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

ANNUAL REPORT

* For identification purpose only

Contents

Corporate Information

Executive Directors

Lai I-Jen *(Chairman)*
Kurihara Toshihiko *(Chief Executive Officer)*
(appointed on 10 March 2017)
Nagai Michio (ceased to be an executive Director and Chief Executive Officer of the Company with effect from 28 February 2017)

Non-Executive Directors

Liao Kuo-Ming (retired on 15 June 2017)
Wu Shu-Ping

Independent Non-Executive Directors

Chiang Hsiang-Tsai (retired on 15 June 2017)
Chou Chih-Ming (retired on 15 June 2017)
Lin Meng-Tsung (appointed on 15 June 2017)
Liu Wei-Li (appointed on 15 June 2017)
Wang Yi-Chi

Company Secretaries

Ng Chi Ching (ceased to be the Company Secretary with effect from 28 February 2017)
Wong Tak Yee (appointed on 30 March 2017)

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

Workshops 1-2, 6th Floor
Block A, Goldfield Industrial Centre
1 Sui Wo Road
Shatin
New Territories
Hong Kong

Place of Business in the PRC

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

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

CTBC Bank Co., Ltd.
Bank Sinopac
Ta Chong Bank Ltd. (merged with Yuanta Commercial Bank Co., Ltd., effective from 1 January 2018)
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

Chairman's Statement

Annual Results

The Group's turnover for the year ended 31 December 2017 was approximately US$87,329,000, representing an increase of approximately 18.8% compared with US$73,491,000 for the previous year. The Group's net profit for the year ended 31 December 2017 was approximately US$5,780,000, representing an increase of approximately 23.8% as compared with US$4,668,000 in 2016.

Dividends

The board of directors of the Company (the "**Board**") proposed to declare a final dividend of HK$0.035 per share out of the Company's profits. Determined to make better return to the shareholders, the Board further proposed to declare a special dividend of HK$0.1 per share out of the Company's share premium account. Subject to approval of the shareholders for the final and special dividends, the Company expects to maintain a stable and sound financial position subsequent to the dividends distributions.

Business Review and Outlook

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, surveillance cameras, projectors and advanced TVs.

Chairman's Statement

Reviewing the year 2017, compared to the impacts of the 2016 Japan Kumamoto Earthquake (the "**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 during the year. As a result, revenue of the Group for the year ended 31 December 2017 ("**FY2017**") increased as compared to the corresponding period in the previous financial year. However, looking back on the DSCs industry environment, although the demand in FY2017 has made up for the shortfall caused by the Earthquake in 2016 and mitigated the trend of continuing decline in the industry, it is expected that the DSCs industry environment will remain weak in 2018. Due to the shrinkage in the scale of the DSCs industry that resulted in, amongst others, reduced efficiency in economies of scale, high staff turnover rate and Renminbi fluctuations, the Group faces considerable cost pressures. The Group will also carefully evaluate industry trends and customer needs before expansion of new production facilities. In addition, the Group will respond to changes in the industry by continuing its efforts in product diversification and actively developing components for surveillance cameras, action cameras, beauty treatment instruments, advanced TVs and projectors, etc. The percentage contribution of DSCs to the Group's revenue for FY2017 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, the Group recorded revenue of US$87,329,000 in FY2017, representing an increase of approximately 18.8% as compared with US$73,491,000 in the corresponding period in the previous year. Net profit of the Group amounted to US$5,780,000 in FY2017, representing an increase of approximately 23.8% as compared with US$4,668,000 in the corresponding period in the previous year. 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, which can be evidenced by the fact that sales from Japanese customers have increased 22.1% as compared with that in the corresponding period in the previous year, as well as the Group's implementation of product diversification, and growth in revenue from components for advanced TVs and surveillance cameras during the period; (2) gross profit margin during the period was 28.9%, representing a small difference as compared with 29.2% for the corresponding period in the previous year, increase in revenue has resulted in the increase in gross profit; (3) the related losses arising upon disposal of Pioneer Yorkey do Brasil Ltda. ("**PYBL**") during the period (please refer to the paragraph headed "Obligation related to Interest in an Associate" on page 9 in this annual report for details); (4) exchange loss arising from the appreciation of Renminbi against United States dollars, resulting in the increase in operating expenses as compared with the corresponding period in the previous year; and (5) increase in income tax expense.

Despite the increase in revenue and gross profit, the net profit margin during FY2017 was 6.6%, representing a small difference compared with 6.4% for the corresponding period in the previous year 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 FY2017, 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.

According to statistics announced by the Camera & Imaging Products Association (CIPA), the shipment volume of DSCs in 2017 has increased as supply of components resumed in autumn 2016 from the impact on the production of DSCs and their components caused by the Earthquake in spring 2016. The increase in the shipment volume in 2017 as compared to that in 2016 reflected real demand and the counter-effect on the economic downturn due to the Earthquake. Nonetheless, the CIPA still expects a decrease in the shipment volume of DSCs in 2018 as compared to that in 2017. The revenue derived from DSCs components of the Group accounts for a high proportion of overall revenue, and the operating environment continues to be challenging. As consumers become more demanding on image quality, the Group considers that advanced DSCs will become mainstream in the market, branded customers will have relatively higher expectations of manufacturing quality, and demands for suppliers will become diversified with small-volume production. 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" services as the basis to step up its research and development efforts on new products (including components for surveillance cameras, action cameras, beauty treatment instruments, advanced TVs and projectors, etc.) to maintain its competitive edge.

Looking ahead to 2018, the operating environment continues to be challenging and the uncertainties in the external economic environment remain high. The DSCs industry remains weak and the revenue derived from DSCs components of the Group accounts for a high proportion of overall revenue. Due to the impact from the shrinkage in the scale of the DSCs industry that resulted in reduced efficiency in economies of scale and from Renminbi fluctuations, the Group is faced with considerable cost pressures. The Group will respond with optimised capability and improvement in automation and efficiency and will carefully evaluate industry trends and customer needs before the expansion of new production facilities, so as to reduce its costs and enhance its competitiveness, while striving to expand its customer base and develop the application of diversified products. At the same time, the Group will continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and suppliers for their continuous support, as well as the management team and staff of the Group for their hard work and contributions in the past year.

Lai I-Jen
Chairman

Management Discussion and Analysis

Important

The final results for FY2017 set out in this annual report are based on audited financial information prepared under HKFRSs. As financial results are subject to fluctuations and affected by a number of factors, the Group's financial results for any past period should not be taken as indicative of the Group's any expected performance for any future period.

This annual report contains statements with respect to its 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, the Company's actual results differ materially 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 will 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 DSCs, action cameras, copier-based multifunction peripherals, surveillance cameras, projectors and advanced TVs.

Reviewing the year 2017, compared to the impacts of the 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 during the year. As a result, revenue of the Group for FY2017 increased as compared to the corresponding period in the previous financial year. However, looking back on the DSCs industry environment, although the demand in FY2017 has made up for the shortfall caused by the Earthquake in 2016 and mitigated the trend of continuing decline in the industry, it is expected that the DSCs industry environment will remain weak in 2018. Due to the shrinkage in the scale of the DSCs industry that resulted in, amongst others, reduced efficiency in economies of scale, high staff turnover rate and Renminbi fluctuations, the Group faces considerable cost pressures. The Group will also carefully evaluate industry trends and customer needs before expansion of new production facilities. In addition, the Group will respond to changes in the industry by continuing its efforts in product diversification and actively developing components for surveillance cameras, action cameras, beauty treatment instruments, advanced TVs and projectors, etc. The percentage contribution of DSCs to the Group's revenue for FY2017 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, the Group recorded revenue of US$87,329,000 in FY2017, representing an increase of approximately 18.8% as compared with US$73,491,000 in the corresponding period in the previous year. Net profit of the Group amounted to US$5,780,000 in FY2017, representing an increase of approximately

23.8% as compared with US$4,668,000 in the corresponding period in the previous year. 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, which can be evidenced by the fact that sales from Japanese customers have increased 22.1% in FY2017 as compared with that in the corresponding period in the previous year, as well as the Group's implementation of product diversification, and growth in revenue from components for advanced TVs and surveillance cameras during the period; (2) gross profit margin during the period was 28.9%, representing a small difference as compared with 29.2% for the corresponding period in the previous year, increase in revenue has resulted in the increase in gross profit; (3) the related losses arising upon disposal of PYBL during the period (please refer to the paragraph headed "Obligation related to Interest in an Associate" on page 9 in this annual report for details); (4) exchange loss arising from the appreciation of Renminbi against United States dollars, resulting in the increase in operating expenses as compared with the corresponding period in the previous year; and (5) increase in income tax expense.

Despite the increase in revenue and gross profit, the net profit margin during FY2017 was 6.6%, representing a small difference compared with 6.4% for the corresponding period in the previous year 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 FY2017, 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.

Key Relationships with Customers, Suppliers and Employees

The Group places great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn helped to nurture a closer relationship with the Group's customers. The largest customer and top five customers accounted for approximately 13.8% and 52.6% of the Group's revenue for FY2017, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2017, allowance for doubtful debts for all customers amounted to US$16,000 as compared with US$244,000 as at 31 December 2016.

The Group cooperates with its suppliers and purchases various raw materials and materials from them at a competitive price. The aggregate purchases attributable to the Group's largest supplier and the top five suppliers taken together accounted for approximately 8.5% and 25.9% of the Group's total purchases for FY2017, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Management Discussion and Analysis

Employment, Training and Development

As at 31 December 2017, the Group had a total of 2,124 employees (as at 31 December 2016: 2,360 employees). Staff costs incurred for FY2017 amounted to approximately US$24,128,000 (2016: US$19,599,000).

Employees are an important asset to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavioral 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 our 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 Group has implemented a long-term and stable human capital policy to attract and retain quality talents and to provide incentives for its staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of our products.

Revenue

The Group's revenue for FY2017 was approximately US$87,329,000, representing an increase of approximately 18.8% as compared to US$73,491,000 for the previous year. Such increase was mainly due to the growth in revenue from components for DSCs, advanced TVs and surveillance cameras.

The Group's revenue for FY2017 was mainly derived from the sales of components for DSCs, which contributed approximately 58.2% of the Group's revenue (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. Some of the Group's Japanese customers who were affected by the Earthquake last year have resumed production since the third quarter of last year. Accordingly, revenue derived from the sales of cameras for the year ended 31 December 2017 increased as compared to that in the corresponding period in the previous year. Sales from Japanese customers have increased 22.1% as compared to that in the corresponding period in the previous year. 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 FY2017 was approximately US$25,253,000 and the gross profit margin was approximately 28.9% (2016: gross profit of US$21,433,000 and gross profit margin of 29.2%), representing a small difference as compared to those of the previous year.

Other Gains and Losses

In FY2017, other losses of the Group amounted to US$2,199,000 (comprising other gains from bank interest income of US$1,381,000, rental income of US$500,000, reversal for bad and doubtful debts of US$114,000 and miscellaneous income of US$15,000 and recognition of accumulated currency realignment of US$4,209,000 upon liquidation of PYBL as other loss (please refer to the paragraph headed "Obligation related to

Interest in an Associate" on page 9 in this annual report for details)). In year 2016, other gains amounted to US$3,221,000 (comprising bank interest income of US$797,000, rental income of US$290,000, exchange gain of US$2,116,000 and miscellaneous income of US$18,000). 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 FY2017, operating expenses amounted to approximately US$16,297,000, representing an increase of US$1,293,000 as compared to US$15,004,000 for the corresponding period in the previous year. Such increase was mainly due to the exchange loss of US$2,415,000 arising from the appreciation of Renminbi against United States dollars and liquidation cost of PYBL accrued during the year. In addition, the Group has actively controlled its operating expenses, which represents a decrease of US$1,122,000 as compared to that for the corresponding period in the previous year if exchange losses are not considered.

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 PYBL, which is established in Brazil and is principally engaged 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 shareholders 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 Group, it 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 FY2017 was approximately US$5,780,000, representing an increase of approximately 23.8% as compared with US$4,668,000 for the year ended 31 December 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.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2017, the Group had current assets of approximately US$122,684,000 (2016: US$130,707,000) and current liabilities of approximately US$24,828,000 (2016: US$27,848,000). The current ratio of the Group was approximately 494% (2016: 469%).

As at 31 December 2017, the Group had cash at bank and on hand of approximately US$104,827,000 (as at 31 December 2016: US$109,020,000) and zero bank borrowing. Net cash decreased by US$4,193,000 from 31 December 2016.

Net cash inflow from operating activities for the year was approximately US$15,721,000.

Net cash outflow from investing activities for the year was approximately US$2,616,000, which comprised of interest received of approximately US$1,381,000, capital expenditure in various divisions of the Group of approximately US$2,158,000, settlement of obligation related to interest in an associate of US$1,840,000 and cash inflow from other investment activities of approximately US$1,000.

Net cash outflow used in financing activities for the year was approximately US$17,999,000, representing cash dividend paid during the year.

Effect of foreign exchange rate changes for the year was US$701,000.

Possible Risks and Uncertainties Facing the Group

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 States dollars during FY2017, while the amount was minimal. As the functional currency of a subsidiary of the Company is Renminbi, during FY2017, 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.

Capital Risk

The capital risk management of the Group is set out in note 24 on page 112.

Financial Risk

The financial risk management of the Group is set out in note 25 on pages 112 to 116.

Business Risk

The Group's revenue is mainly generated from the sale of components for DSCs. Some of the Group's Japanese customers affected by the Earthquake in 2016 have resumed production since the third quarter of year 2016. Therefore, revenue from the sale of DSCs for FY2017 increased as compared to that for the corresponding period in the previous year. However, as the overall DSCs market is impacted by the competition from mobile devices, and that the revenue derived from DSCs components of the Group accounts for a high proportion of the overall revenue, it may cause an adverse effect on revenue and profit. The Group will strive to expand its customer base and develop the application of diversified products, including components for surveillance cameras, action cameras, beauty treatment instruments, advanced TVs and projectors, etc. Meanwhile, the Group will pay attention to and strengthen expenses control to enhance its competitiveness.

Since the Group's production facilities are located in the PRC, the high staff turnover rate may cause an adverse effect on profit. The Group will respond with optimised capability and improvement in automation and efficiency as a guarantee for product quality and expenses control, etc. The Group will also carefully evaluate the expansion of new production facilities, so as to reduce its costs and enhance its competitiveness at the same time.

Regulation and Compliance Risk

The Group is exposed to legal and regulatory risks in Hong Kong and in the PRC. Such risks might have significant impacts on the financial condition, operations and business prospects of the Group. The investments of the Group at present or in the future might be affected by changes in local, national or international political, social, legal, tax, regulatory, shareholder and environmental requirements from time to time that could result in an additional or unforeseen increase in operating expenses and capital expenditures, and hence may adversely affect the Group's revenues and profits. Please refer to the paragraph headed "Contingent Liabilities" on page 11.

The Group keeps monitoring regulatory developments and where necessary, will obtain expert's professional advice in respect of the updated regulatory changes.

Contingent Liabilities

As at the date of this annual report, the Company has settled its liability to pay the regulatory fine and all of its costs' liabilities under the Market Misconduct Tribunal's Order dated 27 February 2017.

Save as disclosed in this annual report and as far as the Group is aware, as at 31 December 2017, the Group had no significant or contingent liabilities.

Capital Commitment

As at 31 December 2017, the capital commitment of the Group was US$71,000 (2016: US$405,000).

Significant Investment

The Group held no significant investment for the year ended 31 December 2017.

During the financial year ended 31 December 2016, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No.889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Material Acquisition and Disposal of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries during the year ended 31 December 2017 (2016: Nil).

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2017 and 2016, respectively.

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) settled the regulatory fine and all of its costs' liabilities under the MMT's Order; and

(b) appointed an independent professional adviser (approved by the Securities and Futures Commission) to review the Company's procedure for compliance with Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Outlook

According to statistics announced by the Camera & Imaging Products Association (CIPA), the shipment volume of DSCs in 2017 has increased as supply of components resumed in autumn 2016 from the impact on the production of DSCs and their components caused by the Earthquake in spring 2016. The increase in the shipment volume in 2017 as compared to that in 2016 reflected real demand and the counter-effect on the economic downturn due to the Earthquake. Nonetheless, the CIPA still expects a decrease in the shipment volume of DSCs in 2018 as compared to that in 2017. The revenue derived from DSCs components of the Group accounts for a high proportion of the overall revenue, and the operating environment continues to be challenging. As consumers become more demanding on image quality, the Group considers that advanced DSCs will become mainstream in the market, branded customers will have relatively higher expectations of manufacturing quality, and demands for suppliers will become diversified with small-volume production. 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" services as the basis to step up its research and development efforts on new products (including components for surveillance cameras, action cameras, beauty treatment instruments, advanced TVs and projectors, etc.) to maintain its competitive edge.

