross profit margin was mainly due to the increase in revenue, economies of scale and effective cost control efforts.

Other Gains and Losses

During the Period, other losses of the Group amounted to US$3,191,000 (comprising other gains from bank interest income of US$672,000, rental income of US$248,000, reversal for bad and doubtful debts of US$98,000 and recognition of accumulated currency realignment of US$4,209,000 upon liquidation of PYBL as other loss (please refer to the paragraph headed "Payable to a Former Associate/Obligation related to Interest in an Associate" on pages 24 to 25 in this interim report for details)). For the corresponding period in year 2016, other gains amounted to US$1,344,000 (comprising bank interest income of US$358,000, rental income of US$139,000, reversal for bad and doubtful debts of US$94,000 and exchange gain of US$753,000). The increase in bank interest income was mainly due to the increase in United States dollars denominated term deposit rates. The increase in rental income was due to increase in the leasing of investment properties in Hong Kong.

Operating Expenses

The operating expenses of the Group include distribution costs, administrative expenses and research and development expenses. For the six months ended 30 June 2017, operating expenses amounted to approximately US$7,959,000, representing an increase as compared with US$6,792,000 for the previous corresponding period. Such increase was mainly due to the exchange loss of US$905,000 arising from the appreciation of Renminbi against United States dollars and liquidation cost of PYBL accrued during the Period.

Payable to a Former Associate/Obligation related to Interest in an Associate

References are made to the announcements issued by the Company dated 30 December 2016, 16 March 2017 and 19 June 2017, the annual results announcement dated 21 March 2017, and the interim results announcement dated 4 August 2017.

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

PYBL has been incurring losses. In December 2016, the Company commenced discussion with the other shareholder of PYBL to liquidate PYBL in accordance with the provisions of the agreement entered into in 2011 when PYBL was set up (the "**Agreement**").

In the opinion of the Directors, the Group ceased to have significant influence on PYBL upon the appointment of a liquidator on 23 May 2017. Accordingly, the Group ceased to share the results of PYBL on 23 May 2017 and accounted for as a disposal of the entire 49% equity interest in PYBL, resulting in a loss of accumulated currency realignment on disposal of approximately US$4,209,000 during the Period.

On 29 June 2017, the Company entered into a dissolution agreement with the other shareholder, pursuant to which the Agreement was terminated on 16 June 2017 and it is agreed that the future costs incurred in relation to the liquidation of PYBL that the Company will bear is restricted to an amount equivalent to approximately US$193,000, if any, which has been provided and included in "Other payable and accruals". Upon termination of the Agreement on 16 June 2017, the Company has no further contractual obligation.

Net Profit

The Group's net profit for the Period was approximately US$3,161,000, representing an increase of approximately 24.1% as compared with US$2,547,000 for the corresponding period in 2016. Such increase was mainly due to the increase in revenue and gross profit, and their offsetting effect against operating expenses, other losses and income tax expense.

Liquidity and Financial Resources

As at 30 June 2017, the Group had current assets of approximately US$137,934,000 (as at 31 December 2016: US$130,707,000) and current liabilities of approximately US$41,755,000 (as at 31 December 2016: US$27,848,000). The current ratio of the Group was approximately 330% (as at 31 December 2016: 469%).

As at 30 June 2017, the Group had cash at bank and on hand of approximately US$115,116,000 (as at 31 December 2016: US$109,020,000) and zero bank borrowing. Net cash increased by US$6,096,000 from 31 December 2016.

Net cash inflow from operating activities for the six months ended 30 June 2017 was approximately US$7,259,000.

Net cash outflow from investing activities for the six months ended 30 June 2017 was approximately US$1,433,000, which comprised of cash outflow of capital expenditure in various divisions of the Group of approximately US$2,105,000, and cash inflow from other investment activities of approximately US$672,000.

No cash outflow from financing activities for the six months ended 30 June 2017.

Effect of foreign exchange rate changes for the six months ended 30 June 2017 was US$270,000.

Exchange Risk Exposure

Foreign currency exposure refers to the risks associated with the foreign exchange rate movements on the financial results and cash flows of the Group. The Group is mainly exposed to currencies of Hong Kong dollars, Japanese Yen and Renminbi. The gains of the Group are mainly settled in United States dollars, while others are in Hong Kong dollars, Renminbi and Japanese Yen. The expenses of the Group are mainly paid in Renminbi, while others are in United States dollars, Hong Kong dollars and Japanese Yen. The exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant as the exchange rates are pegged to each other. There was exchange gain associated with Japanese Yen denominated net assets due to appreciation of Japanese Yen against United State dollars during the six months ended 30 June 2017, while the amount was minimal. During the six months ended 30 June 2017, the Group recorded exchange loss due to appreciation of Renminbi against United States dollars. In order to reduce foreign currency exposure, the management of the Group will continue to monitor its foreign currency position, using natural hedge technique and managing its foreign currency exposure by means such as management of transactional currencies.