Looking ahead to 2018, the operating environment continues to be challenging and the uncertainties in the external economic environment remain high. The DSCs industry remains weak and the revenue derived from DSCs components of the Group accounts for a high proportion of the overall revenue. Due to the impact from the shrinkage in the scale of the DSCs industry that resulted in reduced efficiency in economies of scale and that from Renminbi fluctuations, the Group is faced with considerable cost pressures. The Group will respond with optimised capability and improvement in automation and efficiency and will carefully evaluate industry trends and customer needs before the expansion of new production facilities, so as to reduce its costs and enhance its competitiveness, while striving to expand its customer base and develop the application of diversified products. At the same time, the Group will continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Final Dividend

The Board proposed to declare and distribute to the shareholders a final dividend of HK$0.035 per share. It is expected that the final dividend will be paid on or before 1 August 2018.

Special Dividend

Determined to make better return to the shareholders, the Board proposed to declare and distribute to the shareholders a special dividend of HK$0.1 per share out of the Company's share premium account. It is expected that the special dividend will be paid on or before 24 August 2018.

Including the interim dividend of HK$0.035 per share paid to the shareholders on Tuesday, 3 October 2017 and the final dividend and special dividend to be paid in the future, total dividend paid to the shareholders for FY2017 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 309%.

Profile of Directors and Senior Management

Executive Directors

Mr. LAI I-Jen (賴以仁), aged 69, joined the Group in December 2005 and is an executive director and the chairman of the Company. He is also the chairman of Yorkey Optical Technology Limited, a direct wholly-owned subsidiary of the Company. He has over 30 years of experience in the manufacturing and sales of optical components and opto-electronic products. Mr. Lai is currently the chairman of Asia Optical Co., Inc. ("**Asia Optical**", an indirect substantial shareholder of the Company), a company listed on the Taiwan Stock Exchange. Asia Optical is principally engaged in the design, manufacturing and sales of optical parts and components and opto-electronic products.

Mr. Lai is also currently the chairman and chief operating manager of Asia Tech Image Inc. ("**Asia Tech**"), a company listed on the Taiwan's GreTai Securities Market and holds directorship in various companies. Asia Tech is held by Asia Optical as to 26.2%, and is principally engaged in the trading of image sensor and electronic related parts and components.

Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

Mr. KURIHARA Toshihiko (栗原俊彥), aged 64, joined the Group in July 2016 and is an executive director and the Chief Executive Officer of the Company. Mr. Kurihara is also a director of Yorkey Optical Technology Limited, a direct wholly-owned subsidiary of the Company, the chairman of Dongguan Yorkey Optical Machinery Components Ltd, an indirect wholly-owned subsidiary of the Company and a director of Click Away Services Limited, an indirect wholly-owned subsidiary of the Company. Mr. Kurihara graduated from Sophia University with a major in mechanical engineering and has over 30 years of experience in the optical disk pickup industry. Prior to joining the Group, Mr. Kurihara has served various positions in Pioneer Corporation ("**Pioneer**"), a company listed in Japan which manufactures and sells audio and video equipment for household, industrial, and automobile use. Mr. Kurihara joined Pioneer in 1977 and had served in many managerial positions in the pickup development and sales department of Pioneer from April 1992 to September 2009. Subsequently, from October 2009 to April 2012, Mr. Kurihara served as the chief executive officer of Pioneer Digital Design and Manufacturing Corporation, a joint venture of Pioneer and Sharp. He was an executive officer of Pioneer from June 2012 to June 2015. Mr. Kurihara was a consultant of Pioneer from June 2015 to June 2016. He had served as a director of Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, since June 2017 and resigned in February 2018.

Profile of Directors and Senior Management

Non-executive Director

Ms. WU Shu-Ping (吳淑品), aged 55, joined the Group in December 2005 and is a non-executive director of the Company. Ms. Wu is currently a director of Asia Optical and a director and an executive manager of Asia Tech and holds directorship in various companies. She had been successfully involved in the listing, overseas financing, merger & acquisition projects of Asia Optical.

Independent Non-executive Directors

Mr. LIN Meng-Tsung (林孟宗), aged 44, was appointed as an independent non-executive director of the Company in June 2017. He is also the chairman of the audit committee, nomination committee and remuneration committee of the Company. Mr. Lin graduated from Feng Chia University in Taiwan majoring in accounting and is a qualified accountant and bookkeeper in Taiwan. Mr. Lin had served in an international accounting firm from July 1997 to August 2011, during which he was mainly responsible for providing auditing and taxation services to listed companies and corporations. He is currently a certified public accountant and the director of Kung Long Certified Public Accountants (廣隆會計師事務所) in Taiwan. Mr. Lin had served as a director of Fortune Lands since June 2017 and resigned in October 2017.

Mr. LIU Wei-Li (劉偉立), aged 37, was appointed as an independent non-executive director of the Company in June 2017. He is also a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Liu received a master of laws for science and technology and a bachelor of science degree from National Tsing Hua University of Taiwan, as well as an LL.M. degree from Stanford University. Mr. Liu is a lawyer qualified in both Taiwan and the New York State, and is a patent agent of Taiwan. He had many years of experience with international law firms. Mr. Liu is now a counsel at LCC Partners Law Office. Mr. Liu's area of expertise lies in intellectual property, cross-border investment, venture capital and commercial litigation. With an engineering background, he has extensive experience in providing solutions for technology companies as well as for start-up companies.

Mr. WANG Yi-Chi (王逸琦), aged 46, was appointed as an independent non-executive director of the Company in May 2012. He is also a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Wang holds a doctoral degree in industrial engineering from Mississippi State University in the United States. His areas of expertise are lean enterprise transformation and gemba kaizen. Mr. Wang has published numerous research articles in some international journals and he is currently a full-time professor with the Department of Industrial Engineering and Systems Management at Feng Chia University in Taiwan. Mr. Wang had served as a director of Fortune Lands since March 2013 and resigned in October 2017.

Profile of Directors and Senior Management

Senior Management

Mr. CHAN Sun-Ko (詹孫科), aged 49, is the head of each of the mould technology department, metal stamping department, plastic injection and moulding department, surface treatment processing department, assembly department and sales and marketing department of the Group. Mr. Chan had worked in other companies in the plastic moulding industry and has more than 15 years of experience in this industry. He is responsible for overseeing production, technique and quality for the Group. He joined the Group in July 1998.

Mr. Kobayashi Yuji (小林雄司), aged 56, has accumulated more than 30 years of working experience in quality management and production management, and is currently the senior manager of the quality assurance division of the Group. He joined the Group in January 2016.

Ms. TAN Ya-Juan (譚亞娟), aged 42, is the head of the cases and bags department of the Group. Ms. Tan has over 20 years of experience in the field of manufacturing and assembling of cases and bags. She is responsible for overseeing the production process and quality of products of the cases and bags department. Ms. Tan joined the Group in December 1995.

Ms. LIANG Li-Li (梁黎黎), aged 41, joined the Group in March 2005. Ms. Liang is currently a senior manager of the Group's finance department and is responsible for accounting work.

Mr. NG Chi Ching (吳子正) *(ceased to be the Chief Financial Officer and Company Secretary of the Company with effect from 28 February 2017)*, aged 47, was the Chief Financial Officer of the Group, the Company Secretary and qualified accountant of the Company. Mr. Ng was responsible for the overall finance of the Group. Mr. Ng graduated from The Australian National University with a bachelor's degree in commerce in 1994. He has over 10 years of experience in financial management and business management. Mr. Ng had worked in an international audit firm during the periods from May 1995 to March 1997 and from July 1997 to July 1999. Mr. Ng is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Mr. Ng joined the Group in January 2006.

Changes in Director's Information under Rule 13.51B(1) of the Listing Rules

Changes in Director's information disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

The Market Misconduct Tribunal ("**MMT**") has handed down its report dated 27 February 2017 and has made the determination that (i) a breach of the disclosure requirement has taken place; and (ii) the persons who are in breach of the disclosure requirement are the Company and its two then officers, being Mr. Nagai Michio and Mr. Ng Chi Ching. Under the said report, the MMT has made, inter alia, the following consequential order against Mr. Nagai:

(a) a regulatory fine of HK$1 million;

(b) an order that he be responsible for the Securities and Futures Commission (the "**SFC**") and the Government's costs, such costs and expenses to be taxed if not agreed;

(c) an order that he must not, for the period of 18 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; and

(d) an order that he undergoes a training programme approved by the SFC.

Consequently, Mr. Nagai, an executive director during the year ended 31 December 2016, ceased to be an executive director and the Chief Executive Officer of the Company with effect from 28 February 2017.

Ms. WONG Tak Yee (黃德儀), was appointed as the Company Secretary of the Company with effect from 30 March 2017. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited ("**Tricor**"), which is a global professional services provider specializing in integrated business, corporate and investor services. Ms. Wong has over 25 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. She is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS. Ms. Wong holds a Master of Arts degree from The Hong Kong Polytechnic University. Prior to joining Tricor, Ms. Wong was a senior manager of Company Secretarial Services with Deloitte Touche Tohmatsu in Hong Kong, where she had provided company secretarial and share registration services to its clients.

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2017.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 28 to the consolidated financial statements on page 119.

Business Review

An analysis of the Group's revenue and operating segments for the year ended 31 December 2017 are set out in note 5 to the consolidated financial statements on pages 93 to 94. A fair evaluation on the Group's operation, including the description of principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" on pages 10 to 11.

Financial Key Performance Indicators

The following table shows the key financial ratios indicating the performance of the Group:

Financial year ended 31 December	2017	2016
Gross profit margin (%)[1]	**28.9**	29.2
Net profit margin (%)[2]	**6.6**	6.4
Return on assets (%)[3]	**5.5**	4.2

As at 31 December	2017	2016
Gearing ratio (%)[4]	**0**	0
Current ratio (%)[5]	**494**	469
Average trade receivables collection period (days)[6]	**61**	72
Average trade payables repayment period (days)[7]	**79**	94

Notes:

1. Gross profit margin = Gross profit/Revenue x 100%

2. Net profit margin = Net profit/Revenue x 100%

3. Return on assets = Net profit before tax/Total assets

4. Gearing ratio = Net debt/Equity attributable to owners of the Company

5. Current ratio = Current assets/Current liabilities

6. Average trade receivables collection period = (Average trade receivables/Revenue) x 365. Detailed analysis on trade receivables is set out in note 15 to the consolidated financial statements on pages 105 to 107.

7. Average trade payables repayment period = (Average trade payables/Cost of goods sold) x 365. Detailed analysis on trade payables is set out in note 18 to the consolidated financial statements on pages 108 to 109.

Environmental Policy and Performance

Yorkey was established in December 1995. In order to continue to grow, Yorkey realised that it is necessary to operate our business sustainably. We are fully aware of the indivisible relationship between our business and environmental conservation. We mainly utilise natural resources from the natural environment for the manufacturing of our optical and opto-electronic product related parts and components.

We have clear environmental policies to lead our business operations in an environmentally friendly manner. We ensure effective operation of our ISO14001 environmental management system established since 2005 for managing various environmental issues from our operations. Besides, we pursue cleaner means of production to reduce the use of energy and resources, and emission of pollutants. Further, we replace old equipment with better energy efficiency models to improve resources efficiency and to reduce energy consumptions. Altogether these measures and efforts have enabled us to achieve good environmental performance during the reporting period.

Further details are set out in the section headed "Environmental, Social and Governance Report" of this annual report.

Compliance with Relevant Laws and Regulations

Save as disclosed on page 12 under the paragraph headed "Hong Kong MMT Proceedings" in the "Management Discussion and Analysis" section of this annual report, during the financial year ended 31 December 2017, there was no evidence of non-compliance with the relevant laws and regulations that have significant impacts on the Group as far as the Board is aware.

Key Relationships with Customers, Suppliers and Employees

Customers

The Group places great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn helped to nurture a closer relationship with the Group's customers. The largest customer and top five customers accounted for approximately 13.8% and 52.6% of the Group's revenue for FY2017, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2017, allowance for doubtful debts for all customers amounted to US$16,000 as compared with US$244,000 as at 31 December 2016.

Suppliers

The Group cooperates with its suppliers and purchases various raw materials and materials from them at a competitive price. The aggregate purchases attributable to the Group's largest supplier and the top five suppliers taken together accounted for approximately 8.5% and 25.9% of the Group's total purchases for FY2017, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Report of the Directors

Employment, Training and Development

As at 31 December 2017, the Group had a total of 2,124 employees (as at 31 December 2016: 2,360 employees). Staff costs incurred for FY2017 amounted to approximately US$24,128,000 (2016: US$19,599,000).

Employees are an important asset to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavioral 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 our 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 Group has implemented a long-term and stable human capital policy to attract and retain quality talents and to provide incentives for its staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of our products.

Results

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 72 of this annual report.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 122 of this annual report.

Dividends

The Board proposed to declare and distribute to the shareholders a final dividend of HK$0.035 per share. It is expected that the final dividend will be paid on or before 1 August 2018.

Determined to make better return to the shareholders, the Board proposed to declare and distribute to the shareholders a special dividend of HK$0.1 per share out of the Company's share premium account. It is expected that the special dividend will be paid on or before 24 August 2018.

Including the interim dividend of HK$0.035 per share paid to the shareholders on Tuesday, 3 October 2017 and the final dividend and special dividend proposed to be paid, total dividend paid to the shareholders for FY2017 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 309%.

Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 20 to the consolidated financial statements on page 110.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2017 amounted to approximately US$90,633,000.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 74 and note 29 to the consolidated financial statement on pages 120 to 121.

Investment Properties

During the financial year ended 31 December 2016, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No.889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Properties, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements on pages 102 to 103.

Major Customers and Suppliers

The aggregate sales attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 13.8% and 52.6% of the Group's total turnover for the year, respectively.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 8.5% and 25.9% of the Group's total purchases for the year, respectively.

To the best knowledge of the directors and their respective associates, none of them are aware of any shareholder who owns more than 5% of the issued share capital of the Company and has any interest in any of the top five customers and suppliers of the Group for the year.

Directors and Directors' Service Contracts

The directors of the Company ("**Directors**") during the year ended 31 December 2017 and up to the date of this annual report were:

Executive Directors:

Mr. Lai I-Jen *(Chairman)*
Mr. Nagai Michio *(ceased to be an executive Director and Chief Executive Officer of the Company with effect from 28 February 2017)*
Mr. Kurihara Toshihiko *(Chief Executive Officer) (appointed on 10 March 2017)*

Non-executive Directors:

Mr. Liao Kuo-Ming *(retired on 15 June 2017)*
Ms. Wu Shu-Ping

Independent non-executive Directors:

Mr. Chiang Hsiang-Tsai *(retired on 15 June 2017)*
Mr. Chou Chih-Ming *(retired on 15 June 2017)*
Mr. Wang Yi-Chi
Mr. Lin Meng-Tsung *(appointed on 15 June 2017)*
Mr. Liu Wei-Li *(appointed on 15 June 2017)*

The biographical details of the Directors are set out on pages 14 to 15 of this annual report.

Mr. Lai I-Jen (executive Director) entered into a service contract with the Company for a term of 1 year commencing from 7 June 2013. Mr. Kurihara Toshihiko (executive Director) entered into a service contract with the Company for a term of 1 year commencing from 10 March 2017. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Ms. Wu Shu-Ping (non-executive Director) has been appointed for a term of 1 year commencing from 20 December 2005. In addition, Ms. Wu's appointment is subject to retirement by rotation in accordance with the Company's Articles of Association.

Mr. Wang Yi-Chi (independent non-executive Director) has been appointed for a term of 1 year commencing from 24 May 2012. Each of Mr. Lin Meng-Tsung (independent non-executive Director) and Mr. Liu Wei-Li (independent non-executive Director) has been appointed for a term of 1 year commencing from 15 June 2017. In addition, the appointment of each of the independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

The Company had received written confirmations from each of the Company's independent non-executive Directors of their independence and considered all independent non-executive Directors to be independent. Despite respective directorship of Mr. Wang Yi-Chi held from March 2013 to October 2017 and Mr. Lin Meng-Tsung held from June 2017 to October 2017 at Fortune Lands International Limited ("Fortune Lands"), the trustee of The Yorkey Employees' Trust, the Company considered the said independent non-executive Directors to be independent taking into account the fact that the main duty of holding such directorship at Fortune Lands was to consider rewarding the Group's employees which the Company was of the view that it did not have an impact on their independence. In accordance with the provisions of the Company's Articles of Association, Mr. Lai I-Jen, Mr. Kurihara Toshihiko, Ms. Wu Shu-Ping, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi will retire from the Board at the forthcoming annual general meeting and being eligible, will offer themselves for re-election. Details of Directors' emoluments on a named basis are set out in note 7 to the consolidated financial statements on pages 96 to 98 of this annual report.

Directors and Chief Executive's Interests in Shares

As at 31 December 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 of Hong Kong Limited (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 31 December 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 31 December 2017, none of the Directors or chief executives of the Company had any interest or 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 year ended 31 December 2017 was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors (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.

Directors' Interest in Contracts of Significance

Save as disclosed in note 26 to the consolidated financial statements, no significant contract to which the Company or any of its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

At no time during the year was the Company, its substantial shareholders or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial Shareholders

As at 31 December 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%
Ms. Wu Bo-Yan	Interest of a spouse	113,000,000 *(Note 5)*	13.76%
Webb David Michael	Beneficial owner	56,800,000	6.92%

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. ("Ability Enterprise") 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 in the Company 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 Limited. ("Fortune Lands") is the founder of The Yorkey Employee's Trust and is the registered owner of 113,000,000 shares in the Company which it held 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, being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 113,000,000 shares in the Company 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 the Company in which Mr. Chan is interested.

Save as disclosed above, as at 31 December 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 in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

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

As at 31 December 2017, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

Share Option Scheme

A share option scheme was conditionally adopted by the shareholders' written resolution of the Company dated 18 January 2006 and had expired on 17 January 2016 and no new share option scheme has been adopted by the Company.

Remuneration of Senior Management

During the year ended 31 December 2017, remuneration payable to the seven senior management members of the Group (the biographical details of which are disclosed in the section headed "Profile of Directors and Senior Management" in this annual report) falls within the following bands:

	Number of Senior Management
US$0 – US$50,000	2
US$50,001 – US$100,000 *(note 1)*	3
US$100,001 – US$150,000	1
US$150,001 – US$200,000	0
US$200,001 – US$250,000 *(note 2)*	1
	7

Notes:

1. One of the three senior management members of the Group ceased to serve this position from 28 February 2017.

2. Ceased to serve this position from 28 February 2017.

Continuing Connected Transactions

During the year ended 31 December 2017, the Group had the following connected transactions that were subject to the reporting requirements under the Listing Rules for disclosure in this annual report.

1. Lease of property by Dongguan Yorkey Optical Machinery Components Ltd ("Dongguan Yorkey") to Dongguan Guang Tong Business Machines Co., Ltd. ("Dongguan Guang Tong")

On 25 March 2015, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, as tenant, renewed the supplemental lease agreement pursuant to which Dongguan Guang Tong has agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a maximum area of 3,523.8528 square metres for production use and a maximum area of 2,509.9712 square metres for dormitory use for a term commencing from 1 January 2016 to 31 December 2018. Monthly rental is calculated based on the actual space used by Dongguan Guang Tong.

Dongguan Guang Tong is wholly owned by Ever Pine International Limited, which is held by Ability Enterprise BVI as to approximately 34.65%. As such, Ability Enterprise BVI indirectly holds 34.65% of the equity interests in Dongguan Guang Tong. Dongguan Guang Tong is an associate of Ability Enterprise BVI and hence, a connected person of the Company for the purposes of the Listing Rules.

For the year ended 31 December 2017, the rental income received from Dongguan Guang Tong amounted to approximately US$263,000.

2. Sale of plastic parts and components from Dongguan Yorkey to Dongguan Guang Tong

On 25 March 2015, Dongguan Yorkey and Dongguan Guang Tong renewed the supplemental DY agreement ("**Renewed Supplemental DY Agreement**") pursuant to which Dongguan Yorkey agreed to sell plastic parts and components to Dongguan Guang Tong for a term commencing from 1 January 2016 to 31 December 2018.

Entering into the Renewed Supplemental DY Agreement will benefit the Group from the enhancement of the Group's sales portfolio through selling plastic parts and components to Dongguan Guang Tong.

For the year ended 31 December 2017, sales of the plastic parts and components to Dongguan Guang Tong amounted to approximately US$21,000.

3. Engagement of Dongguan Guang Tong for SMT processing by Dongguan Yorkey

On 25 March 2015, Dongguan Yorkey and Dongguan Guang Tong entered into the DY processing agreement whereby Dongguan Yorkey agreed the engagement of Dongguan Guang Tong for SMT processing for a term commencing from 1 January 2016 to 31 December 2018.

As the Group does not possess SMT processing capacity, and after considering that Dongguan Guang Tong is a large SMT processing plant and have conducted business with Japanese customers in the past, its quality, cost, and delivery should be able to meet the Group's requirements; and as it leased a plant from the Group, the engagement can save transportation costs and reduce inventories.

For the year ended 31 December 2017, the engagement of Dongguan Guang Tong for SMT processing by the Group amounted to nil.

4. Lease of property by Dongguan Sintai Optical Co., ("Dongguan Sintai") to Dongguan Yorkey

On 25 March 2015, Dongguan Yorkey, as tenant and Dongguan Sintai, as landlord, renewed the lease agreement pursuant to which Dongguan Sintai agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a maximum area of 20,719.13 square metres for production use and a maximum area of 4,653.38 square metres for dormitory use for a term commencing from 1 January 2016 to 31 December 2018. Monthly rental is calculated based on the actual space used by Dongguan Yorkey.

Dongguan Sintai is a wholly-owned subsidiary of AOIL, a substantial shareholder of the Company, and hence a connected person of the Company.

For the year ended 31 December 2017, the rental paid to Dongguan Sintai amounted to approximately US$1,129,000.

5. Engagement of Shenzhen Sintai Optical Co., Ltd. ("Shenzhen Sintai") for plating and surface treatment processing by Dongguan Yorkey

On 16 December 2015, Dongguan Yorkey and Shenzhen Sintai entered into a process plating agreement pursuant to which Dongguan Yorkey agreed to the engagement of Shenzhen Sintai for plating and surface treatment processing. The term will last from 1 January 2016 until 31 December 2018.

Shenzhen Sintai is a wholly-owned subsidiary of AOIL, a substantial shareholder of the Company, and hence a connected person of the Company.

As the Group does not possess plating and surface treatment processing production line, and after considering that Shenzhen Sintai is located closely to the local district of the Group, the Group can save transportation costs and improve efficiency through the engagement of Shenzhen Sintai.

For the year ended 31 December 2017, the total amount for the engagement of Shenzhen Sintai for plating and surface treatment processing amounted to approximately US$3,442,000.

The independent non-executive Directors have reviewed the continuing connected transactions and in their opinion, these transactions were entered into by the Group:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the terms of the agreements governing such transactions are fair and reasonable and are in the interests of the shareholders of the Company 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 (Revised) "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 its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 26 to 28 of this annual report in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions and Continuing Connected Transactions

The related party transactions referred to in note 26 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Management Contracts

Except for the connected transactions as stated in this directors' report, 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.

Directors' Interest in Competing Business

As at 31 December 2017, none of the Directors or any of their respective associates (as defined in the Listing Rules) has engaged in any business that competes or may compete with the business of the Group, or has any other conflicts of interests with the Group.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors and officers of the Group is currently in force and was in force throughout the financial year.

Throughout the year, the Company has taken out and maintained directors' and officers' liability insurance which provides appropriate cover for the Directors and officers of the Group.

Emolument Policy

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competency. The emolument policy of the senior management is set up by the Group with reference to industry standards and the positions they serve coupled with performance assessment mechanism implemented by the Group.

The emolument of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorised by shareholders at the annual general meeting.

Directors' Remuneration

The Director's fees, basic salaries and other allowances are disclosed in note 7 to the consolidated financial statements.

Save as disclosed in note 7 to the consolidated financial statements, there was no compensation paid during the financial year or receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in the form of contributions to the China statutory public welfare fund.

Report of the Directors

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

Auditors

A resolution to re-appoint Deloitte Touche Tohmatsu as auditors of the Company will be submitted at the annual general meeting of the Company. There has been no changes in auditors for the preceding three years.

Litigations

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) settled the regulatory fine and all of its costs' liabilities under the MMT's Order; and

(b) 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 (Chapter 571 of the Laws of Hong Kong).

On behalf of the Board

LAI I-Jen
Chairman

23 March 2018

Corporate Governance Practices

The Group is committed to ensure high standards of corporate governance in the interest of its shareholders. The Directors also acknowledge that it is their responsibility for preparing the financial statements of the Group for the year ended 31 December 2017.

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices (the "**Code**") as stated in Appendix 14 to the Listing Rules. The Company has reviewed each code provision set out in the Code and confirmed that save for those indicated in this annual report, it has fully complied with the Code during the year.

According to the code provision stated in section F.1.1 of the Code, the company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. Where an issuer 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 issuer 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 Market Misconduct Tribunal ("**MMT**") against Mr. Ng Chi Ching 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 has been appointed as the company secretary of the Company with effect from 30 March 2017. For further details, please refer to the announcement dated 30 March 2017. The Company is now taking steps to identify appropriate candidate for the financial controller of the Company and will keep its shareholders and potential investors informed as and when appropriate.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry to all the Directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard as set out in the Model Code.

Board of Directors

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors.

The Board members for the year ended 31 December 2017 are:

Executive Directors

Mr. Lai I-Jen *(Chairman)*

Mr. Kurihara Toshihiko *(Chief Executive Officer)* (appointed on 10 March 2017)

Mr. Nagai Michio (ceased to be an executive Director and Chief Executive Officer of the Company with effect from 28 February 2017)

Non-executive Directors

Mr. Liao Kuo-Ming (retired on 15 June 2017)

Ms. Wu Shu-Ping

Independent non-executive Directors
Mr. Chiang Hsiang-Tsai (retired on 15 June 2017)
Mr. Chou Chih-Ming (retired on 15 June 2017)
Mr. Lin Meng-Tsung (appointed on 15 June 2017)
Mr. Liu Wei-Li (appointed on 15 June 2017)
Mr. Wang Yi-Chi

The Board has four scheduled meetings a year and meet at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Board minutes are kept by the secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors. During the year ended 31 December 2017, thirteen board meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Lai I-Jen *(Chairman)*	13/13
Nagai Michio *(ceased to be an executive Director and the Chief Executive Officer since 28 February 2017)*	2/2
Kurihara Toshihiko *(Chief Executive Officer) (appointed on 10 March 2017)*	7/7
Liao Kuo-Ming *(retired on 15 June 2017)*	11/11
Wu Shu-Ping	13/13
Chiang Hsiang-Tsai *(retired on 15 June 2017)*	10/11
Chou Chih-Ming *(retired on 15 June 2017)*	11/11
Lin Meng-Tsung *(appointed on 15 June 2017)*	2/2
Liu Wei-Li *(appointed on 15 June 2017)*	2/2
Wang Yi-Chi	13/13

The Board is responsible for ensuring that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively whilst the chief executive officer and senior management are responsible for strategic planning of the Company's various business units and day-to-day management and operations.

Each executive director is delegated with individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The roles of the chairman of the Board and the chief executive officer are segregated and are not exercised by the same individual. The Company has received a written confirmation of independence, from each of the independent non-executive directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive Directors are independent. Despite respective directorship of Mr. Wang Yi-Chi held from March 2013 to October 2017 and Mr. Lin Meng-Tsung held from June 2017 to October 2017 at Fortune Lands International Limited ("Fortune Lands"), the trustee of The Yorkey Employees' Trust, the Company considered the said independent non-executive Directors to be independent taking into account the fact that the main duty of holding such directorship at Fortune Lands was to consider rewarding the Group's employees which the Company was of the view that it did not have an impact on their independence. The independent non-executive Directors will provide independent opinion and share their knowledge and experience with the other members of the Board. All the independent non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise.

The non-executive Director, namely, Ms. Wu Shu-Ping, is appointed for an initial term of one year commencing from 20 December 2005 and shall continue thereafter until terminated by either party with three months' notice in writing served on the other side, subject to re-election at forthcoming annual general meeting in accordance with the Articles of Association of the Company and the relevant letter of appointment.

During the year ended 31 December 2017, the Board had conducted appropriate internal control procedures and reviewed risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Each proposed candidate of director of the Company is provided with presentation and training by the professional legal advisor of the Company prior to appointment to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and other applicable laws and regulations as a director of a listed company in Hong Kong.

Training for Directors

The Company has arranged and provided suitable training, placing an appropriate emphasis on the roles, functions and duties of its Directors to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities under applicable laws, rules and regulations and the Listing Rules as well as the Group's various governance and internal control policies.

During the year, the Company has organised seminars or provided materials to all Directors regarding the business operations of the Group, overall economic conditions and applicable orders. In addition, the Company has provided information to its Directors from time to time to ensure that the Directors continue to make contribution to the Board and comply with the requirements of Paragraph A.6.5 of the Code in a fully informed and relevant manner. The Company has received the records of training from all Directors.

The Directors understand the importance of continuous professional development and are committed to participate in suitable training to develop their knowledge and skills.

Board Diversity Policy

For the purpose of maintaining a sustainable and balanced development, when determining the composition of the Board, the Company will consider board diversity with regard to factors including, but not limited to, gender, age, culture, race, educational background, expertise and experience, knowledge and skills, and any other factors that the Board considers relevant and appropriate to achieving board diversity. Appointments to the Board are made on merit principle, with consideration based on whether the strengths of such candidate complement other directors and broaden the skills and experience of the Board as a whole.

Appointment, Re-election and Removal of Directors

The Company has established formal and transparent procedures for the appointment and succession planning of Directors.

Corporate Governance Report

Each of the Directors has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election at the next following annual general meeting upon retirement pursuant to relevant articles of the Articles of Association of the Company.

In accordance with the Articles of Association adopted by the Company on 24 May 2012, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. At each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years and being eligible to offer themselves for re-election.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The nomination committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference as suggested under the code provisions under the Code. The remuneration committee comprises three members, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi, all of whom are independent non-executive Directors. The chairman of the remuneration committee is Mr. Lin Meng-Tsung. The remuneration committee will meet at least twice a year to determine the remuneration policy for Directors and senior management. During the year, three remuneration committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai *(retired on 15 June 2017)*	2/2
Chou Chih-Ming *(retired on 15 June 2017)*	2/2
Lin Meng-Tsung *(appointed on 15 June 2017)*	1/1
Liu Wei-Li *(appointed on 15 June 2017)*	1/1
Wang Yi-Chi	3/3

The Company has adopted the model of remuneration committee as described in code provision B.1.2(c)(ii) of the Code to make recommendations to the Board on the remuneration packages of directors and senior management.

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration package of the Directors and the senior management to ensure that the remuneration offered is appropriate for the duties and responsibilities assumed and in line with the general market practice.

The work performed by the remuneration committee during the year ended 31 December 2017 included determining the policy for the remuneration of executive directors, assessing performance of executive directors and approving the terms of executive directors' service contracts. Each member of the remuneration committee abstains from voting on any resolution concerning his own remuneration.

Remuneration of Directors

Details of the amount of Directors' emoluments are set out in note 7 to the consolidated financial statements.

Auditors' Remuneration

During the year ended 31 December 2017, the fees paid/payable to the auditor, in respect of audit services provided by the auditor, to the Group was approximately US$218,000 and other non-audit services particularly for interim results review and tax compliance which amounted to approximately US$77,000 and US$87,000, respectively, for the year under review.

Audit Committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the code provisions under the Code. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures coordination between internal and external auditors, assesses the independence and appropriateness of the external auditors, and monitors the compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedure approved by the Board. The audit committee performed the above duties during the year ended 31 December 2017.

As at 31 December 2017, the audit committee comprised three independent non-executive Directors, namely, Mr. Lin Meng-Tsung Mr. Liu Wei-Li and Mr. Wang Yi-Chi. The chairman of the audit committee was Mr. Lin Meng-Tsung.