Contingent Liabilities

As at the date of this interim report (i.e. 4 August 2017), the Company has settled its liability to pay the regulatory fine, the Government's Costs, and the SFC's Costs pursuant to the Market Misconduct Tribunal's Order dated 27 February 2017.

Save as disclosed in this interim report and as far as the Directors are aware, as at 30 June 2017, the Group had no significant or contingent liabilities.

Material Acquisition and Disposal of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries during the six months ended 30 June 2017.

Pledge of Assets

There was no pledge of the Group's assets as at 30 June 2017.

Capital Commitment

As at 30 June 2017, the capital commitment of the Group was US$92,000 (as at 31 December 2016: US$405,000).

Significant Investment

The Group held no significant investment for the six months ended 30 June 2017.

Employment, Training and Development

As at 30 June 2017, the Group had a total of 2,668 employees (as at 30 June 2016: 2,047 employees). Staff costs incurred during the six months ended 30 June 2017 amounted to approximately US$13,373,000 (for the six months ended 30 June 2016: US$10,092,000).

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

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

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

Hong Kong MMT Proceedings

Reference is made to the Update Announcement issued by the Company dated 28 February 2017 in which the Company reported the determination/findings of the Market Misconduct Tribunal under its ruling dated 27 February 2017 (the "**MMT's Order**"). Pursuant to the MMT's Order, the Company has:

(a) paid its regulatory fine of HK$1,000,000;

(b) settled its liability to pay Government's costs in the sum of HK$142,069.34;

(c) agreed on the SFC's costs and settled its liability to pay such costs in the sum of HK$919,083.33; and

(d) appointed an independent professional adviser (approved by the SFC) to review the Company's procedure for compliance with Part XIVA of the Securities and Futures Ordinance.

Outlook

The Group considers that DSCs customers will have relatively higher expectations for manufacturing quality, and demands for suppliers will become diversified with small-volume production, thus changes the strategy to centralised purchasing. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns its customers' trust. The Group provides "one-stop" service as the basis to step up its research and development efforts on new products (including components for surveillance cameras, action cameras, healthcare instruments, beauty treatment instruments, advanced TV and related in-vehicle products, etc.) to maintain its competitive edge.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Disclosure of Interests

Interests of Directors and Chief Executive

As at 30 June, 2017, the interest or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") to be notified to the Stock Exchange and the Company, are set out below:

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

As at 30 June 2017, none of the Directors or chief executives of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

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

As at 30 June, 2017, none of the Directors or chief executives of the Company, had any interest in short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares or debentures of the Company's associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Stock Exchange and the Company pursuant to the Model Code.

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

Interests of Substantial Shareholders

As at 30 June, 2017, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

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

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

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

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

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

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

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

Save as disclosed above, as at 30 June, 2017, the Company had not been notified of any long position being held by any persons, other than a Director or chief executive of the Company, in the shares or underlying shares of the Company which would be recorded in the register required to be kept under section 336 of Part XV of the SFO.

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

As at 30 June, 2017, the Company had not been notified of any short position being held by any persons, other than a Director or chief executive of the Company, in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of Part XV of the SFO.

Interim Dividend

The Board resolved to declare an interim dividend of HK$0.035 (2016: HK$0.035) per share in respect of the six months ended 30 June 2017, payable to shareholders whose names appear on the register of members of the Company on Tuesday, 5 September 2017.

The interim dividend will be paid on or before Tuesday, 3 October 2017.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 1 September to Tuesday, 5 September 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all valid documents in respect of transfers of shares accompanied by the relevant share certificates and the completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 31 August 2017.

Purchase, Redemption or Sale of Listed Securities of The Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017.

Corporate Governance Practices

According to the code provision stated in section F.1.1 of the Code of Corporate Governance Practices as stated in Appendix 14 to the Listing Rules (the "**Code**"), the company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs. Where the Company engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the Company whom the external provider can contact.

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

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

The Group has adopted the Code as stated in Appendix 14 to the Listing Rules. The Board considers that, save for those indicated in this interim report, the Company has complied with the Code during the six months ended 30 June 2017.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. The audit committee of the Group has reviewed the unaudited interim results of the Group for the six months ended 30 June 2017.

Further, the unaudited interim results of the Group for the six months ended 30 June 2017 have been reviewed by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the Period and they have all confirmed they have fully complied with the required standard as set out in the Model Code.

On behalf of the Board

LAI I-Jen
Chairman
4 August 2017