During the year, five audit committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai *(retired on 15 June 2017)*	3/3
Chou Chih-Ming *(retired on 15 June 2017)*	3/3
Lin Meng-Tsung *(appointed on 15 June 2017)*	2/2
Liu Wei-Li *(appointed on 15 June 2017)*	2/2
Wang Yi-Chi	5/5

At the meetings, the audit committee has reviewed the interim results for the six months ended 30 June 2017 and the consolidated financial statements of the Group for the year ended 31 December 2016. The final results for the year ended 31 December 2017 were reviewed by the audit committee on 23 March 2018.

The Directors acknowledged their responsibility for preparing the consolidated financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

Nomination Committee

The nomination committee was established on 16 March 2012 in accordance with the code provisions under the Code. Details of the duties and responsibilities of the nomination committee are set out in its terms of reference. The nomination committee is established primarily for the purpose of reviewing the structure, size and composition of the Board regularly, and making recommendations to the Board on nominations and appointment of directors, and succession planning for directors.

As at 31 December 2017, the nomination committee comprised three independent non-executive Directors, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi. The chairman of the nomination committee was Mr. Lin Meng-Tsung .

During the year, two nomination committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai *(retired on 15 June 2017)*	2/2
Chou Chih-Ming *(retired on 15 June 2017)*	2/2
Lin Meng-Tsung *(appointed on 15 June 2017)*	0/0
Liu Wei-Li *(appointed on 15 June 2017)*	0/0
Wang Yi-Chi	2/2

The following is a summary of the work performed by the nomination committee during the year:

- reviewed the structure, size and composition of the Board and made recommendations to the Board on the directors who should retire and make themselves available for re-election and election at the annual general meeting of the Company held on 15 June 2017, pursuant to the Company's Articles of Association;
- made recommendations to the Board on nomination and appointment of executive Directors and independent non-executive Directors; and
- assessed the independence of all independent non-executive Directors.

Corporate Governance Functions

The Board has delegated the responsibility to the audit committee to be responsible for performing the corporate governance duties and determining the relevant policies of the Company. Terms of reference of the audit committee adopted by the Board in compliance with the requirement under code provision D.3.1 of the Code include the duties of the audit committee on corporate governance functions to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the directors and the senior management, to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct, guidelines and compliance manual applicable to employees and directors and to review the Group's compliance with the Code and disclosure in this Corporate Governance Report.

Risk Management and Internal Controls

Responsibilities of the Board

The Board acknowledges its responsibility and is committed to maintain sound and effective risk management and internal control systems of the Group and to review their effectiveness on an ongoing basis. The Board aims to manage rather than eliminate risks of failure to achieve the Group's business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed, and is satisfied with, the adequacy of resources, staff qualifications and experience, training requirements and budgets of the staff responsible for the accounting, financial reporting, internal audit and risk management functions.

The Risk Management Committee

The Risk Management Committee ("**RMC**"), reporting to the audit committee, is responsible for strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

The RMC is responsible for overseeing the Group's risk management approach, policy and framework. The Group operates a consistent methodology using the Group's risk management framework for the identification, assessment, reporting and management of risks.

The activities of the RMC are reviewed at least twice a year by the audit committee, which continuously assesses the risk management requirements in accordance with the emerging risks faced by the Group in the changing environment. The internal control system is designed to mitigate and manage the risks that are significant to the fulfillment of the Group's business objectives. The audit committee reviews the findings and the assessment of the RMC on the effectiveness of the Group's risk management system and reports to the Board annually.

Risk Management Mechanism

The Group's risk management framework, approved by the audit committee, mandates a consistent and effective approach applied across the Group to manage the risks associated with its business and operations. The Group has formalised its risk management framework with a distinct organisational structure for different responsible parties with defined authority, responsibilities and risk management roles. A risk management policy has been established to provide a framework for the identification, analysis, evaluation, treatment, monitoring and reporting of key risks at all levels across the Group to support the achievement of the Group's overall strategic objectives. The existing risk management process has been consistently applied across the business units and departments of the Group during the year ended 31 December 2017. Adopting both top-down and bottom-up approaches in relation to risk management, the Group's risk management framework comprises the following key elements:

1. Identify risks;
2. Analyse risks;
3. Evaluate risks;
4. Treat risks;
5. Monitor and review the performance of the risk management process and changes which might affect it; and
6. Communicate and consult with internal and external stakeholders.

Any potential risks that may impact the Group's strategic objectives are identified during regular management meetings and operations on an ongoing basis in order to respond to the changes in the business and external environment. The identified risks are evaluated using appropriate qualitative and quantitative techniques that help to rank the risks into 4 risk levels (i.e. Extremely High, High, Medium and Low) and to prioritise risk management effort to determine the appropriate risk mitigation plans (i.e. accept, reduce, transfer and avoid). Ongoing risk monitoring is performed by respective management/department heads of each business unit/department who have to confirm the effectiveness of the internal control and risk management systems on an annual basis. There are no significant changes in the nature and extent of significant risks identified by the Group since the last annual review. To ensure the effectiveness of the risk mitigation plans, the Group's internal audit department validated these risk mitigation plans executed by the Group on a semi-annually basis.

Internal Audit Function

The Group's Internal Audit ("**IA**") Department, reporting to the audit committee, performs regular internal audit reviews of the Group, in order to provide assurance over the adequacy and effectiveness of the Group's risk management and internal control framework.

During the year, the IA Department played a major role in monitoring the corporate governance of the Group, by conducting internal audit reviews on business processes and risk management. The IA Department reported the review results of the internal audit programme, significant control issues, and the overall adequacy of the control environment to the Board through the audit committee on a regular basis. Based on the internal audit reviews conducted in the year ended 31 December 2017, no material internal control deficiencies or weaknesses have been identified.

To ensure systematic coverage of all auditable areas and effective deployment of resources, an annual risk-based IA plan with reference to the risk assessment results has been formulated. This IA plan, which is prepared annually to reflect the major changes in the organisational structure and risks, is approved by the audit committee.

Review of Risk Management and Internal Control Systems

The Board reviewed and assessed the adequacy and effectiveness of risk management and internal control systems of the Group, at least semi-annually, through reporting from the audit committee under the RMC's assistance, which covered the major internal control procedures in the areas of financial, operational, compliance and risk management. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the risk management and internal control systems is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's internal control environment and processes. In respect of the year ended 31 December 2017, the Board was satisfied with the effectiveness and adequacy of the Group's risk management and internal control systems. No significant areas of concern were identified. The Board considered that the risk management and internal control systems are functioning effectively and adequately.

In addition, the Group engaged an external consultant to review the Group's existing practice of the risk management system and their suggestions will be taken into consideration to the Group's risk management framework subsequently.

Disclosure of Inside Information

The Group is fully aware of its obligation of handling and dissemination of inside information under the Listing Rules and the Securities and Futures Ordinance. The Group has established an inside information management policy for identifying, monitoring and reporting inside information to our shareholders, investors, analysts and media. The internal policy is updated whenever required and adopted accordingly to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure. The Group conducts its affairs in accordance with the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012.

Corporate Governance Report

Shareholders' Rights

Procedures for calling for an extraordinary general meeting and putting forward proposals at general meetings

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company (by mail to the Company Secretary's office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or by email to ir@yorkey-optical.com) to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, 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.

Procedures for proposing a person for election as a Director

Pursuant to Article 88 of the Articles of Associations of the Company, no person other than a Director retiring at the annual general meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a written notice ("Notice") signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such Notice is given of his intention to propose such person for election. If a Shareholder wishes to propose a person other than a Director for election as a Director at a general meeting, the Shareholder shall lodge a Notice signed by himself and the person to be proposed shall sign and lodge a notice of his willingness to be elected at the principal place of business of the Company in Hong Kong or at the Hong Kong share registrar and transfer office of the Company provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Making Enquiries or Proposals to the Board

Shareholders who would like to make enquiries or proposals regarding the Company to the Board may send such enquiry or proposals via email to: ir@yorkey-optical.com.

During the year, an annual general meeting of the Company was held on 15 June 2017. The attendance of each director is shown below:

Name of director	Number of general meetings
Lai I-Jen *(Chairman)*	1/1
Nagai Michio *(ceased to be an executive director and the Chief Executive Office since 28 February 2017)*	–
Kurihara Toshihiko *(Chief Executive Officer) (appointed on 10 March 2017)*	1/1
Liao Kuo-Ming *(retired on 15 June 2017)*	0/1
Wu Shu-Ping	1/1
Chiang Hsiang-Tsai *(retired on 15 June 2017)*	1/1
Chou Chih-Ming *(retired on 15 June 2017)*	1/1
Lin Meng-Tsung *(appointed on 15 June 2017)*	–
Liu Wei-Li *(appointed on 15 June 2017)*	–
Wang Yi-Chi	1/1

Investor Relations

The Company is committed to maintain a high level of transparency in communicating with its shareholders and the investment community at large. The Company provides information in relation to the Company and its business in its annual and interim reports, circulars and announcements, which are to be dispatched to shareholders on a timely basis.

All the shareholders of the Company are to be given a 21 days' notice of the date and venue of the Company's annual general meeting where the shareholders will have an opportunity to communicate directly with the Board.

Company Secretary

Mr. Ng Chi-Ching was the company secretary and a full time employee of the Company for the period from 1 January 2017 to 28 February 2017. 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 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, 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, an executive director 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.

Directors' and Auditor's Responsibility for Accounts

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year, which give a true and fair view of the financial position of the Group on a going concern basis.

Statements of directors' responsibilities for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditor's Report in this annual report.

Constitutional Documents

During the year ended 31 December 2017, the Company has not made any changes to its Memorandum and Articles of Association.

Environmental, Social & Governance Report

Yorkey was established in December 1995. Throughout these years, the Group's business has continued to grow, and is progressively developed into a sizable manufacturer providing optical and opto-electronic product related parts and components for numerous well-known brands. Yet in order to continue to grow, Yorkey realised that it is necessary to operate our business sustainably.

Through this Environmental, Social & Governance ("ESG") report, we would like to continue our efforts to disclose information on our sustainability practices to our stakeholders, and to record our ESG issues systematically as a reference for our continuous improvement in sustainability performance. This is also the first year where our environmental key performance indicators ("KPIs") data are disclosed, which further demonstrating our commitments and efforts in pursuing better ESG performance in the Group.

Reporting Scope

This ESG report was prepared in accordance with the requirements contained under Appendix 27 of the Rules Governing the Listing of Securities set by the Hong Kong Exchanges and Clearing Limited ("HKEx"), and reports our sustainability performance for the financial year from 1 January 2017 to 31 December 2017 (the "Reporting Period").

This ESG report covers the major activities of the Group and mainly focuses on our subsidiary – Dongguan Yorkey Optical Machinery Components Ltd. as it represents the core operation of the Group.

Contact & Feedbacks

For any comments of this ESG report, please feel free to contact us via email ykesg@yorkey-optical.com.

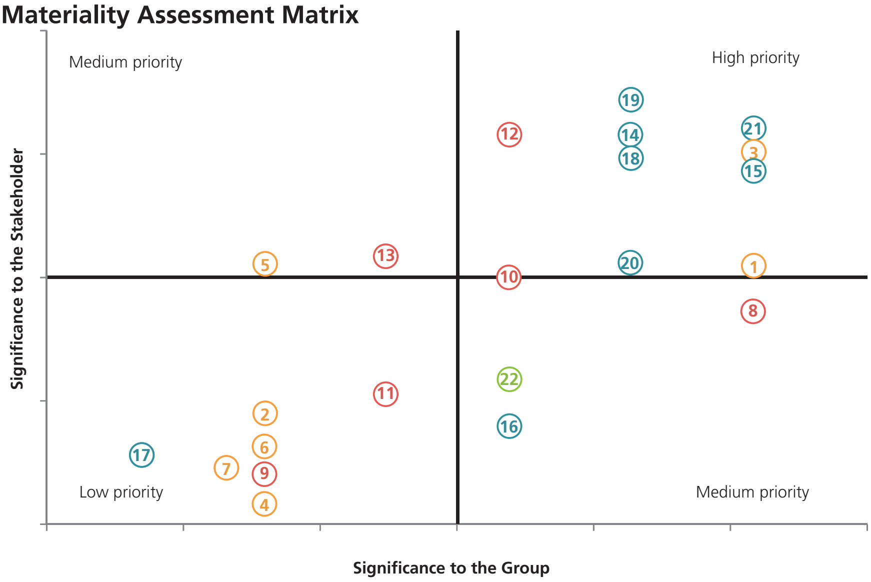
STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Yorkey highly values the opinions and views of our stakeholders. We believe their inputs are important elements for setting management approaches, and are vital for making continuous improvement on our performances. In order to understand stakeholders' views on ESG, and to identify the specific issues are the most influential to our operations from the stakeholder's perspectives, we have engaged an external party to help us to conduct a stakeholder survey with an online questionnaire launched.

The questionnaire included major sustainability indicators (e.g. emission, resource use, labour practices, supply chain management, community involvement and product responsibility) and was sent to our identified major stakeholder groups for feedbacks. These include multiple fields of stakeholders, including those from the Board, employees, suppliers/contractors, customers and Government body/regulator etc. The questionnaire also contains a set of rating questions that allows stakeholders to determine the importance and relativity of each sustainability indicators to our operations. Through the survey, all stakeholders can rate each of the sustainability issues relating to its significance and relevance to the Group's operations.

Based on the collected results, a materiality assessment which includes a matrix revealed the most concerned ESG topics to the Group was performed. Issues that fall on the top right corner of the materiality assessment matrix represent issues with the most concerned to our stakeholders.

Materiality Assessment Matrix



Environment

1 ***Air Emission***
2 GHG Emission
3 ***Hazardous Waste generation***
4 Non-hazardous Waste generation
5 Energy use
6 Water use
7 Use of materials

Social

Employment

8 Labour Rights
9 Diversity and equal opportunity
10 ***Occupational health and safety***
11 Employee development
12 ***Child labour***
13 Forced Labour

Operation

14 ***Customer satisfaction***
15 ***Product quality and safety***
16 Product and service labelling
17 Marketing communications
18 ***Intellectual properties***
19 ***Customer privacy***
20 ***Supply chain management***
21 ***Ethical business***

Community

22 Community Investment

According to the materiality assessment matrix, the top 10 most concerned ESG topics were identified and they are: air emission, hazardous waste generation, occupational health and safety, child labour, customer satisfaction, products quality and safety, intellectual properties, customer privacy, supply chain management and ethical business.

We have established and implemented corresponding policies to address the concerns on these topics. To strive for excellence in our ESG performance, we will continue to collect opinions and views from our stakeholders, and to continuously improve in the future with reference to the valued recommendations and opinions provided by our stakeholders.

OUR CORPORATE SOCIAL RESPONSIBILITY MANAGEMENT STANDARD

"Pursuit of Quality, Excellency, Unity and Harmony, Sustainable Development" is the business philosophy of the Group. In much the same way, our "Mission Statement" has committed the Group to the following:

– be responsible to our shareholders, customers, employees and community by enhancing long-term values to shareholders;

– to create a worker-friendly workplace with great affluence and happiness for every employees;

– to gain the highest customers' satisfactions and trusts by delivering high quality products, and operating transparently and fairly, free competition and legitimate trading activities;

– to comply with all environmental and social regulations, and make continuous improvement, which are outlined under our mission statement.

To achieve the above, we have established and implemented the Group's corporate social responsibility ("CSR") related policy, standards and management manuals which have embedded our commitments in the areas of environment protection, labour, occupational health and safety, and business ethics in our operations.

The implementation of various CSR management systems and approaches across our operations have helped us to manage our environmental and social issues in our operations effectively, and have helped to monitor and continuously improve our ESG performance.

Corporate Social Responsibility Policy

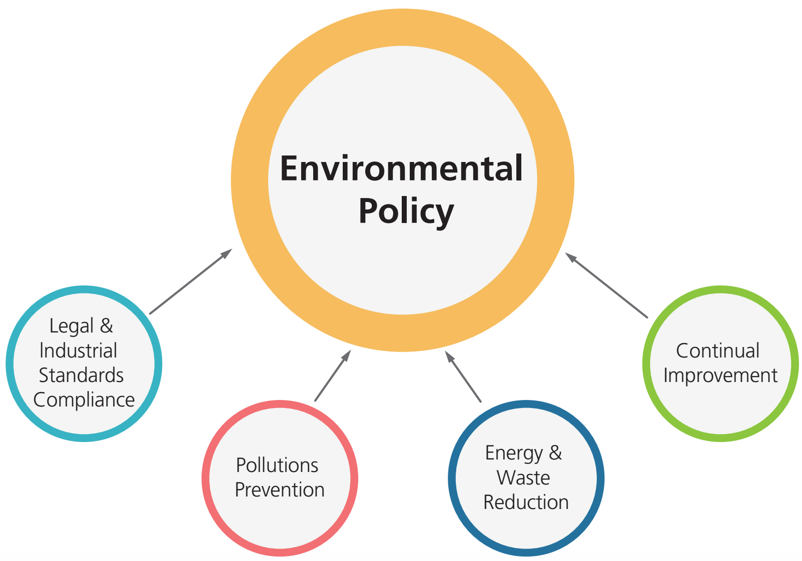
- Run business legitimately and open supervision by the public
- Respect employees' contributions and share profits together
- Pay close attention to environmental protection and safety issues, and support the sustainable development
- Maintain harmonious public relations with social integration
- Manufacture green products, reduce energy consumption and emission

PROTECTING OUR ENVIRONMENT

We are fully aware of the indivisible relationship between our business and environmental conservation, as we mainly utilise natural resources from our natural environment for the manufacturing of our optical and opto-electronic product related parts and components. Maintaining environmental sustainability is thus vital to our business continuity, which also help to reduce our exposure to risks owning to the environmental variations.

With the purpose to properly and effectively manage the relevant environmental issues in our operations, and to avoid causing significant environmental impacts to the environment, an environmental management system (EMS) certified with ISO14001 has been implemented since 2005. In addition, according to our "Corporate Social Responsibility Management Standard", we have implemented the following environmental policies to guide our business operations:

- Ensure effective operation of the ISO14001 EMS for managing environmental issues from our operations via third-party audit annually
- Pursue cleaner means of production to reduce use of energy and resources, and emission of pollutants
- Replace old equipment with better energy efficiency models to improve the efficiency of resources use and reduce energy consumptions



Greenhouse Gas Emissions

Global warming has become a global concern nowadays and every organisation has its responsibility to take proactive measures to combat it. We have implemented an energy management system to manage and monitor the energy consumption across our production chain to reduce our carbon footprints, and is further elaborated in the later section – "Energy use & water consumption" of this ESG report. During the Reporting Period, the total amount of greenhouse emissions is reported below:

		Yorkey Optical International (Cayman) Limited	
Types of Greenhouse Gas Emissions		**Emissions**	**Unit**
Scope 1	Stationary fuel	392.76	tCO2e
	Vehicle fuel	237.79	tCO2e
	Refrigerant	205.44	tCO2e
Scope 2	Electricity	33,830.34	tCO2e
Total		34,666.33	tCO2e
Intensity		0.088	tCO2e per 1,000 production outputs

Use of Resources

To contribute to sustainable resources consumption and production, we aim to maximise our resources utilisation efficiency and reduce the use of natural resources across our operations. The table below shows the types and quantities of resources consumption during the Reporting Period:

	Yorkey Optical International (Cayman) Limited	
Type of Resources	**Total**	**Unit**
Electricity	37,761,286.00	kWh
Intensity Note 1	95.98	kWh per 1,000 production outputs
Water	229,375.00	m^3
Intensity	0.58	m^3 per 1,000 production outputs
Wastewater Discharge	632.60	m^3
Stationary fuel Note 2		
– Natural gas	207,751.00	m^3
Intensity	18.89	m^3 per m^2
Vehicle fuel		
– Unleaded petrol	46,278.64	Litre
– Diesel	41,706.53	Litre
Intensity	0.22	Litre per 1,000 production outputs
Packaging material		
– Carton	211.86	Tonne
Intensity	0.00054	Tonne per 1,000 production outputs
Refrigerants	113.50	kg
Intensity	0.00029	kg per 1,000 production outputs

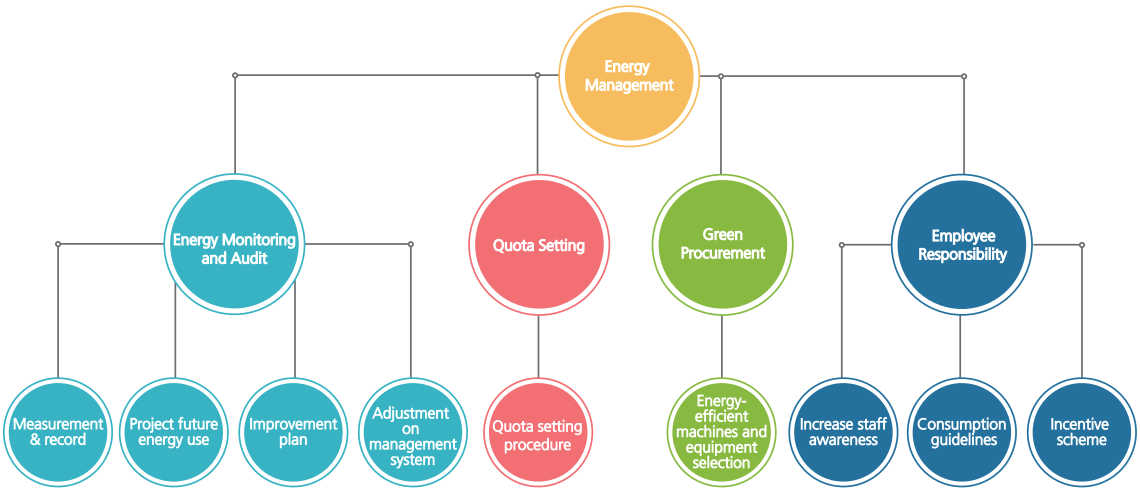
Note 1: The production output refers to the total number of products produced in the year ended 31 December 2017.

Note 2: The consumption of natural gas applies to staff kitchen and dormitory only.

Energy Use & Water Consumption

Energy Use

Energy, in terms of electricity and fuel, is the main necessity consumed in our manufacturing facility for operation of machines and equipment, and for the transportation of materials and products using vehicles. To reinforce effective energy management on energy use and thus reducing greenhouse gas ("GHG") emission in our operation, an environmental management system in accordance with the international standard of ISO 14001:2015 is in place to govern the environmental performance in our production. The system consists of four areas as illustrated below:



Energy Monitoring and Audit: The energy consumption data in the factory is measured and recorded, and submitted to the government regularly as required. We have analysed the energy consumption records to understand the existing condition of energy use in the factory, and use for future energy consumption projection purposes. Based on that we can develop suitable energy improvement plan, and adjust our management system and approaches in order to optimise our operational needs.

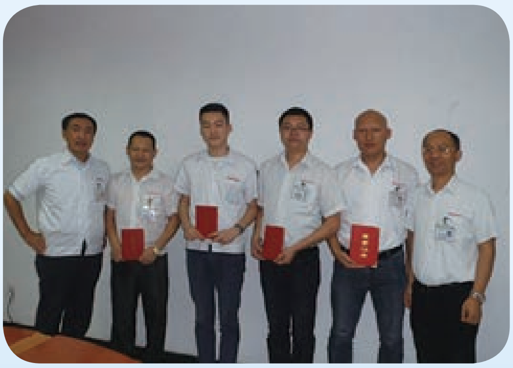
Quota Setting: To control the use of electricity, fuel and other resources, quotas are set in our operations to avoid over-consumption. The quota limits are reviewed regularly to ensure that product quality is not affected. The effectiveness of these quota limits are also reviewed regularly such that maximum energy and resources effectiveness can be achieved.

Green Procurement: According to our green procurement policy, all departments should prioritise the purchase of new green and energy-efficient products, and for the replacement of old/malfunctioned equipment and facilities for production works in the factory to minimise energy consumption.

Employee Responsibility: To help to cultivate good habits as an integral element of employees' responsibility, we have established clear guidelines and rules with respect to the use of energy and resources in the factory, with relevant trainings provided to all staff. Energy saving posters are also placed in workplaces to remind staff members to reduce energy use. An incentive program has also been established to further encourage staff to use resources properly.

Energy Saving Promotion

In every quarter, the outstanding departments with good energy saving performances are rewarded in recognition of their efforts and achievements in energy saving.



Water Consumption

Fresh water in our planet is a limited resource. To conserve this precious water resource, we conduct regular checking and maintenance on water facilities to avoid water leakage. As a special water conservation and pollution control measure, wastewater generated from our manufacturing processes are being recycled and sent back to the production processes after treatment, reducing not only the freshwater demand, but also the wastewater discharge.

Air Emission

We are dedicated to minimise our environmental impacts with our best efforts and technologies. We have tried our best to minimise our air emissions generated during the manufacturing process, and has successfully controlled the air pollutants to levels that are below the standards set by the Guangdong Provincial Government.

Emission Source and Air Pollutants

The major airborne pollutants are restricted to limited amount of particulates and volatile organic compounds ("VOCs") that are generated from manufacturing processes. These emissions are generated at several stages during the manufacturing processes. Besides, the other major emission is due to oil fumes emitted from staff kitchen.

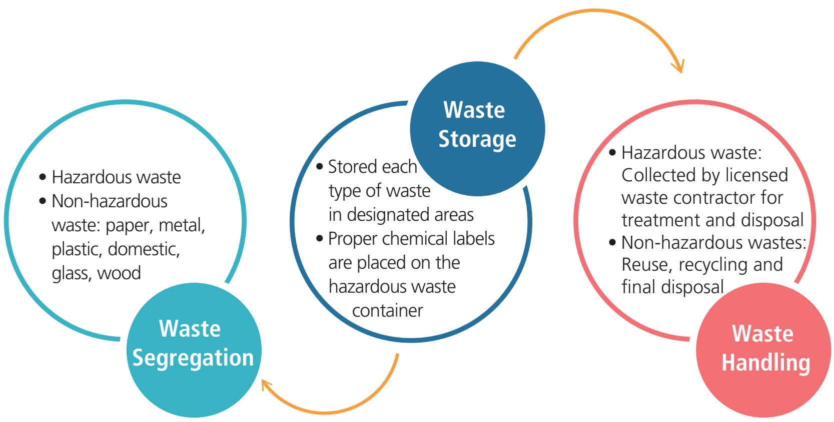
To minimise the impacts and to ensure compliance with the relevant laws and regulations related to emissions, including the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, chimneys with suitable heights were installed to ensure pollutants from the manufacturing processes are sufficiently diluted with air before reaching nearby residents. For the emission from staff kitchen, oil mist separators were installed to minimise the oil fumes emission, and the relatively cleaner fuel – natural gas is used for the stoves.

Mitigation and Monitoring

In order to ensure the pollutant levels do not exceed the levels required, an air quality monitoring has been conducted by certified third party at least annually, and there is no significant non-conformity to the emission requirements in the Reporting Period.

Waste Management

Improper handling of wastes, especially hazardous wastes, can result in a serious land and water contamination problems which potentially threaten the lives of the living organisms, and deteriorate environmental conditions. To ensure compliance with relevant laws and regulations, including the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, to reduce the amount of wastes generated for costs reduction, and to minimise the use of natural resources, we have implemented a waste management system with standardised procedures to ensure all produced hazardous and non-hazardous wastes are with proper collection, storage and treatment.



Non-Hazardous Waste

The major types of non-hazardous wastes generated from our operations are identified as carton, plastic, metals, wires and general waste. To reduce the waste generation, the principle of 3Rs (Reduce, Reuse & Recycle) is incorporated in the waste management. Recognising the importance of waste generation at source, we monitor the raw materials in/out records to keep track and ensure an accurate amount of raw materials is purchased to minimise the surplus of raw materials. All the materials are reused as much as possible in our production before disposal. For the recyclable materials, we segregate them properly without mixing up with other non-recyclable waste, stored in designated areas and are recycled by licensed waste recyclers.

Hazardous Waste

Limited amount of hazardous wastes are generated from the manufacturing processes, including coating and ink, organic solvent, mineral oil and items contaminated by any chemicals or with hazardous substance. Understanding these hazardous wastes would require different treatment from those non-hazardous wastes, a specific guidance is set up for collection, storage and transport of hazardous waste to ensure they are handled properly in accordance with the best practices, rules, laws and regulations. All the hazardous wastes generated have been properly sorted and contained, with proper chemical labelling and stored in designated areas. These wastes are consigned periodically to licensed waste collectors for handling and treatment.

A thorough emergency plan is also set up for the management of hazardous wastes to cope with circumstances such as leakage, fire and explosion or other accidents. The plan provides our staff with timely and appropriate actions to minimise the potential environmental and human health impacts incurred under such circumstances.

During the Reporting Period, no non-compliance with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste has been identified.

	Yorkey Optical International (Cayman) Limited	
Type of Wastes	**Total**	**Unit**
Non-hazardous waste	199.18	Tonne
Intensity	0.00051	Tonne per 1,000 unit production outputs
Hazardous waste	30.18	Tonne
Intensity	0.000077	Tonne per 1,000 unit production outputs

SUPPLIER MANAGEMENT

We reply on our suppliers to provide us with the materials we need for our productions, and thus we are committed to prioritise and engage suppliers who are performed well in sustainability, in order for us to achieve our goals in ESG. To propagate sustainability across our supply chain and to bring mutual benefits in our business partnership, we believe that it is important to engage our suppliers in managing sustainability too. We consider not only the capability, quality and environmental performance of the new or existing qualified suppliers, but we also consider the CSR performance of the suppliers (with reference to the Electronic Industry Citizenship Coalition (EICC) Code of Conduct and other industrial norms) across our supply chain.

Supplier Selection

All potential suppliers must undergo our supplier selection and assessment programme before they can qualify as our approved suppliers. Our supplier management system is designed to ensure our suppliers have both the capabilities and good performance in providing the required raw materials or products that meet our quality and environmental requirements.

Potential new suppliers are requested to provide raw materials or sample product(s) with relevant material or product specifications, green material list and testing reports to demonstrate that their qualities meet our requirements. After that, an assessment will be conducted on the potential suppliers on aspects related to quality and environmental management; technical standard; on-site production standard; procurement system and risk management before they can be qualified as our on-list approved suppliers.

All our qualified suppliers must comply with the "Green Procurement Management Standard", which has extended our considerations on sourcing to the performance of our suppliers on the following sustainability topics:

Substances of Environmental Concern

To ensure our products pose minimal adverse impacts on the environment and users during their applications and after the disposal, we are committed to prohibit the presence of toxic and hazardous substances throughout our product cycle. Our "Green Procurement Management Standard" sets clear requirements with a list of "Substance of Environmental Concerns" for our suppliers to follow, which ensure no materials or products from our suppliers would contain substances that exceed the acceptable limits.

The list of "Substance of Environmental Concerns" was specially compiled with reference to applicable standards and the "Substance of Very High Concern ("SVHC") Candidate List" under the REACH regulation of the European Union. A declaration on "Non-use Guarantee Statement for Prohibited Substances" and inductive coupled plasma ("ICP") testing report by third party listed in our management standard are required to be submitted by our potential and existing suppliers to indicate their products are in compliance with our requirements.

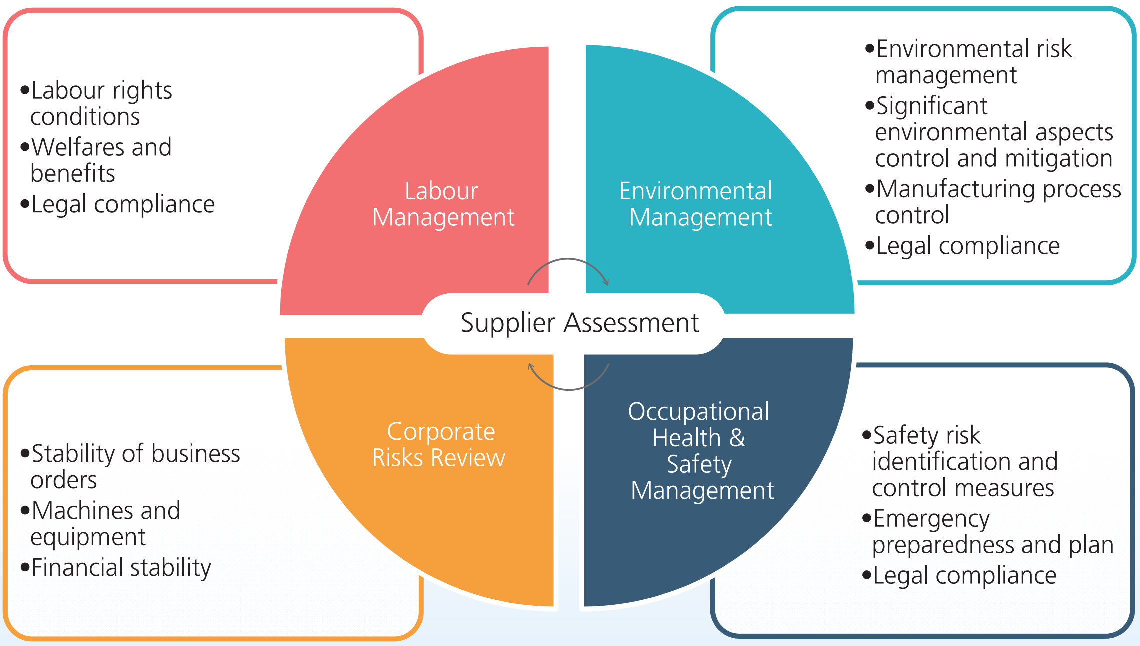
Conflict Mineral

With the hindsight of the global issue of natural resources being extracted in a conflict zone (e.g. the Republic of the Congo and its adjacent countries), which materials are being sold to perpetuate the armed conflicts among countries and local armed force, our Group is committed to avoid using conflict minerals extracted from those conflict zones. Where possible, conflict mineral investigations are conducted following the Electronic Industry Code of Conduct ("EICC")/ Global e-Sustainability Initiative ("GeSI") Conflict Minerals Reporting standards on potential suppliers to ensure compliance.

Continuous Suppliers Sustainability Assessment

To continuously ensure our qualified suppliers are operating their business with high sustainability performance and in line with our expectations, apart from conducting monthly quality control assessments, an annual supplier assessment programme is carried out. To align with our CSR policy and standard, in addition to quality performance assessment, we have broadened the scope of the assessment to include business ethics, environmental aspects, labour conditions and occupational health and safety conditions. Through this continuous assessment, we aim to enhance both the Group's and our suppliers' continuous development and sustainability performance.

Based on our suppliers' performances, we rate their performance based on a set of pre-determined criteria. For those who failed to meet the passing scores, an improvement plan will be issued with a grace period provided for rectification before the re-assessment. In case the suppliers failed again after the re-assessment, such suppliers will be disqualified from the approved list. Through these regular assessments, we aim to drive and develop our suppliers sustainability practices, and ultimately share the same goal with us in achieving sustainability in business.



SUSTAINABLE EMPLOYMENT

We recognise employees are our most significant asset for the steady development of the Group. We value our employees' contribution and always put their interests in our first priority. By following our company's "People first" management principle, we are committed to provide the best working environment, and to reward our valuable staff members beyond the national labour requirements and industrial standard such as EICC, and strive to protect labour rights and interests within the Group.

Employment Conditions

With our goals to share the profits with our employees, we strive to provide the best remuneration package to our staff. Our remuneration to staff is usually better than the legal requirements. We set the working hour to be 40 hours with at least one resting day per week, overtime pays will be given to the employees for any overtime works and national minimum salary standard is guaranteed. Besides, other benefits including allowances and subsidies are offered to our employees for accommodation needs and continuous education; discretionary bonus is granted to the employees with good performance. All employees are entitled to social insurance and other paid leaves such as marriage, nursing, maternity and compassionate leaves in additional to the annual leaves.

Labour Policy

- To comply with all the relevant national labour laws, industrial standard and other requirements
- To respect and protect labour rights and interests
- To conduct regular assessments to continuously improve the labour management system in operations

To cultivate a diverse, fair and respectful culture in our workplace, we are committed to provide equal opportunities in the workplace. This covers areas including recruitment and promotion, as well as welfares and benefits to our employees based on their qualifications, capability and performance; and do not discriminate treatment on employees on the ground of sex, sexual orientation, age, colour, nationality, disability, religion, pregnancy, political inclination, union membership, except for the positions that are considered not suitable for female as stated in the legal regulations. Any form of harassment and victimization is strictly prohibited in the Group. Employees who repeatedly violate Company rules such as misconducts as listed under the "Human Resource Management Procedure" will be handled according to the procedures, with their employment terminated after confirming from responsible department head and the human resources department.

During the Reporting Period, we fully comply with the Labour Law of the People's Republic of China and Labour Contract Law of the People's Republic of China. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare had been identified during the Reporting Period.

Labour Standard and Human Rights

To uphold the highest labour standard and to protect human rights, we enforce a zero-tolerance policy on child and forced labour in our workplace. In order to prevent any violation of the above, comprehensive personal identities and working eligibility checks of potential candidates are conducted prior to employment. Selective identity checks for all staff are also carried out on regular basis. All employees have their freedoms to decide to work overtime or not, and can choose to resign from their positions with proper notifications. We also request our suppliers to follow the same practices to reinforce these labour standards in their workplaces. During the Reporting Period, we fully comply with the Labour Law of the People's Republic of China and Provisions on the Prohibition of Using Child Labour. No non-compliance cases with relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour had been identified during the Reporting Period.

We respect our employees' rights and interests to maintain a trustworthy, harmonious and long-term good relationship with them. Through establishing the two-way and open-minded communication channels with our staff (such as having annual meeting with labour union), employees are encouraged to express their views and ideas for improving existing company management practices, and matters related to staff wellness, welfares and benefits. Besides, suggestion boxes are set in the workplace to allow expression of views, recommendations or grievances from employees. When any grievances are received from employees, we would follow the "Complaints and Grievances Procedures" to form an investigation team to verify the situation, and take rectifications immediately where appropriate. All relevant information will be treated highly confidential to protect the privacy of the complainants.

Staff Training and Development

The development of workforce is a key component of our sustainability strategies. We believe when employees grow and make progress, the company will make progress as a whole. We thus place great emphasis on staff training and development of our employees at all levels by offering various technical and professional trainings to enhance their knowledge, skills and capability. It is our purpose to provide various courses to suit the employees' needs and interests and for their continuous development in these areas.

Our human resources department collaborates with the managers of each department, and identify the training needs of their colleagues to formulate the annual training plan. The "Education and Training Management Procedure" is outlined as follows:

Induction training is provided to all newcomers during the probationary period with the introduction of information on general corporate background, staff code of conducts, operational practices and fundamental knowledge on ISO management systems. The training aims to assist the newcomers to blend in and fit themselves in the new working environment promptly.

Various internal and external of trainings on wide range of topics are provided to employees based on their positions and job nature, such as sustainability topics including ISO standards, energy-saving, occupational health and safety, technical skills and Confucianism in management courses. We aim to offer various courses to suit the employees' needs and interests and to further enhance their knowledge.

Training to become Professionals

We held a number of training sessions and/or programmes for employees to acquire different professional qualifications. Those training programmes and/or sessions can be job-related such as maintenance electrician training courses, first aid training, or non-job related such as emotion management training courses.

First Aid Training

Employee Well-being

It is always our priorities to keep employees mentally and physically healthy, for both employees themselves and for the productivity and profitability of the Group. We highly value opinions and feedbacks from our employees as they are crucial in contributing how we can manage our Group better.

To establish proper internal communication channels and to ensure their effectiveness, a labour union has been established which has served as one of the most effective channel for employees to express their concerns on their views and needs. A meeting between the representative(s) of the union and the management is carried out on an annual basis to review the labour conditions. The bulletin board is regularly updated to ensure there is a high degree of transparency of the policies and operations of the Group to the employees. An opinion box is also set to allow employees to express opinions.

We also take care of the welfares of employees seriously. A staff dormitory next to the factory is provided to employees at no cost to relieve their cost of living in accommodation and transportation. Various kinds of allowances and subsidies such as those provided for accommodation, medical and continuous education are also provided. In addition, as a way to motivate staff for hard-working and punctuality in the workplace, well-performed employees are awarded publicly regularly.

Besides, we understand striking a good balance between work and life is equally important in the sustainable development of employees. Hence, we hold and encourage employees to participate in various leisure activities to promote a healthy lifestyle, with social activities organised regularly for our staff members.

Colleagues of Yorkey participated in the Chang An Town New Year Marathon.

SUSTAINABLE OPERATION

Adhering to our corporate values, we are committed to pursue the highest product quality, business integrity, safe production and environmental protection in our daily operations.

Product Responsibility

Through the implementation of the quality management system certified to ISO9001 and ISO/TS16949 standards, we ensure our products can fully meet our customers' requirements. The system also help us to meet all relevant legislative requirements including Product Quality Law of the People's Republic of China and industrial standards particularly on health and safety, and to continuously improve our product related performance such as the on-time delivery rate, product quality passing rate, and to prevent defective products from going to our customers to ensure maximum customer satisfaction.

Our Quality Control and Assurance Department carries out stringent quality inspections at different stages of the product life-cycle: from materials sourcing, material incoming, during the manufacturing processes to final products verification in order to maintain the quality of materials and products at a high level, and to fulfil all the acceptance requirements.

In addition to all the product-related inspections, we conduct both internal and external audits on the quality management system regularly in order to ensure the effectiveness of the system is well-maintained.


SONY

The Green Partner Certificate from our business partners - a recognition of our efforts on environmental protection and quality assurance activities.

To better understand and address the customers' needs, we carry out customer satisfaction surveys regularly in order to obtain their valuable opinions and feedbacks. The results of the surveys are used to identify the areas of improvement and to evaluate our products quality and the performance of the quality management system, which all contribute to our goals to pursue product and service excellency and be in line with our corporate vision.

In the event of receiving communications or complaints about the product quality from our customers, we follow our "Customer Complaints Management Procedure" to verify the situation and take corresponding remedial actions promptly to rectify the complained issue(s) with a view to maintain our customers' satisfaction. Follow-up investigations will then be carried out to find out the root causes of the induced complaint cases and to ensure no similar cases will reoccur in future.

During the Reporting Period, no non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising and labelling relating to products and services provided and methods of redress had been identified.

Code of Conduct

Being a responsible and ethical corporate, the Group firmly believes that integrity is the foundation for a sustainable business. Therefore, we try our best to cultivate a corporate culture of integrity across our operations. In order to do so, the Group has promulgated a Code of Conduct which emphasises the importance of integrity when doing business. This Code of Conduct consists of a set of business principles on privacy protection, anti-corruption, fairness and whistle blowing to govern our Group's operations.

Privacy Protection

We are committed to protecting privacy and intellectual property information for our customers, suppliers and employees. All business information can be handled only by assigned employees and only with permission from the management of Group. Any leakage of such information to any other parties that are not involved is strongly prohibited. All our suppliers also request to follow the same, and to protect confidential information with their due care and avoid leakage of information. During the Reporting Period, no non-compliance with relevant laws and regulations that have a significant impact on the Group relating to privacy matters relating to products and services provided had been identified.

Anti-corruption

To uphold the highest business integrity in our business activities, we have zero tolerance policy on corruption practices and we strictly prohibit any form of bribery, extortion, fraud and money laundering in our operation. All employees are strictly prohibited to receive, directly or indirectly, any benefits such as gifts, money and other form of rewards for their own advances and purposes. When there is any suspected or actual conflict of interest, the employees are requested to declare the situation to the supervisors. All managerial staff are required to sign the "Probity Declaration" to commit themselves to strictly abide by the Code of Conduct at work. Staff is subject to disciplinary action if they violate the rules stated in this Code of Conduct. Likewise, all suppliers are requested to follow the same rules and practices as stated in the Code.

Further, Yorkey encourages employees, suppliers or other personnel to report any violation of the Group's rules and business ethics. A whistle-blowing mechanism is in place, which allows any corruption practices and misconducts to be reported. Once received, our Disciplinary Commission will carry out investigation and take necessary follow-up actions. In order to protect the privacy and identity of the whistle-blower, all the personal information of the whistle-blower is treated highly confidential and will not leak out to any parties. Employees or any persons found to have breached the whistle-blower mechanism may be subject to termination of contract, dismissal or criminal proceedings.

During the Reporting Period, we fully comply with the Criminal Law of the People's Republic of China and no non-compliance with relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering had been identified.

Fairness in Operation

In order to maintain fair competitive markets to meet customers' demand, we do not tolerate any anti-competitive practices such as cartels and market power abuse when operating our business activities. To ensure all customers and potential investors receive the correct market information, we prevent the disclosure of false or misleading information in advertisement, financial and non-financial details by complying with the national legal requirements.

Environment, Health and Safety Management

To safeguard our operations against Environment, Health and Safety ("EHS") risks and improve the overall EHS standard, we set up a EHS committee to determine the EHS policy and targets and monitor the overall implementation of safety and environmental management systems so as to prevent severe environmental and safety accidents or incidents occurrence.

Occupational Health and Safety ("OHS")

Providing a safe workplace to employees is our fundamental responsibility. We aim to achieve zero occupational accident as our ultimate goal and minimise occupation hazards to our employees in workplace. In order to do so, we have implemented our OHS Management System with the certification of OHS 18001 for effective safety hazards identification and safety risks management. Our commitments and the three objectives to safety management are determined and stated in our occupational health and safety policy, which is illustrated as follows:

Occupational Health and Safety Policy

- Comply with all national occupational health and safety ordinances, industrial standards and other safety requirements.
- Prevent occupational accidents and incidents by increasing staff competency and safety awareness, production facilities enhancement and work control guidelines.
- Conduct regular inspections and audits to continuously improve the OHS management system for upgrading the overall OHS standard across the operations.

According to the results of safety hazard identification, corresponding safety precautionary approaches – such as stringent safety operation procedures, in-house safety rules, employee trainings, and working guidelines for machinery and equipment use are developed and adopted in our operation to minimise the safety risks and exposures posed to our workers. For high risks activities such as lifting operations, working at height, high temperature works (e.g. welding and cutting), working in confined space and mechanical machine equipment operation (e.g. forklift car), full supervision on the work is needed.

Daily safety inspections are carried out by our safety officer and supervisor in order to ensure the precautionary measures are adequate and well-maintained. This is also to allow the continuous identification of any potential risks, for the purposes of accident prevention. Furthermore, workplace occupational hazard inspections are regularly conducted by external certified parties, to verify the effectiveness of precautionary measures, and to ensure the OHS risk levels are below the limits set by the government.

Notwithstanding the above, accidents and incidents may still occur even though all the preventive measures are in place. In the event that accident happens, a thorough accident investigation will be conducted to find out the root causes of the accident. Based on the investigation result, we will rectify and improve the OHS conditions in workplace, and revise the management approaches when necessary in order to prevent similar accident from occurring. We also ensure our workers are well taken care of, well-treated, well-compensated and covered for medical treatments and livings should accident happens.

During the Reporting Period, we fully comply with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and Fire Control Law of the People's Republic of China. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards had been identified.

Trainings and drills

To raise the safety awareness of all workers and pay close attention to EHS risks, apart from providing mandatory safety and environmental trainings for all employees, we also offer special technical trainings for the workers who operate machinery equipment and work on high risks activities, to ensure they are competent and qualified before operation begins. To equip our workers with ability to respond and handle emergency situations such as chemical leakage, fire and explosion, various OHS drills have been provided to relevant workers and departments regularly to enhance their awareness and capability of emergency preparedness.

Incentive Program

A safety and environmental incentive program is launched to encourage our employees to cautiously aware of the risky activities in our manufacturing facility and take initiatives to prevent work injuries, accidents or incidents. Monthly EHS performance evaluation of each department is carried out and rewards will be given to reward good performances.

Environment

Under the EHS system, significant environmental aspects with associate environmental impacts on the manufacturing process are identified, controlled and monitored under our environmental management system to control and minimise the potential impacts on the environment, and thus nuisance to the nearby residents.

COMMUNITY INVESTMENT

We are fully aware of our responsibilities to the society and hence we have developed our "Social Responsibility Management Standard" to guide us for actions in community investment, including the establishment and running of our volunteer team and for carrying out charitable activities. During the Reporting Period, our volunteer team continues to perform and encourages our employees to participate in voluntary charitable activities, including voluntary blood donation campaign organised by Yorkey, the singing contest as part of the Art and Cultural Festival, as well as regularly participate in the cultural evening variety shows organised by the local authorities. We will continue to care for the interests of the community and exert our influence to help the people in need.

Art and Cultural Festival – Singing Contest

Voluntary Blood Donation

HKEX ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & Key Performance Indicators		Policy/Procedure	Remarks
A. Environment			
A1 Emission	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.	Environmental Management Policy Environmental Management Manual Social Responsibility Management Manual Waste Management Procedure Hazardous Waste Management Procedure	PROTECTING OUR ENVIRONMENT – Greenhouse Gas Emissions PROTECTING OUR ENVIRONMENT – Air Emission PROTECTING OUR ENVIRONMENT – Waste Management
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Environmental Management Policy Environmental Management Manual Social Responsibility Management Manual Energy Management Procedure	PROTECTING OUR ENVIRONMENT – Use of Resource PROTECTING OUR ENVIRONMENT – Energy Use & Water Consumption
A3 The Environment and Natural Resources	Policies on minimising the operation's significant impact on the environment and natural resources.	Environmental Management Policy Environmental Management Manual Social Responsibility Management Manual Green Procurement Management Standard Conflict Mineral Control Management Procedure	PROTECTING OUR ENVIRONMENT – Use of Resource SUPPLIER MANAGEMENT – Supplier Selection

HKEx ESG Reporting Guide General Disclosures & Key Performance Indicators		Policy/Procedure	Remarks
B. Social			
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Social Responsibility Management Standard Social Responsibility Management Manual Staff Handbook Human Resource Management Procedure Recruitment Management Procedure Salary Management Procedure	SUSTAINABLE EMPLOYMENT – Employment Conditions
B2 Health and Safety	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	Social Responsibility Management Manual Environment, Health and Safety Management Policy Safety Management Manual	SUSTAINABLE EMPLOYMENT – Employee Well-being SUSTAINABLE OPERATION – Environment, Health and Safety Management
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. (Training refers to vocational training. It may include internal and external courses paid by the employer.)	Education and Training Management Procedure	SUSTAINABLE EMPLOYMENT – Staff Training and Development

HKEx ESG Reporting Guide General Disclosures & Key Performance Indicators		Policy/Procedure	Remarks
B4 Labour Standard	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.	Social Responsibility Management Manual Labour and Ethics Management Policy Child Labour Policy	SUSTAINABLE EMPLOYMENT – Labour Standard and Human Rights
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	Supplier Management Procedure	SUPPLIER MANAGEMENT
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Quality Management Policy Quality Management Manual Customer Privacy and Property Management Standard Customer Complaint Management Standard	SUSTAINABLE OPERATION – Product Responsibility SUSTAINABLE OPERATION – Code of Conduct
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.	Social Responsibility Management Standard Social Responsibility Management Manual Code of Conduct	SUSTAINABLE OPERATION – Code of Conduct
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	Social Responsibility Management Standard Social Responsibility Management Manual	COMMUNITY INVESTMENT

Deloitte. 德勤

TO THE SHAREHOLDERS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 72 to 121, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the 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"), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified revenue recognition as a key audit matter due to the magnitude of revenue from components of optical and opto-electronic products. For the year ended 31 December 2017, revenue from components of optical and opto-electronic products amounted to approximately US$87,329,000 as shown in the consolidated statement of profit or loss and other comprehensive income.	Our procedures in relation to revenue recognition included: • Obtaining an understanding of the revenue business processes and testing key controls over revenue recognition; • Checking recorded revenue, on a sample basis, to relevant sales invoices and shipping documents; and • Performing data analysis to identify unusual pattern of revenue.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

Those charged with governance are responsible 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 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. 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 judgment and maintain professional skepticism 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.

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is Lo Kin Cheong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
Revenue	5	**87,329**	73,491
Cost of goods sold		**(62,076)**	(52,058)
Gross profit		**25,253**	21,433
Other income, other gains and losses		**(2,199)**	3,221
Distribution costs		**(1,896)**	(1,531)
Administrative expenses		**(12,881)**	(11,732)
Research and development expenses		**(1,520)**	(1,741)
Share of results of an associate		**867**	(3,501)
Profit before taxation	6	**7,624**	6,149
Taxation	8	**(1,844)**	(1,481)
Profit for the year		**5,780**	4,668
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		**2,366**	(2,443)
– release of exchange reserve upon disposal of a foreign associate		**4,209**	–
Other comprehensive income (expense) for the year		**6,575**	(2,443)
Total comprehensive income for the year		**12,355**	2,225
Earnings per share			
– Basic	10	**US0.70 cent**	US0.57 cent

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	**2017 US$'000**	2016 US$'000
Non-current assets			
Investment properties	*11*	**6,002**	6,236
Property, plant and equipment	*12*	**9,103**	9,249
Prepaid lease payments	*13*	**213**	206
Deposits paid for acquisition of property, plant and equipment		**35**	303
		15,353	15,994
Current assets			
Inventories	*14*	**3,074**	4,407
Trade and other receivables	*15*	**14,759**	17,259
Amounts due from related companies	*16*	**24**	21
Bank balances and cash	*17*	**104,827**	109,020
		122,684	130,707
Current liabilities			
Trade and other payables	*18*	**20,639**	21,726
Obligation related to interest in an associate	*19*	**–**	2,719
Taxation payable		**4,189**	3,403
		24,828	27,848
Net current assets		**97,856**	102,859
Total assets less current liabilities		**113,209**	118,853
Capital and reserves			
Share capital	*20*	**1,058**	1,058
Reserves		**112,151**	117,795
Total equity		**113,209**	118,853

The consolidated financial statements on pages 72 to 121 were approved and authorised for issue by the Board of Directors on 23 March 2018 and are signed on its behalf by:

Lai I-Jen
CHAIRMAN

Kurihara Toshihiko
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Special reserve US$'000	Translation reserve US$'000	Statutory surplus reserve fund US$'000	Retained profits US$'000	Total US$'000
At 1 January 2016	1,058	62,982	19,350	5,663	2,803	42,782	134,638
Other comprehensive expense for the year	–	–	–	(2,443)	–	–	(2,443)
Profit for the year	–	–	–	–	–	4,668	4,668
Total comprehensive (expense) income for the year	–	–	–	(2,443)	–	4,668	2,225
Transfers	–	–	–	–	345	(345)	–
Dividend recognised as distribution (Note 9)	–	–	–	–	–	(18,010)	(18,010)
At 31 December 2016	1,058	62,982	19,350	3,220	3,148	29,095	118,853
Other comprehensive income for the year	**–**	**–**	**–**	**6,575**	**–**	**–**	**6,575**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**5,780**	**5,780**
Total comprehensive income for the year	**–**	**–**	**–**	**6,575**	**–**	**5,780**	**12,355**
Transfers	**–**	**–**	**–**	**–**	**488**	**(488)**	**–**
Dividend recognised as distribution (Note 9)	**–**	**–**	**–**	**–**	**–**	**(17,999)**	**(17,999)**
At 31 December 2017	**1,058**	**62,982**	**19,350**	**9,795**	**3,636**	**16,388**	**113,209**

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.

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 fund is allocated based on 10% of the profit after taxation of the statutory financial statements of the PRC subsidiary. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve fund is required until the balance reaches 50% of the registered capital. 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
Operating activities		
Profit before taxation	**7,624**	6,149
Adjustments for:		
Interest income	**(1,381)**	(797)
Depreciation on investment properties	**234**	120
Depreciation on property, plant and equipment	**2,675**	3,180
Loss on disposal of property, plant and equipment	**355**	33
Amortisation of land use rights	**6**	6
(Reversal of allowance) allowance for obsolete inventories	**(209)**	86
(Reversal of allowance) allowance for bad and doubtful debts	**(114)**	6
Loss on disposal of an associate	**4,209**	–
Share of results of an associate	**(867)**	3,501
Operating cash flows before movements in working capital	**12,532**	12,284
Decrease (increase) in inventories	**1,763**	(195)
Decrease (increase) in trade and other receivables	**4,482**	(6,075)
Increase in amounts due from related companies	**(2)**	(7)
(Decrease) increase in trade and other payables	**(1,870)**	4,524
Cash from operations	**16,905**	10,531
PRC income tax paid	**(1,184)**	(348)
Net cash from operating activities	**15,721**	10,183
Investing activities		
Interest received	**1,381**	797
Proceed from disposal of property, plant and equipment	**1**	–
Deposits paid for acquisition of property, plant and equipment	**(1,989)**	(317)
Settlement of obligation related to interest in an associate	**(1,840)**	–
Purchase of property, plant and equipment	**(169)**	(417)
Purchase of investment properties	**–**	(6,233)
Net cash used in investing activities	**(2,616)**	(6,170)
Cash used in financing activities		
Dividends paid	**(17,999)**	(18,010)
Net decrease in cash and cash equivalents	**(4,894)**	(13,997)
Cash and cash equivalents at 1 January	**109,020**	123,812
Effect of foreign exchange rate changes	**701**	(795)
Cash and cash equivalents at 31 December	**104,827**	109,020
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	**104,827**	109,020

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 "Stock Exchange"). The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 28. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC)-Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018.

[2] Effective for annual periods beginning on or after 1 January 2019.

[3] Effective for annual periods beginning on or after a date to be determined.

[4] Effective for annual periods beginning on or after 1 January 2021.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair values at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial instruments: Recognition and measurement" ("HKAS 39"). The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impacts on initial application of HKFRS 9:

Classification and measurement

All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 9 "Financial instruments" (continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted under HKFRS 9. Based on the assessment by the directors of the Company with reference to the information currently available to the Group, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would not be significantly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and no material impact on the financial assets at amortised cost. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 15 "Revenue from contracts with customers" (continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related Interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 "Leases" (continued)

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$1,235,000 as disclosed in note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of US$3,000 and refundable rental deposits received of US$40,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company do not anticipate that the application of the other new and revised HKFRSs will have a material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate and joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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 within the scope of HKAS 39, 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. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant 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) upon disposal of the relevant associate when the equity method is discontinued.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amounts due from related companies and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade payables) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

Retirement benefits costs

Payments to defined contribution retirement benefits plans or state-managed retirement benefits schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is US$12,680,000 (net of allowance for doubtful debts of US$16,000) (2016: carrying amount of US$16,683,000 (net of allowance for doubtful debts of US$244,000).

5. REVENUE AND OPERATING SEGMENT

Revenue

Revenue represents the fair value of the consideration received or receivable for goods sold by the Group to outside customers during the year.

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 profit for the year 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 customers and the assets, respectively, are detailed below:

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	US$'000	US$'000	**US$'000**	US$'000
Japan	**49,191**	40,294	**–**	–
PRC	**27,780**	25,640	**15,353**	15,994
Others	**10,358**	7,557	**–**	–
	87,329	73,491	**15,353**	15,994

5. REVENUE AND OPERATING SEGMENT (continued)

Other segment information (continued)

Information about major customers

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

	2017 **US$'000**	2016 US$'000
Customer A	**12,068**	8,916
Customer B	**11,899**	8,158
Customer C	**8,920**	8,992

Revenue from major products

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

	2017 **US$'000**	2016 US$'000
Components of optical and opto-electronic products		
– cameras, action cameras and copiers	**61,740**	57,839
– surveillance cameras and projectors	**11,387**	7,570
– others	**14,202**	8,082
	87,329	73,491

6. PROFIT BEFORE TAXATION

	2017 US$'000	2016 US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 7)	439	257
Staff's retirement benefits scheme contributions	1,807	1,764
Other staff costs	24,128	19,599
	26,374	21,620
Less: Staff costs capitalised in inventories	(20,005)	(15,929)
Less: Staff costs included in research and development expenses	(479)	(494)
	5,890	5,197
Depreciation on property, plant and equipment	2,675	3,180
Less: Depreciation capitalized in inventories	(2,127)	(1,932)
Less: Depreciation included in research and development expenses	(38)	(53)
	510	1,195
Amortisation of land use rights	6	6
Auditor's remuneration	295	284
Cost of inventories recognised as expense	62,285	52,058
Depreciation on investment properties	234	120
Exchange loss (gain), net	2,415	(2,116)
Loss on disposal of an associate (included in other income, other gains and losses)	4,209	–
Loss on disposal of property, plant and equipment	355	33
Operating lease rentals in respect of		
– motor vehicles	180	194
– rented premises	1,317	1,077
and after crediting:		
Interest income from bank deposits (included in other income, other gains and losses)	1,381	797
Property rental income before deduction of negligible outgoings	500	290
Reversal of allowance (allowance) for obsolete inventories included in cost of goods sold	209	(86)
Reversal of allowance (allowance) for bad and doubtful debts	114	(6)

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors and the Chief Executive are as follows:

	2017			2016		
	Fees	**Salaries and other benefits**	**Total**	Fees	Salaries and other benefits	Total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Executive directors						
Mr. Lai I-Jen	**15**	**–**	**15**	15	–	15
Mr. Nagai Michio *(note (a))*	**3**	**206**	**209**	15	152	167
Mr. Kurihara Toshihiko *(note (b))*	**12**	**133**	**145**	N/A	N/A	N/A
Non-executive directors						
Mr. Liao Kuo-Ming *(note (c))*	**7**	**–**	**7**	15	–	15
Ms. Wu Shu-Ping	**15**	**–**	**15**	15	–	15
Independent non-executive directors						
Mr. Chiang Hsiang-Tsai *(note (c))*	**7**	**–**	**7**	15	–	15
Mr. Chou Chih-Ming *(note (c))*	**7**	**–**	**7**	15	–	15
Mr. Lin Meng-Tsung *(note (d))*	**8**	**–**	**8**	N/A	N/A	N/A
Mr. Liu Wei-Li *(note (d))*	**11**	**–**	**11**	N/A	N/A	N/A
Mr. Wang Yi-Chi	**15**	**–**	**15**	15	–	15
	100	**339**	**439**	105	152	257

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Notes:

(a) Mr. Nagai Michio acts as the Chief Executive of the Company. The remuneration of Mr. Nagai Michio as the Chief Executive of the Company was JPY2,000,000 and HK$54,302 (approximately equivalent to US$24,000 in total) (2016: JPY12,000,000 and HK$325,983 (approximately equivalent to US$152,000 in total) for the year ended 31 December 2017.

Mr. Nagai Michio ceased to be an executive director and the Chief Executive of the Company with effect from 28 February 2017. Benefit provided in respect of termination of director's services was HK$1,421,550 (approximately equivalent to US$182,000 in total).

(b) Mr. Kurihara Toshihiko acts as the Chief Executive of the Company, succeeding Mr. Nagai Michio since 10 March 2017. The remuneration of Mr. Kurihara Toshihiko as the Chief Executive of the Company was JPY15,000,000 (approximately equivalent to US$133,000 in total) for the year ended 31 December 2017.

(c) Retired at the annual general meeting of the Company held on 15 June 2017 and not offered for re-election.

(d) Appointed on 15 June 2017.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

The five highest paid individuals of the Group included two (2016: one) directors, whose emoluments are disclosed above. The emoluments of the remaining three (2016: four) individuals in the Group were as follows:

	2017 US$'000	2016 US$'000
Employees		
– basic salaries and allowances	172	246
– performance related bonus	75	70
– retirement benefits scheme contributions	1	2
	248	318

The emoluments of each of these highest paid individuals is less than HK$1,000,000 (equivalent to US$129,000).

During the year, US$240,000 were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

8. TAXATION

	2017 US$'000	2016 US$'000
The tax charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	(1,805)	(1,416)
Underprovision in prior years	(39)	(65)
	(1,844)	(1,481)

8. TAXATION (continued)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

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

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised was approximately US$7,177,000 (2016: US$3,167,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Tax charge for the year is reconciled to profit before taxation as follows:

	2017 US$'000	2016 US$'000
Profit before taxation	**7,624**	6,149
Tax at the applicable income tax rate of 25% (2016: 25%)	**(1,906)**	(1,537)
Tax effect of share of results of an associate	**217**	(875)
Tax effect of expenses not deductible for tax purposes	**(1,457)**	(555)
Tax effect of income not taxable for tax purposes	**446**	200
Tax effect of different tax rates applied to certain subsidiaries regarded as foreign enterprises in the PRC	**895**	1,351
Underprovision in prior years	**(39)**	(65)
Tax charge for the year	**(1,844)**	(1,481)

9. DIVIDENDS

	2017 US$'000	2016 US$'000
Dividends recognised as distribution during the year		
– Interim dividend for 2017 of HK3.5 cents (equivalent to US0.45 cent) (2016: HK3.5 cents (equivalent to US0.451 cent)) per share	**3,697**	3,708
– Final dividend for 2016 of HK3.5 cents (equivalent to US0.451 cent) per share (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
	17,999	18,010

A final dividend of HK3.5 cents (2016: HK3.5 cents) per share (which in aggregate amounts to approximately US$3,676,000 (2016: US$3,708,000)) and a special dividend of HK10 cents (2016: HK10 cents) per share (which in aggregate amounts to approximately US$10,504,000 (2016: US$10,594,000)) have been proposed by the Board of Directors for the year and are subject to approval by the shareholders in the forthcoming annual general meeting. They are calculated on the basis of 821,102,000 shares (2016: 821,102,000 shares) in issue at the date of issuance of these consolidated financial statements.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to owners of the Company of US$5,780,000 (2016: US$4,668,000) and on 821,102,000 shares (2016: 821,102,000 shares) in issue during the year.

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

11. INVESTMENT PROPERTIES

	2017 US$'000	2016 US$'000
COST		
At 1 January	7,769	1,637
Currency realignment	91	(101)
Addition	–	6,233
At 31 December	7,860	7,769
DEPRECIATION		
At 1 January	1,533	1,511
Currency realignment	91	(98)
Provided for the year	234	120
At 31 December	1,858	1,533
CARRYING VALUE		
At 31 December	6,002	6,236

The carrying amount of the Group's investment properties comprises:

	2017 US$'000	2016 US$'000
Leasehold land and buildings in Hong Kong	5,993	6,222
Buildings in the PRC	9	14
	6,002	6,236

The fair value of the Group's investment properties, including leasehold land portion, at the end of the reporting period was US$8,558,000 (2016: US$8,061,000). The fair value has been arrived at based on a valuation at the end of the reporting period, determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was carried out with reference to recent market prices for similar properties in similar locations and conditions, which was classified as level 3 under HKFRS 13 "Fair value measurement". There has been no change from the valuation techniques used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All the Group's investment properties are held for rental purposes under operating leases and/or for capital appreciation.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Furniture, fixtures and equipment US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Plant and machinery US$'000	Total US$'000
At 1 January 2016	6,486	11,650	3,342	382	56,326	78,186
Currency realignment	(408)	(753)	(216)	(18)	(3,662)	(5,057)
Additions	–	186	–	21	401	608
Disposals	–	(44)	(10)	(178)	(78)	(310)
At 31 December 2016	6,078	11,039	3,116	207	52,987	73,427
Currency realignment	369	676	207	11	3,171	4,434
Additions	–	696	387	–	1,253	2,336
Disposals	–	(907)	(25)	(66)	(5,414)	(6,412)
At 31 December 2017	**6,447**	**11,504**	**3,685**	**152**	**51,997**	**73,785**
DEPRECIATION						
At 1 January 2016	4,705	10,942	2,735	382	46,874	65,638
Currency realignment	(313)	(713)	(186)	(18)	(3,133)	(4,363)
Provided for the year	258	291	219	1	2,411	3,180
Eliminated on disposals	–	(40)	(9)	(160)	(68)	(277)
At 31 December 2016	4,650	10,480	2,759	205	46,084	64,178
Currency realignment	290	628	182	11	2,774	3,885
Provided for the year	149	264	337	1	1,924	2,675
Eliminated on disposals	–	(902)	(25)	(66)	(5,063)	(6,056)
At 31 December 2017	**5,089**	**10,470**	**3,253**	**151**	**45,719**	**64,682**
CARRYING VALUES						
At 31 December 2017	**1,358**	**1,034**	**432**	**1**	**6,278**	**9,103**
At 31 December 2016	1,428	559	357	2	6,903	9,249

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	2017 US$'000	2016 US$'000
The carrying amount of the Group's property interests comprises:		
Leasehold land and buildings in Hong Kong	**91**	97
Buildings in the PRC	**1,267**	1,331
	1,358	1,428

The cost of leasehold land and buildings in Hong Kong is depreciated over the lease term of 50 years, using the straight-line method.

The cost of buildings in the PRC is depreciated over 20 years, using the straight-line method.

The cost of leasehold improvements is depreciated on a straight-line basis over the period of the respective leases or 5 years, whichever is shorter.

Depreciation is recognised so as to write off the cost of other items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

13. PREPAID LEASE PAYMENTS

	2017 US$'000	2016 US$'000
CARRYING VALUE		
At 1 January	206	227
Currency realignment	13	(15)
Charged to profit or loss	(6)	(6)
At 31 December	213	206

Prepaid lease payments represent prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

14. INVENTORIES

	2017 US$'000	2016 US$'000
Raw materials	1,297	1,816
Work in progress	651	974
Finished goods	1,126	1,617
	3,074	4,407

15. TRADE AND OTHER RECEIVABLES

	2017 US$'000	2016 US$'000
Trade receivables		
– companies over which certain shareholders of the Company have significant influence	5	2
– companies controlled by shareholders of the Company which have significant influence over the Company	–	135
– others	12,691	16,790
	12,696	16,927
Less: Allowance for doubtful debts	(16)	(244)
	12,680	16,683
Other receivables	2,079	576
	14,759	17,259

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

The following is an aging 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.

	2017 US$'000	2016 US$'000
Age		
0 to 60 days	9,678	13,243
61 to 90 days	1,962	2,414
91 to 120 days	183	826
121 to 180 days	596	126
181 to 365 days	261	74
	12,680	16,683

15. TRADE AND OTHER RECEIVABLES (continued)

Before accepting any new customers, the Group will appoint a special team to monitor the potential customer's credit quality and define credit limits by customer. More than 93% (2016: 98%) of the trade receivables are neither past due nor impaired.

Included in the Group's trade receivables balance at the end of the reporting period are debtors with aggregate carrying amount of US$857,000 (2016: US$200,000) which are past due at the reporting date for which the Group had not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date when credit was initially granted. The Group does not hold any collateral over these balances. The average age of these receivables is 188 days (2016: 196 days).

Aging of trade receivables based on the invoice date which are past due but not impaired is as follows:

	2017 **US$'000**	2016 US$'000
Overdue by 1 to 60 days	**596**	126
Overdue by 61 to 245 days	**261**	74
	857	200

No interest is charged on trade receivables. The Group has made full allowances on all the receivables overdue for 365 days based on historical experience as such receivables are generally not recoverable. Allowances on trade receivables between 121 days and 365 days are made based on estimated irrecoverable amounts from the sales of goods with reference to past default experience.

Movement in the allowance for doubtful debts is as follows:

	2017 **US$'000**	2016 US$'000
At 1 January	**244**	238
Impairment losses recognised on receivables	**–**	6
Impairment losses reversed	**(114)**	–
Amounts written off as uncollectible	**(114)**	–
At 31 December	**16**	244

15. TRADE AND OTHER RECEIVABLES (continued)

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2017 US$'000	2016 US$'000
Japanese Yen	87	83
Hong Kong dollars	1,971	947

16. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are due from companies over which certain shareholders of the Company have significant influence. The amounts are unsecured, interest-free, and neither past due nor impaired. The age of these receivables are within 60 days (2016: within 60 days).

17. BANK BALANCES AND CASH AND ANALYSIS OF CASH AND CASH EQUIVALENTS

The bank deposits carry interest at prevailing market rates ranging from 0.30% to 2.15% (2016: 0.25% to 1.80%) per annum. The bank deposits are with original maturity of not more than three months.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2017 US$'000	2016 US$'000
Japanese Yen	1,234	409
Hong Kong dollars	3,229	3,785

18. TRADE AND OTHER PAYABLES

	2017 US$'000	2016 US$'000
Trade payables		
– companies over which certain shareholders of the Company have significant influence	12	–
– companies controlled by shareholders of the Company which have significant influence over the Company	230	1,330
– others	11,829	13,338
	12,071	14,668
Payroll and welfare payables	4,332	2,552
Other payables and accruals *(note)*	4,236	4,506
	20,639	21,726

Note: Balance included accruals for the liquidation cost of Pioneer Yorkey do Brasil Ltda ("PYBL") amounting to approximately US$193,000 (31 December 2016: nil) (see note 19) and accruals for rental expense payable to a related company amounting to US$103,000 (31 December 2016: US$89,000).

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

	2017 US$'000	2016 US$'000
Age		
0 to 60 days	8,045	11,288
61 to 90 days	2,164	1,779
91 to 180 days	1,824	1,412
181 to 365 days	38	189
	12,071	14,668

The average credit period on purchases of goods is 60 days.

18. TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2017 US$'000	2016 US$'000
Japanese Yen	43	37
Hong Kong dollars	29	280

19. OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE

	2017 US$'000	2016 US$'000
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)
Obligation settled by the Group during the year	1,840	–
	–	(2,719)

The Group contributed 49% of the registered capital of PYBL, which was established in Brasil and was engaged principally in the manufacture and sale of components for digital still cameras and related components for automobiles.

The Group is able to exercise significant influence over PYBL because it has the power to appoint one out of the three directors of PYBL under the provisions stated in the Articles of Association of PYBL.

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"). During the year ended 31 December 2017, PYBL ceased its manufacturing operation.

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 year.

19. OBLIGATION RELATED TO INTEREST IN AN ASSOCIATE (continued)

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 was agreed that the future costs incurred in relation to the liquidation of PYBL that the Company would bear was restricted to an amount equivalent to approximately US$193,000, which has been provided and included in "other payables and accruals" in note 18.

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 had 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 year, the Group paid a sum of approximately US$1,255,000 to PYBL which was included in the "property, plant and equipment" in the consolidated statement of financial position.

As at 23 May 2017 and 31 December 2016, the Group's share of losses 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.

20. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.01 each				
At 1 January 2016, 31 December 2016 and 31 December 2017	1,000,000	10,000	821,102	8,211

	US$'000
Shown in the consolidated statement of financial position	
At 31 December 2016 and 31 December 2017	1,058

21. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Motor vehicles		Rented premises	
	2017	2016	**2017**	2016
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**75**	79	**1,141**	1,071
In the second to fifth year inclusive	**19**	30	**–**	1,066
	94	109	**1,141**	2,137

The leases are negotiated for a term ranged from 1 to 2 years (2016: 1 to 3 years) and rentals are fixed over the contracted lease terms.

The Group as lessor

At the end of the reporting period, the Group has contracted with tenants for future minimum lease payments in respect of investment properties which fall due as follows:

	2017	2016
	US$'000	US$'000
Within one year	**510**	495
In the second to fifth year inclusive	**676**	1,175
	1,186	1,670

The investment properties held have committed tenants for periods of an average lease term of 4 years (2016: 4 years).

22. CAPITAL COMMITMENTS

	2017	2016
	US$'000	US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**71**	405

23. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employees make monthly mandatory contributions to the scheme.

The employees employed in the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in future years.

24. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its owners.

The capital structure of the Group consists primarily of equity attributable to owners of the Company, comprising share capital and reserves, including retained profits.

At the end of the reporting period, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs of the Company. The Group's overall strategy remains unchanged from the prior year.

25. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade receivables, amounts due from related companies, bank balances and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

25. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments

	2017 US$'000	2016 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**117,531**	125,724
Financial liabilities		
Amortised cost	**12,071**	14,668

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful debts estimated by the Group's management based on prior experience and their assessment of the current economic environment. In order to minimise the credit risk, the management of the Group continuously monitors to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 16% (2016: 18%) and 53% (2016: 61%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk by geographical location as 42% (2016: 45%) and 43% (2016: 41%) of the total trade receivables are due from customers located in Japan and the PRC, respectively.

The credit risk on bank balances is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

25. FINANCIAL INSTRUMENTS (continued)

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group has certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 12% (2016: 14%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale whilst all costs are denominated in the group entities' functional currency. In addition, certain group entity whose functional currency is Renminbi, have intra-group transactions with its holding company, denominated in United States dollars. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are disclosed in respective notes. Although the Group currently does not use any derivative contracts to hedge against its exposure to currency risk, the Group actively utilises natural hedge technique, such as managing the currencies used in transactions, to manage its foreign currency exposures. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group is mainly exposed to currency of Hong Kong dollars, Japanese Yen and Renminbi. The following table details the Group's sensitivity to a 10% increase and decrease in United States dollars against Japanese Yen and Renminbi. Since Hong Kong dollars is pegged to United States dollars, the management considers that the exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant and therefore has not been included in the sensitivity analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes trade receivables, trade payables and bank balances. The number below indicates an increase in profit for the year where United States dollars strengthens against Japanese Yen and Renminbi. If United States dollars weakens against Japanese Yen and Renminbi, there would be an equal and opposite impact on the profit.

	2017 **US$'000**	2016 US$'000
Japanese Yen	**128**	46
Renminbi	**3,249**	2,247

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

25. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable-rate interest bearing financial assets, mainly bank balances at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would have increased/decreased by US$524,000 (2016: increased/decreased by US$545,000).

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities at the end of the reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows only as the financial liabilities are non interest-bearing.

25. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

	Repayable on demand or less than 3 months US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
At 31 December 2017			
Financial liabilities			
Trade payables	**12,071**	**12,071**	**12,071**
At 31 December 2016			
Financial liabilities			
Trade payables	14,668	14,668	14,668

26. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in notes 15, 16, 18 and 19, the Group has the following significant transactions with related parties during the year:

Nature of transactions	**2017 US$'000**	2016 US$'000
Revenue:		
Sales of goods	**312**	368
Property rental income	**263**	271
Cost and expenses:		
Purchases of raw materials	**106**	151
Processing charges paid	**3,442**	3,533
Rental paid	**1,129**	1,133

The related parties are companies over which certain shareholders of the Company have control or significant influence. The Company's directors represent the Group's key management and their emoluments for the year are set out in note 7.

27. 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.

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").

27. OTHER MATTERS (continued)

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 year, 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 31 December 2017.

28. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Directly held:			
Yorkey Optical Technology Limited	Samoa/PRC	US$550,001	Investment and property holding and trading of plastic and metallic parts and components of optical and opto-electronic products
Indirectly held:			
Click Away Services Limited	British Virgin Islands/ PRC	US$1	Provision of technical training and after-sales services
東莞精熙光機有限公司 (Dongguan Yorkey Optical Machinery Components Ltd.)	PRC, wholly foreign owned enterprise established for a term of 30 years commencing 11 December 1995	US$20,680,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during the year.

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 US$'000	2016 US$'000
Non-current asset		
Investments in subsidiaries	19,417	19,417
Current assets		
Dividend receivables	68,744	75,204
Prepayments and other debtors	1,386	39
Bank balances and cash	2,806	3,965
	72,936	79,208
Current liabilities		
Other payables	662	1,016
Obligation related to interest in an associate	–	2,719
	662	3,735
Net current assets	72,274	75,473
Total assets less current liabilities	91,691	94,890
Capital and Reserves		
Share capital (see note 20)	1,058	1,058
Reserves	90,633	93,832
Total equity	91,691	94,890

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium US$'000	Translation reserve US$'000	Special reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2016	62,982	(4,156)	19,350	482	78,658
Profit for the year	–	–	–	33,249	33,249
Other comprehensive expense for the year	–	(65)	–	–	(65)
Total comprehensive (expense) income for the year	–	(65)	–	33,249	33,184
Dividend recognised as distribution	–	–	–	(18,010)	(18,010)
At 31 December 2016	62,982	(4,221)	19,350	15,721	93,832
Profit for the year	**–**	**–**	**–**	**10,579**	**10,579**
Other comprehensive income for the year	**–**	**4,221**	**–**	**–**	**4,221**
Total comprehensive income for the year	**–**	**4,221**	**–**	**10,579**	**14,800**
Dividend recognised as distribution	**–**	**–**	**–**	**(17,999)**	**(17,999)**
At 31 December 2017	**62,982**	**–**	**19,350**	**8,301**	**90,633**

Financial Summary

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Revenue	84,288	84,454	77,553	73,491	**87,329**
Profit before taxation	3,257	5,558	5,026	6,149	**7,624**
Taxation	(691)	(462)	(993)	(1,481)	**(1,844)**
Profit for the year	2,566	5,096	4,033	4,668	**5,780**

	At 31 December				
	2013	2014	2015	2016	**2017**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	172,112	166,813	155,308	146,701	**138,037**
Total liabilities	(21,907)	(21,404)	(20,670)	(27,848)	**(24,828)**
Net assets	150,205	145,409	134,638	118,853	**113,209**